



VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Comprehensive Annual Financial Report

For the fiscal year ended December 31, 2012

(With Independent Auditors' Report Thereon)



Presented by
The Department of Finance

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

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INTRODUCTORY SECTION



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VIRGINIA BIRTH-RELATED
NEUROLOGICAL INJURY
COMPENSATION PROGRAM

May 30, 2013

The Board of Directors
Virginia Birth-Related Neurological Injury Compensation Program
7501 Boulders View Dr., Suite 210
Richmond, VA 23225

Dear Members of the Board:

The Comprehensive Annual Financial Report (CAFR) of the Virginia Birth-Related Neurological Injury Compensation Program (the Program) for the year ended December 31, 2012, is submitted herewith. This CAFR has been prepared by the Program's Finance Department in accordance with accounting principles generally accepted in the United States of America and conforms to the requirements of the Governmental Accounting Standards Board (GASB).

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Program. We believe the data, as presented, is accurate in all material respects; that the data is presented in a manner designed to fairly set forth the financial position and results of the operations of the Program as measured by the financial activity of its various accounts; and that all disclosures necessary to enable the reader to gain the maximum understanding of the Program's financial affairs have been included.

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This letter of transmittal is designed to complement the Management's Discussion and Analysis (MD&A) and should be read in conjunction with it. The Program's MD&A can be found immediately following the independent auditors' report.

A brief history of the Program, its fiscal operations, and selected accomplishments are presented below.

Organization and Function

With soaring medical malpractice insurance rates and insurance companies on the brink of eliminating coverage in the mid-1980s, up to one quarter of the Commonwealth of Virginia's (the Commonwealth) obstetricians were threatened with having to close their office doors. To alleviate this crisis, the Commonwealth worked with stakeholders including physician associations, insurers, lawyers and others to develop an innovative solution; the Virginia Birth-Related Neurological Injury Compensation Program. The Program was a first of its kind nationally.

The Program's legislation presents a very specific definition of a birth injury, which represents a very small number of births each year. By keeping many of the most expensive cases out of the court system, combined with a medical malpractice award cap, the medical malpractice insurance industry has been reasonably stabilized in the Commonwealth (especially when compared to other states) allowing physicians to do what they do best – treat patients.

Although the Program was created by the General Assembly of the Commonwealth, it operates as a separate organization. A nine member volunteer board appointed by the

Governor of the Commonwealth directs the Program. The Program is regulated by the Code of Virginia, which is very specific in how it operates.

All admissions are through the Virginia Workers' Compensation Commission; the Program itself does not admit claimants. Financial reports are filed annually with the Governor's office, the Virginia Senate and the Virginia House of Delegates. At least every other year, the State Corporation Commission is required to conduct an actuarial study of the Program.

A lifetime of help

Entry into the Program does not provide for any pre-determined amount of compensation. The Program operates much like an insurance policy in that it pays for actual medically necessary costs and other legislatively stipulated benefits. Additionally, the Program is the payer of last resort in all situations. There is no cap on the total eligible lifetime costs for a claimant.

No federal or state funds are involved in providing services to claimants. Funding is derived only from legislatively allowed sources including participating physician fees, participating hospital fees, nonparticipating physician assessments and liability insurer assessments.

Major Initiatives

Participating physicians and hospitals are continuing to become more aware of the benefits of participation for themselves as well as their patients. A qualifying birth can occur despite the heroic efforts of everyone involved. When it does happen, entry into the Program is important to both families and health services providers.

During 2012, 691 physicians participated in the Program. Along with the coverage benefits of participation, physicians also receive a reduction or credit on their malpractice insurance premiums. During 2012, 36 hospitals were enrolled in the Program. According to estimates, approximately 90% of births are covered by the Program due to participating hospitals and doctors.

The Program covers expenses that insurance and other programs do not. Medically necessary expenses such as doctor and hospital visits, therapy, nursing care, and medical equipment are mandated by the guiding legislation. The Code of Virginia also provides a wage benefit paid to the claimant from age 18 to 65, and payment for legal expenses related to filing the claim. In addition, the Program provides benefits including handicapped accessible vans, handicapped accessible bedroom and bath additions to homes, rental assistance, and allowances for therapeutic toys, medical service dogs and experimental therapies.

The Program's administrative cost as a percentage of total expenses (administrative plus claimant) remain low at 9%.

Philosophy

The Program plays a unique role in the Commonwealth. As previously noted, the Program was established due to a need to improve the tort climate for medical care in the Commonwealth, with the specific purpose of keeping malpractice insurers writing policies. It accomplished the goal immediately. According to studies and anecdotal information from key players in the industry, the Program is still fulfilling this role.

However, over the past 25 years the more publicly visible role has become the Program's contribution to caring for this specific group of children. Here the information also shows that they receive more benefits and greater care than those utilizing the tort system.

In fact, an article written by an actuary who has studied the Program and a similar organization in Florida noted that such approaches are highly efficient as compared to tort remedies. He writes that the vast majority of money involved in the Program is used for claimant care whereas in the tort system substantial percentages of funds go to other purposes.

Along with striving for such efficiency, the Program has worked to assure its financial reserves receive maximum growth with minimum risk. This has been accomplished through careful planning and the use of a sophisticated investment policy and practice.

Financial Controls

The Deputy Director is responsible for establishing and maintaining an adequate internal control structure. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of control procedures. The objectives of the control system are to provide the Program with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and are recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The concept of reasonable assurance is based on the assumption that the cost of internal accounting controls should not exceed the benefits expected to be derived from the implementation. All internal control evaluations occur within this framework.

Independent Audit

The Program's guiding legislation (§38.2-5015B) requires an annual independent audit of the Program's financial records and transactions by an independent certified public accountant selected by the Board of Directors.

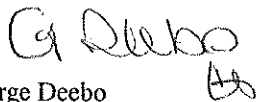
Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Program for its CAFR for the fiscal year ended December 31, 2011. This was the fifth consecutive year that the Program achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

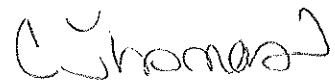
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the requirements of the GFOA Certificate of Achievement and we are submitting it to the GFOA to determine its eligibility for another certificate.

The staff of the Finance Department accomplished the preparation of this CAFR for year ended December 31, 2012. We would like to express our appreciation to all members of the Finance Department who assisted and contributed to its preparation.

Respectfully submitted,



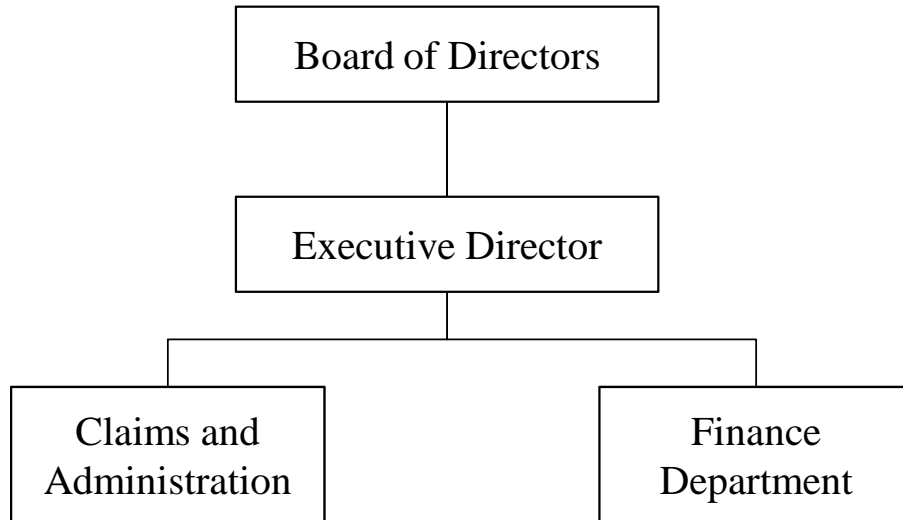
George Deebo
Executive Director



Candace Thomas, CGFM
Deputy Director

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

Organizational Chart



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

Principal Officials

BOARD OF DIRECTORS

J. Scott Walters, Esq., Chair
Neal C. Schulwolf, Esq., Vice Chair
David R. Barrett
Vienne K. Murray, MD
Francoise Mullen
Vanessa S. Rakestraw, Ph.D., CRC
Arthur Lee Talley, Jr.
Hope F. Cupit, CPA
John W. Seeds, MD

OTHER OFFICIALS

Executive Director
Deputy Director
Assistant Attorney General

George Deebo
Candace Thomas, CGFM
Carla Collins, Esq.

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FINANCIAL SECTION



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KPMG LLP
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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Virginia Birth-Related Neurological Injury Compensation Program (the Program) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program as of December 31, 2012 and the changes in financial position and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3 through 9 and the Claims Development Information on page 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the Program's basic financial statements. The Introductory and Statistical Sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2013 on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

KPMG LLP

May 30, 2013

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Management's Discussion and Analysis

December 31, 2012

This Section of the Virginia Birth-Related Neurological Injury Compensation Program (the Program) Comprehensive Annual Financial Report (CAFR) represents our discussion and analysis of the Program's financial performance during the fiscal years ended December 31, 2012 and 2011. Please read it in conjunction with the Program's basic financial statements and accompanying notes.

Financial Highlights

- The 2012 revenue from total fees and assessments decreased by \$135,000 or .6%. Fees assessed from participating physicians increased \$234,000 or 6%, participating hospitals decreased \$127,000 or 3.5%, insurance companies decreased \$19,000 or .2% and mandated physician fees decreased \$222,000 or 5%. (An explanation of significant variances is included later in this report).
- The Program's total net position remained virtually unchanged with a deficit of approximately \$98,700,000 in both 2011 and 2012. This is primarily due to the operating loss of \$32 million in 2012 offset by investment income of \$31.9 million.
- The Program provided approximately \$9,148,000 in nursing care, \$329,000 in therapy, \$762,000 for 20 handicapped accessible vans, \$575,000 for housing benefits, \$157,000 for durable medical equipment and technology, \$60,000 for hospital and physician visits, and \$215,000 for claimant legal fees.
- The Program paid 1 award of \$100,000 according to Virginia Code §38.2-5009.1 – Infants Dying Shortly after Birth.
- An additional 6 claimants became eligible to receive the wage benefit for a total of 40 eligible claimants. Eligible claimants may request and receive half of the average weekly wage of workers in the Commonwealth of Virginia in the private nonfarm sector. (See Virginia Code §38.2-5009.2) A total of \$800,000 was paid to the 32 eligible claimants requesting the benefit.
- The average cost per active claimant in 2012 and 2011 was approximately \$105,000 and \$103,000 respectively.
- As of December 31, 2012 there were 691 participating physicians, up 26 from 665 physicians in 2011. Participating hospitals decreased by 1 with 36 in 2012 and 37 in 2011.
- Administrative expenses were 9% and 10% of the total expenses (administrative plus claimant) paid in 2012 and 2011.
- As of December 31, 2012, 88 families received reimbursement for nursing or attendant care provided by a relative or legal guardian according to Virginia Code §38.2-5009 up 10 from 78 families in 2011. The Program began to reimburse family members for providing care beginning July 1, 2008.

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

Management's Discussion and Analysis

December 31, 2012

As of December 31, 2012, the Program had a total of 178 admitted claimants, 44 of which are deceased. During the year ended December 31, 2012, 9 claimants were admitted into the Program, 1 of which was deceased. One existing claimant became deceased. Eight claimant petitions for admission were pending as of December 31, 2012. See chart below:

	Total December 31, 2011	2012 Activity	Total December 31, 2012
Admitted	169	9	178
Deceased	42	2	44
Active	127	7	134

Overview of the Financial Statements

The Program's CAFR consists of four sections: introductory, financial, statistical, and compliance. The financial section consists of five components; the independent auditors' report, management's discussion and analysis (this component), the basic financial statements, notes to the basic financial statements, and required supplementary information.

The basic financial statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Fund Net Position, and the Statement of Cash Flows. The notes to the basic financial statements provide additional details for understanding information presented in the financial statements. The notes are followed by a section of required supplementary information that includes claims development information.

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

Management's Discussion and Analysis

December 31, 2012

Financial Analysis

Statements of Net Position

The following table reflects the summarized Statements of Net Position of the Program:

Table 1

Summarized Statements of Net Position

December 31, 2012 and 2011

(In millions)

	2012	2011
Current assets	\$ 20.6	21.3
Noncurrent assets	315.7*	272.8*
Total assets	336.3	294.1
Current liabilities	14.6	14.1
Noncurrent unpaid claims reserve:		
Admitted claims, less current portion	282.7	263.5
Incurred but not reported claims	115.5	93.4
Total unpaid claims reserve, noncurrent	398.2	356.9
Total liabilities	412.8	371.0
Total deferred inflows	22.3	21.8
Total deferred inflows and liabilities	435.1	392.8
Unrestricted deficit	(98.8)*	(98.7)*
Total net position	\$ (98.8)	(98.7)

* Capital assets and net position invested in capital assets are immaterial and are not subdivided.

At December 31, 2012 and 2011, the total assets of the Program were \$336.3 million and \$294.1 million, respectively; total deferred inflows and liabilities were \$435.1 million and \$392.8 million, respectively, while total net position remained virtually the same at \$(98.7) million for both years. The actuarial estimate of future claim payments of children born on or prior to December 31, 2012, plus the actuarial estimate of future claim administration expenses, exceeds the assets of the Program.

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

Management's Discussion and Analysis

December 31, 2012

The \$42.9 million increase in noncurrent assets from \$272.8 million in 2011 to \$315.7 million in 2012 was due primarily to net investment income of \$31.9 million and net cash provided by operating activities of approximately \$10 million, which was invested.

The total unpaid claims reserve at December 31, 2012 and 2011 was \$411.2 million and \$369.9 million, respectively. This represents the estimated cost for claimants currently admitted into the Program and an estimated number of not yet admitted claimants (incurred but not reported, (IBNR)) with birth dates prior to fiscal year-end that will be admitted to the Program subsequent to fiscal year-end. This reserve is based on an annual actuarial study.

A summary of the net change in claims reserve is as follows (in millions):

	2012	2011
Estimated future payments for claimants	\$ 24.8	23.8
Increase (decrease) in provision for changes in methodology and assumptions	14.7	(63.7)
Estimated future payments for new claimants admitted in prior years	20.2	18.8
Estimated claim payments	(18.4)	(16.8)
Net change in claims reserve	\$ 41.3	(37.9)

The net change in claims reserve for the years ended December 31, 2012 and 2011 was \$41.3 million increase and \$37.9 million decrease, respectively. Several factors contribute to the significant change in the claims reserve as follows:

- A larger number of actual new Program admissions than previously forecasted.
- An increase in benefit payments during calendar year 2011 of \$1.5 million from \$10.2 million in 2010 to \$11.7 million in 2011.
- Significant increases in nursing and wage loss benefits payments in 2011 versus 2010 levels.
- Unfavorable investment income results during 2011 contributing to lower than expected asset values.
- A decrease in the assumed interest rate for discounting purposes from 5.50% to 5.25%.
- The expiration of legislated annual increases in assessment income from non-participating physicians and hospitals. Only participating physicians continue to have annual increases through 2013.

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

Management's Discussion and Analysis

December 31, 2012

Statements of Revenues, Expenses and Changes in Fund Net Position

The following table shows the summarized Statements of Revenues, Expenses, and Changes in Fund Net Position of the Program:

Table 2

Summarized Statements of Revenues, Expenses, and Changes in Fund Net Position

Years ended December 31, 2012 and 2011

(In millions)

	Year ended December 31	
	2012	2011
Operating revenues:		
Participating hospitals	\$ 3.5	3.6
Participating physicians	4.1	3.9
Mandated physician fees	4.2	4.3
Insurance fees	11.8	11.9
Total operating revenues	23.6	23.7
Operating expenses:		
Provision for claims, net	55.3	(24.8)
General and administration	0.3	0.3
Total operating expenses	55.6	(24.5)
Operating gain (loss)	(32.0)	48.2
Nonoperating revenue:		
Net investment income	31.9	2.2
Net nonoperating revenue	31.9	2.2
Change in net position	—	50.4
Net position at beginning of year	(98.7)	(149.1)
Net position at end of year	\$ (98.7)	(98.7)

Revenues

Revenues consist primarily of legislatively established assessments placed on participating and nonparticipating physicians, hospitals, and insurance companies and net investment income. Nonparticipating physicians pay the mandated physician fee. For the years ended December 31, 2012 and 2011, operating revenue was \$23.6 million and \$23.7 million respectively, and nonoperating revenue was \$31.9 million and \$2.2 million, respectively.

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

Management's Discussion and Analysis

December 31, 2012

Assessments for 2012 for participating and nonparticipating physicians were \$6,100 and \$300, respectively. Participating hospitals are assessed a fee of \$55 per live birth for the prior year, as reported by the Department of Health, not to exceed \$200,000. In 2012 and 2011, liability insurers paid one quarter of one percent on the direct premiums written during the prior year.

In 2008, the Virginia General Assembly authorized future year's assessments according to the following chart; however the increase in participating physician fees will have a minor effect on the net assets.

<u>Year</u>	<u>Participating physician fee</u>	<u>Mandated physician fee</u>	<u>Hospital</u>
2013	\$ 6,200	300	\$55/live birth not to exceed \$200,000

Net investment income is \$31.9 million in 2012 and \$2.2 million in 2011, an increase of \$29.7 million. The difference is primarily due to the increase in net appreciation in fair value of the investments of approximately \$16.2 million in 2012 and a decrease of \$8.6 million in 2011.

Expenses

For the years ended December 31, 2012 and 2011, expenses totaled \$55.6 million and \$(24.5) million, respectively. The difference is primarily due to the change in provision for claims which increased in 2012 and decreased in 2011. The change in provision for claims is primarily the result of changes in methodology and assumptions (see above summary and explanation of claims provision). Expenses are comprised of general administrative and claims related expenses, the latter of which reflects both the increases in claims reserve and the claims paid during the year.

General administrative expenses include the portion of salaries, rent, cost of office equipment, and all other expenses not directly related to claims. Administrative expenses were 9% and 10% of the total expenses (administrative plus claimant) in 2012 and 2011. Management estimates that approximately 80% of the total administrative expenses are directly related to claims administration. Of the total administrative expenses of approximately \$1,310,000 in 2012, approximately \$1,048,000 or 80% is related to claims and approximately \$262,000 is related to program administration. Of the total administrative expenses of approximately \$1,341,000 in 2011, approximately \$1,073,000 or 80% is related to claims and approximately \$268,000 is related to program administration.

Provision for claims includes the portion of general administration expenses related to claims and actual and future expenses related to claims. Claimant expenses include nursing, therapy, physician and hospital visits, prescriptions, housing, transportation, the wage benefit and durable medical equipment. Provision for claims, net has increased from a \$(24.8) million benefit in 2011 to \$55.3 million expense in 2012. This is primarily due to the changes in actuarial assumptions and differences in the estimated future claims expense and actual expense as discussed previously in this report (see above summary and explanation of claims provision).

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Management's Discussion and Analysis

December 31, 2012

Economic Factors

Strong equity manager performance and a diversified portfolio allowed the Program's funds to gain 11.5% for the year and 1.3% in the fourth quarter. The portfolio's gross and net returns have matched or exceeded the index target returns. The asset allocation includes 19% alternatives, 40% stocks, 35% bonds and 6% cash. Considering the recent economic challenges the markets have faced, the Board of Directors continues to focus on prudent asset allocations, risk assessment, disciplined rebalancing, manager due diligence, and adherence to a well developed investment policy.

As of December 31, 2012, 31% of the investment portfolio was invested in separate accounts, 43% in mutual funds, 19% in alternative strategies and 2% in real estate held in trust. The Board believes these actions together with the guidance from CapGroup, the Program's investment advisor, have significantly improved the investment strategy and will continue to enhance the financial position of the Program, which is an important factor in reducing the actuarial deficit.

Contacting the Program's Financial Management

This financial report is designed to provide users (e.g., citizens, taxpayers, claimant families, service providers and creditors) with a general overview of the Program's finances and to demonstrate the Program's accountability for the funds it receives. Questions concerning this report or requests for additional information should be directed to the Deputy Director, 7501 Boulders View Dr. Suite 210, Richmond, VA 23225, 804-330-2471 or visit our website at <http://www.vabirthinjury.com>.

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BASIC FINANCIAL STATEMENTS



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

Statement of Net Position

December 31, 2012

Assets

Current assets:	
Cash and cash equivalents	\$ 20,114,898
Accrued interest and dividends	511,074
Total current assets	<u>20,625,972</u>
Noncurrent assets:	
Investments	315,659,971
Capital assets, net	20,537
Total noncurrent assets	<u>315,680,508</u>
Total assets	<u>\$ 336,306,480</u>

Liabilities

Current liabilities:	
Accounts payable	\$ 1,121,792
Accrued liabilities	442,377
Current portion of unpaid claims reserve	13,000,000
Total current liabilities	<u>14,564,169</u>
Noncurrent liabilities:	
Unpaid claims reserve:	
Admitted claims, less current portion	282,700,000
Incurred but not reported claims	115,500,000
Total unpaid claims reserve	<u>398,200,000</u>
Total noncurrent liabilities	<u>398,200,000</u>
Total liabilities	<u>412,764,169</u>
Deferred inflows of resources - deferred assesment and fee receipts	22,280,735
Total deferred inflows and liabilities	<u>\$ 435,044,904</u>

Net Position

Invested in capital assets	\$ 20,537
Unrestricted deficit	(98,758,961)
Total net position	<u>\$ (98,738,424)</u>

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Changes in Fund Net Position

Year ended December 31, 2012

Operating revenues:	
Participating hospitals	\$ 3,495,915
Participating physicians	4,102,419
Mandated physician fees	4,139,786
Insurance fees	11,842,527
Total operating revenues	<u>23,580,647</u>
Operating expenses:	
Provision for claims, net	55,339,703
General and administration	261,917
Other	1,191
Total operating expenses	<u>55,602,811</u>
Operating loss	<u>(32,022,164)</u>
Nonoperating revenue:	
Net investment income	31,937,594
Miscellaneous	85
Net nonoperating revenue	<u>31,937,679</u>
Change in net position	(84,485)
Net position at beginning of year	<u>(98,653,939)</u>
Net position at end of year	<u><u>\$ (98,738,424)</u></u>

See accompanying notes to basic financial statements.

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

Statement of Cash Flows

Year ended December 31, 2012

Cash flows from operating activities:	
Receipts from hospitals	\$ 3,577,010
Receipts from participating physicians	4,165,282
Mandated physician fee receipts	4,195,713
Receipts from insurance companies	12,161,201
Payments on behalf of claimants	(12,625,094)
Payments to suppliers of goods and services	(512,377)
Payments to employees	(688,137)
Other payments	(1,191)
Net cash provided by operating activities	<u>10,272,407</u>
Cash flows used in capital and related financing activities:	
Purchase of capital assets	<u>(3,826)</u>
Cash flows from investing activities:	
Purchase of investments	(252,507,002)
Proceeds from sale and maturity of investments	234,102,522
Earnings on investments	7,393,740
Net cash used in investing activities	<u>(11,010,740)</u>
Net decrease in cash and cash equivalents	(742,159)
Cash and cash equivalents:	
Beginning of year	<u>20,857,057</u>
End of year	<u><u>\$ 20,114,898</u></u>
Reconciliation of operating gain to net cash provided by operating activities:	
Operating loss	\$ (32,022,164)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	7,591
Increase in:	
Accounts payable	366,940
Accrued liabilities	101,481
Deferred inflows of resources	518,559
Claims reserve	41,300,000
Net cash provided by operating activities	<u><u>\$ 10,272,407</u></u>
Noncash investing activities:	
Net appreciation in fair value of investments	\$ 16,249,809

See accompanying notes to basic financial statements.

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NOTES TO BASIC FINANCIAL STATEMENTS



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VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Notes to Basic Financial Statements

December 31, 2012

(1) Summary of Significant Accounting Policies

(a) *Nature of Organization*

The Virginia Birth-Related Neurological Injury Compensation Program (the Program) was established under the Virginia Birth-Related Neurological Injury Compensation Act (1987, c.540) (the Act). The Program is a related organization of the Commonwealth of Virginia of which elected officials are accountable as they appoint a voting majority of the Board of Directors (the Board). The Act creates a compensation program that 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 nonparticipating physicians contribute to the fund, if necessary, based upon actual experience of the fund. The Program receives no federal or state government funding.

(b) *Basis of Accounting*

The Program operates as an insurance enterprise fund subject to Governmental Accounting Standards Board (GASB) Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, GASB Statement No. 30, *Risk Financing Omnibus – An Amendment to GASB Statement No. 10*, and Financial Accounting Standards Board (FASB) Statement No. 60, *Accounting and Reporting by Insurance Enterprises*.

The basic financial statements of the enterprise fund are presented on the accrual basis of accounting, using the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. The Program distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and collecting fees in connection with the Program's principal ongoing operations.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, proprietary fund types may follow all applicable GASB pronouncements as well as only those FASB pronouncements and predecessor APB Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with GASB statements. Under paragraph 7 of GASB Statement No. 20, the Program has elected not to apply FASB pronouncements issued after November 30, 1989.

(c) *Use of Estimates*

The preparation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported financial statement amounts and disclosures. Accordingly, actual results could differ from these estimates.

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

Notes to Basic Financial Statements

December 31, 2012

(d) Administrative Expenses

Administrative expenses include salaries, rent, cost of noncapitalizable office equipment and other expenses not directly related to claims. In 2012, administrative expenses related to claims processing of approximately \$1,310,000 were allocated to provision for claims expense in the amount of approximately \$1,048,000 and to general and administrative expense in the amount of approximately \$262,000.

(e) Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, the Program considers investments with original maturities of three months or less to be cash equivalents.

(f) Investments

At December 31, 2012, the Program's investments are stated at fair value based on quoted market prices, if available. The Program's investments consist of various index mutual funds and actively managed investments in separate accounts including large and small cap equities, foreign equities, and bonds. Mutual fund investments are valued at their quoted net asset value on the last trading day of the year. Equity securities are valued at the last reported sale price or, if no sale, the latest available bid price on the last business day of the year. Fixed income investments are valued using market evaluations (evaluated prices) from reputable and approved industry vendors, evaluations are based on available market data. All other investments, excluding real estate held in trust, are valued based on amounts provided by the investment advisor or fund administrator and reviewed by management.

Under guidelines established by the Board, the Program could, up until 1999, approve the purchase or construction of a home for the family of a claimant subject to certain restrictions. The home is held in a trust and remains the property of the Program, subject to use by the claimant's family during the term of the trust and subject to conditions imposed by the trust agreement. The trust expires upon the death or institutionalization of the claimant, and stipulates that during occupancy the family is responsible for the payment of utilities, general maintenance of the home, and certain other similar obligations. Real estate held in trust is carried at fair value based on third party appraisals, tax assessments, or other reasonable methodologies.

(g) Capital Assets

Capital assets with a cost of \$1,000 or more (threshold implemented in 2004) are recorded at cost. The costs of major improvements are capitalized while the cost of maintenance and repairs, which do not improve or extend the life of an asset, are expensed. Depreciation is provided over the assets' estimated useful lives of three to seven years using the straight-line method.

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

Notes to Basic Financial Statements

December 31, 2012

(h) *Deferred Inflows*

Deferred inflows represents amounts for which revenue recognition criteria have not been met. It is the Program's policy to recognize mandated assessments, participating doctor and hospital fees, and insurance fees on a pro-rata basis over the period in which the assessment or coverage is related, which is one year.

During 2012, the Program adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

(i) *Estimated Liability for Unpaid Claims*

The liability for unpaid claims represents management's estimate, developed in conjunction with the assistance of the Commonwealth of Virginia's actuary, of the Program's discounted estimated cost of payments for both claimants admitted to the Program and an estimated number of not-yet-admitted claimants with birth dates prior to the date of the statement of net position that will be admitted to the Program subsequent to the date of the statement of net position. Changes in estimates of such costs are recognized in results of operations in the period in which the changes in estimate are made.

The development of liabilities for future benefit requires management to make estimates and assumptions regarding mortality, morbidity, lapse, expense, and investment experience. Such estimates are primarily based on historical experience and future expectations of these assumptions. The Program's actual incurred losses may vary significantly from the estimated amount included in the Program's financial statements. Management monitors actual experience and, if circumstances warrant, revises its assumptions and the related future policy benefit estimates.

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

Notes to Basic Financial Statements

December 31, 2012

(2) Deposits and Investments

The Program's deposit and investment portfolio consists of the following at December 31, 2012:

Cash and cash equivalents	\$	20,114,898
Investments:		
Mutual funds:		
Large cap		16,017,448
U.S. fixed income		64,000,525
International fixed income		16,654,113
International growth		18,245,749
International value		17,904,472
Emerging markets		10,328,937
Alternative Strategies		62,547,164
Separate accounts:		
Large cap growth		19,213,128
Large cap value		24,687,237
Small cap value		6,445,175
All cap growth		20,023,526
Core fixed income		33,186,564
Real estate held in trust		6,405,933
Total investments		315,659,971
Total cash and cash equivalents and investments	\$	335,774,869

(a) Deposits

All cash of the Program is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance.

(b) Investments

In accordance with the Virginia Birth-Related Injury Compensation Act, Section 38.2-5016 of the Code of Virginia, the Board is given the authority to invest the Program's funds in a careful and prudent manner at the advice of the investment advisor.

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

Notes to Basic Financial Statements

December 31, 2012

Credit risk: – The Program’s Investment Policy states that no more than 20% of the fair value of the fixed income portfolio shall be rated less than single “A” quality. The Program’s fixed income portfolio at December 31, 2012 is as follows:

			<u>Rating</u>	<u>Fair value 2012</u>	<u>Percent of portfolio</u>	<u>Average maturity (in year)</u>
Mutual funds:						
Vanguard Bond Index	(1)	AA		\$ 11,071,864	3.6%	7.1
Western Asset Core Plus	(1)	A		16,923,135	5.5%	6.9
Loomis Sayles Global Bond Fund	(1)	A		16,654,113	5.4%	7.4
PIMCO Total Return Fund	(1)	AA-		19,777,071	6.4%	6.1
JP Morgan Strategic Income	(1)	B		16,228,455	5.2%	5.6
Separate accounts:						
Richmond Capital Management	(2)	AA		<u>33,186,564</u>	10.7%	5.8
Total				<u>\$ 113,841,202</u>		

(1) Average credit quality per Capital Advisory Group, Morning Star and fund company websites.

(2) Average credit quality per Bond Edge Fixed Income Analytic models.

Interest rate risk: – The Program does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Program mitigates risk through relatively conservative asset allocations and investments.

Foreign currency risk: – The Program manages its risk associated with foreign currency fluctuations with the asset allocations outlined in its Investment Policy that limit its investments in international developed and emerging index funds up to 21% of its overall portfolio. The Program’s investments subjected to foreign currency risk at December 31, 2012 include U.S. publicly traded mutual funds which have an international strategy totaling approximately \$63,133,000.

Custodial credit risk: – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Program will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Program’s deposits are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance. In addition, it is the Program’s practice, although not a formal policy that the investment accounts are held in the Program’s name. The Program’s investment policy states that all fixed income securities held in the portfolio shall have a Standard & Poor’s and/or equivalent credit quality rating of no less than Investment Grade. No more than 20% of the fair value of the fixed income portfolio shall be rated less than single “A” quality.

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

Notes to Basic Financial Statements

December 31, 2012

The Program's return on investments for the year ending December 31, 2012 is summarized as follows:

Interest income	\$	1,439,217
Dividend income		6,583,829
Realized gain on investments		8,380,671
Net appreciation in fair value of investments		16,249,809
Investment fees		(656,386)
Fiduciary fees		(59,546)
		<u>31,937,594</u>
Net investment income	\$	<u>31,937,594</u>

(3) Capital Assets

Capital assets at December 31, 2012 and the related changes for the year ended were as follows:

	<u>January 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31, 2012</u>
Computer equipment	\$ 56,792	2,482	—	59,274
Office equipment	39,594	1,344	—	40,938
Automobiles	17,237	—	—	17,237
	113,623	3,826	—	117,449
Less accumulated depreciation	(89,321)	(7,591)	—	(96,912)
Capital assets, net	\$ 24,302	(3,765)	—	20,537

(4) Estimated Liability for Unpaid Claims

The estimated liability for unpaid claims is the discounted estimated cost of payments for both claimants admitted to the Program and an estimated number of not-yet-admitted claimants with birth dates prior to the date of the statement of net position that will be admitted to the Program subsequent to the date of the statement of net position. This discounted cost represents the amount that would need to be invested, as of the date of the statement of net position, to pay the claimant expenses as they become due. The liability is determined based on an actuarial study, which is mandated to be performed no less frequently than biennially (done annually for 2012 and 2011). Eligible costs under the Program are costs not otherwise paid by private insurance or other government programs. Costs include nursing, housing, hospital and physician visits, physical therapy, vans, medical equipment, prescription drugs, various other incidental items, loss of earnings, and claim filing expenses.

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

Notes to Basic Financial Statements

December 31, 2012

In general terms, the estimated liability for unpaid claims is determined as follows:

- (1) The total number of claimants is estimated (actual number of admitted claimants plus estimate of the number of not-yet-admitted claimants born prior to year-end).
- (2) Future payments, by category of expense paid for each claimant, are forecasted. These estimates are based on the actual payments made by the Program on behalf of the claimants who had been in the program for three or more years as of December 31, 2012 (taking into consideration each claimant's insurance coverage and eligibility for Medicaid), as well as assumptions regarding future cost of inflation and future increases in the utilization of the benefits and services of the Program.
- (3) Projected future payments to each claimant are adjusted to reflect an assumed life expectancy for each claimant and the time value of money.

The estimated liability for unpaid claims is forecasted based on actual information through the prior fiscal year.

Significant actuarial assumptions for 2012 include:

	2012
Rate of claims inflation (varies based on category of expense)	2.59% - 4.79%
Investment earnings/discount rate	5.25%
Mortality:	
Life expectancy at:	
Birth	28.4 years
Age 3	29.2 years
Estimated number of not-yet-admitted claimants born prior to year end.	
Estimate is based on review of how long it takes for claimants to be admitted to the Program.	41

The total number of claimants (admitted claimants and not-yet-admitted claimants) is estimated to be 219 as of December 31, 2012.

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

Notes to Basic Financial Statements

December 31, 2012

The following represents changes in the unpaid claims reserves for the Program for the year ended December 31, 2012:

	<u>2012</u>	<u>2011</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 369,900,000	407,800,000
Incurred claims:		
Estimated future payments for new claimants admitted in current year	24,800,000	23,800,000
Estimated future payments for new claimants admitted in prior years	<u>20,200,000</u>	<u>18,800,000</u>
Total incurred claims	<u>45,000,000</u>	<u>42,600,000</u>
Claims payments:		
Estimated claims payments for claimants admitted in current year	(1,700,000)	(1,500,000)
Estimated claims payments for claimants admitted in prior years	<u>(16,700,000)</u>	<u>(15,300,000)</u>
Total estimated claims payments	<u>(18,400,000)</u>	<u>(16,800,000)</u>
Increase (decrease) in provision for change in methodology and assumptions	<u>14,700,000</u>	<u>(63,700,000)</u>
Unpaid claims and claim adjustment expenses at end of year	<u>\$ 411,200,000</u>	<u>369,900,000</u>

Several factors contribute to the significant change in the claims reserve as follows:

- A larger number of actual new Program admissions than previously forecasted.
- An increase in benefit payments during calendar year 2011 of \$1.5 million from \$10.2 million in 2010 to \$11.7 million in 2011.
- Significant increases in nursing and wage loss benefits payments in 2011 versus 2010 levels.
- Unfavorable investment income results during 2011 contributing to lower than expected asset values.
- A decrease in the assumed interest rate for discounting purposes from 5.50% to 5.25%.
- The expiration of legislated annual increases in assessment income from non-participating physicians and hospitals. Only participating physicians continue to have annual increases through 2013.

The total undiscounted unpaid claims and claim adjustment expenses amount to \$1,672.3 million at December 31, 2012 and represent unaudited estimates.

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

Notes to Basic Financial Statements

December 31, 2012

(5) Employee Benefits

The Program pays each employee an amount equal to 27% of his or her salary in lieu of a benefits package. This additional salary is to be used by the employee to acquire certain benefits, if they so choose, and is subject to income and payroll taxes. Additional benefits paid by the Program to its employees includes the 27% of salary, employer paid portion of health insurance, life insurance and long term disability insurance and amounted to \$135,395 for the year ending December 31, 2012.

(6) Operating Lease Commitments

The Program leases its office space under an operating lease expiring in September 2018. Rent expense totaled \$67,833 for 2012.

Future minimum obligations under this lease are as follows:

2013	\$	31,860
2014		54,617
2015		55,583
2016		57,255
2017		58,959
Thereafter		45,359

(7) Liquidity

The most recent actuarial study performed for the year ended December 31, 2012, which used claims data as of December 31, 2011, determined that the Program was not actuarially sound. However, the actuarial study did point out that the Program is not in any immediate danger of defaulting on the payment of benefits and that the Program has sufficient assets to continue to pay for claimants' benefits for the subsequent thirty years.

(8) Contingencies

Various pending and threatened lawsuits claim eligibility for program benefits. Management believes the Program's claims reserves based upon actuarial assumptions are adequate to provide for the ultimate resolution of these claims.

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REQUIRED SUPPLEMENTARY INFORMATION



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

Claims Development Information

December 31, 2012

(In thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
(1) Premiums and investment revenue:											
Earned	\$ 18,136	26,131	25,445	26,032	40,292	39,964	(20,801)	60,741	48,392	25,925	55,518
(2) Unallocated expenses	169	129	137	183	189	197	188	196	213	268	263
(3) Estimated losses and expenses, end of birth year:											
Incurred	13,661	14,000	20,733	21,652	23,000	24,500	23,300	22,300	23,500	23,800	24,800
(4) Net paid (cumulative) as of:											
End of birth year	—	—	—	—	—	—	—	68	—	—	—
One year later	143	159	—	—	157	124	331	303	—	—	—
Two years later	572	663	4	41	341	369	372	614	267	—	—
Three years later	1,190	1,548	211	88	420	438	895	822	—	—	—
Four years later	2,008	2,414	569	421	574	625	1,133	—	—	—	—
Five years later	2,773	3,324	802	437	829	1,019	—	—	—	—	—
Six years later	3,859	3,913	1,187	519	1,120	—	—	—	—	—	—
Seven years later	4,330	4,727	1,493	797	—	—	—	—	—	—	—
Eight years later	4,737	5,658	1,772	—	—	—	—	—	—	—	—
Nine years later	5,195	6,650	—	—	—	—	—	—	—	—	—
(5) Reestimated ceded losses and expenses	—	—	—	—	—	—	—	—	—	—	—
(6) Reestimated net incurred losses and expenses:											
End of birth year	13,661	14,000	20,733	21,652	23,000	24,500	23,300	22,300	23,500	23,800	24,800
One year later	13,244	15,333	22,558	22,038	22,332	23,372	21,630	22,575	18,136	24,609	—
Two years later	14,544	16,565	22,927	21,409	21,273	21,615	21,917	17,485	18,934	—	—
Three years later	15,747	16,814	22,325	20,412	19,624	21,918	16,599	18,243	—	—	—
Four years later	15,990	16,408	21,370	18,859	19,908	16,325	17,391	—	—	—	—
Five years later	15,593	15,763	19,884	19,127	14,658	17,158	—	—	—	—	—
Six years later	14,964	14,759	20,140	14,184	15,440	—	—	—	—	—	—
Seven years later	13,984	14,932	15,407	14,920	—	—	—	—	—	—	—
Eight years later	14,153	11,736	16,112	—	—	—	—	—	—	—	—
Nine years later	11,035	12,212	—	—	—	—	—	—	—	—	—
(7) Increase (decrease) in estimated net incurred losses and expenses from end of birth year	(2,162)	(1,788)	(4,622)	(6,732)	(7,560)	(7,342)	(5,909)	(4,057)	(4,566)	809	—

See accompanying independent auditors' report and notes to required supplementary information.

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

Note to Required Supplementary Information

December 31, 2012

(1) Claims Development Information

The table on the preceding page illustrates how the Program's earned revenue and investment income compare to related costs of loss and other expenses assumed by the Program as of the end of each of the previous ten years. The rows of the table are defined as follows: (1) This line shows the total of each year's gross earned premiums and reported investment income. (2) This line shows each year's other operating costs of the Program including overhead and loss adjustment expenses not allocable to individual claims. (3) This line shows the Program's gross incurred losses and allocated loss adjustment expense and net incurred losses and loss adjustment expense (both paid and accrued) as originally reported at the end of the year in which the event that triggered coverage occurred (called birth year). (4) This Section of ten rows shows the cumulative net amounts paid as of the end of successive years for each birth year. (5) This line shows the latest re-estimated amount of losses assumed by re-insurers for each birth year. (6) This section of ten rows shows how each birth year's net incurred losses increased or decreased as of the end of successive years. (This annual re-estimation results from new information received on known losses, reevaluation of existing information on known losses, and emergence of new losses not previously known). (7) This line compares the latest re-estimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of losses is greater or less than originally thought. As data for individual birth years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of net incurred losses currently recognized in less mature birth years. The columns of the table show data for successive birth years.

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STATISTICAL SECTION



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VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Statistical Section

December 31, 2012

Statistical Section

This Section of the Program's CAFR presents detailed information as a context for understanding what the information in the basic financial statements and required supplementary information indicate about the Program's overall financial health. This information has not been audited by the independent auditors.

Financial Trends

These tables contain trend information to help the reader understand how the Program's financial performance and well-being changed over time.

Table 1	Net Position by Component
Table 2	Schedule of Revenues, Expenses, and Changes in Fund Net Position
Table 3	Analysis of Average Cost per Active Claimant
Table 4	Schedule of General and Administrative Expenses

Revenue Capacity

This table contains information to help the reader assess the Program's significant operating revenues.

Table 5	Rates and Assessments
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Economic and Demographic Information

These tables offer economic and demographic indicators to help the reader understand the environment within which the Program's financial activities take place.

Table 6	Physicians, Hospitals, and Insurance Companies
Table 7	Virginia Demographic Statistics

Operating Information

These tables contain operating and claimant data to help the reader understand how the information in the Program's financial report relates to the services the Program provides and the activities it performs.

Table 8	Number of Admitted, Deceased, and Active Claimants
Table 9	Number of Employees by Identifiable Activities

Sources: Unless otherwise noted, the information in this Section is derived from the Program's comprehensive annual financial reports for the relevant years.

Table 1**VIRGINIA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PROGRAM**

Net Position by Component

Last ten fiscal years

Year ended December 31	Invested in capital assets, net of related debt	Unrestricted deficit	Total net position
2002	\$ 35,224	(81,918,097)	(81,882,873)
2003	26,632	(76,529,331)	(76,502,699)
2004	26,887	(99,184,336)	(99,157,449)
2005	19,755	(125,181,112)	(125,161,357)
2006	16,302	(129,328,796)	(129,312,494)
2007	10,504	(127,646,193)	(127,635,689)
2008 – adjusted for adoption of GASB 52	11,074	(180,804,837)	(180,793,763)
2009	9,130	(146,830,018)	(146,820,888)
2010	14,943	(149,115,714)	(149,100,771)
2011	24,302	(98,678,241)	(98,653,939)
2012	20,537	(98,758,961)	(98,738,424)

See accompanying independent auditors' report.

Table 2

**VIRGINIA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PROGRAM**
Schedule of Revenues, Expenses, and Changes in Fund Net Position
Last ten fiscal years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Operating revenues:											
Participating hospitals	\$ 3,495,915	3,623,350	3,771,265	3,750,364	3,373,339	2,715,783	2,926,900	2,753,450	2,730,909	2,357,975	2,256,000
Participating physicians	4,102,419	3,868,705	3,811,821	3,532,187	3,358,073	3,223,346	2,843,793	2,342,449	2,211,184	1,860,843	1,554,790
Mandated physician fees	4,139,786	4,362,116	4,214,365	4,170,750	3,992,183	3,747,915	3,734,266	3,444,676	3,436,378	3,148,690	3,252,200
Insurance fees	11,842,527	11,861,936	12,273,510	12,620,887	12,830,024	12,641,617	11,945,795	11,314,150	9,948,858	8,993,616	8,042,558
Other	—	759	8,528	54	71	21,296	136,676	—	100	124,914	—
Total operating revenues	<u>23,580,647</u>	<u>23,716,866</u>	<u>24,079,489</u>	<u>24,074,242</u>	<u>23,553,690</u>	<u>22,349,957</u>	<u>21,587,430</u>	<u>19,854,725</u>	<u>18,327,429</u>	<u>16,486,038</u>	<u>15,105,548</u>
Operating expenses:											
Provision for claims, net	55,339,703	(24,790,373)	50,458,868	26,572,068	33,458,390	38,009,839	44,254,224	51,853,223	47,963,625	20,621,718	19,600,653
General and administrator	261,917	268,151	212,856	196,161	188,126	197,353	188,573	183,164	136,569	129,397	168,682
Other	1,191	—	—	—	—	—	—	—	—	—	—
Total operating expenses	<u>55,602,811</u>	<u>(24,522,222)</u>	<u>50,671,724</u>	<u>26,768,229</u>	<u>33,646,516</u>	<u>38,207,192</u>	<u>44,442,797</u>	<u>52,036,387</u>	<u>48,100,194</u>	<u>20,751,115</u>	<u>19,769,335</u>
Operating gain (loss)	<u>(32,022,164)</u>	<u>48,239,088</u>	<u>(26,592,235)</u>	<u>(2,693,987)</u>	<u>(10,092,826)</u>	<u>(15,857,235)</u>	<u>(22,855,367)</u>	<u>(32,181,662)</u>	<u>(29,772,765)</u>	<u>(4,265,077)</u>	<u>(4,663,787)</u>
Nonoperating revenue (expense):											
Net investment income (loss) and miscellaneous	31,937,679	2,207,744	24,312,352	36,666,862	(44,874,949)	17,534,040	18,704,230	6,177,754	7,118,015	9,645,251	3,948,476
Change in net position	<u>(84,485)</u>	<u>50,446,832</u>	<u>(2,279,883)</u>	<u>33,972,875</u>	<u>(54,967,775)</u>	<u>1,676,805</u>	<u>(4,151,137)</u>	<u>(26,003,908)</u>	<u>(22,654,750)</u>	<u>5,380,174</u>	<u>(715,311)</u>
Net position at beginning of year	<u>(98,653,939)</u>	<u>(149,100,771)</u>	<u>(146,820,888)</u>	<u>(180,793,763)</u>	<u>(127,635,689)</u>	<u>(129,312,494)</u>	<u>(125,161,357)</u>	<u>(99,157,449)</u>	<u>(76,502,699)</u>	<u>(81,882,873)</u>	<u>(81,167,562)</u>
Net position at end of year	<u>\$ (98,738,424)</u>	<u>(98,653,939)</u>	<u>(149,100,771)</u>	<u>(146,820,888)</u>	<u>(182,603,464)</u>	<u>(127,635,689)</u>	<u>(129,312,494)</u>	<u>(125,161,357)</u>	<u>(99,157,449)</u>	<u>(76,502,699)</u>	<u>(81,882,873)</u>

See accompanying independent auditors' report.

Table 3

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

Analysis of Average Cost per Active Claimant

Last ten fiscal years

Year	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Claims expense	\$ 14,039,703	13,109,627	11,858,868	11,372,049	11,658,390	10,209,839	11,054,225	9,453,223	6,863,625	6,021,718	5,700,653
Number of active claimants (note 1)	134	127	117	113	111	109	96	91	82	74	67
Average expense per claimant	\$ 104,774	103,225	101,358	100,638	105,031	93,668	115,148	103,882	83,703	81,375	85,084
Percent increase or decrease from prior year	1.5%	1.84%	0.72%	(4.18)%	12.13%	(18.65)%	10.84%	24.11%	2.86%	(4.4)%	(17.2)%
Breakdown of claims expenses into major categories											
Category	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Nursing	\$ 9,147,939	8,531,487	7,990,795	7,194,528	6,983,584	6,448,647	6,186,118	5,541,310	4,372,664	2,896,420	2,603,363
Physician/Hospital	60,464	77,828	78,057	59,474	68,119	96,123	81,115	63,976	142,664	239,531	495,169
Therapy	328,579	339,347	310,829	219,303	254,923	254,876	231,712	197,991	111,324	121,300	124,756
Incidentals	167,650	153,112	172,224	139,064	193,317	151,903	179,888	181,039	128,642	122,361	80,536
Prescription	93,148	91,233	130,381	151,905	135,239	127,809	115,265	104,329	76,789	114,313	127,646
Housing	575,319	409,937	423,352	839,436	1,360,826	756,673	1,445,145	937,368	327,912	825,924	819,457
Van	762,149	574,437	385,084	351,673	526,513	501,827	863,555	734,953	315,917	546,992	189,613
Medical equipment	157,206	158,558	160,510	166,926	211,562	188,897	319,405	162,970	219,142	95,923	121,214
Legal fees – claimant	215,190	371,045	165,164	165,654	299,892	283,809	470,204	350,667	315,917	51,986	243,167
Legal fees – attorney general	180,000	180,000	170,000	117,500	150,000	150,000	187,500	225,000	—	—	—
Auto/Health insurance	143,509	134,082	150,137	141,193	143,283	150,940	120,678	104,718	97,893	73,595	10,913
Mileage reimbursement	74,857	67,956	78,081	41,689	73,978	49,276	72,480	32,342	27,822	32,315	8,589
Wage benefit payment	900,614	698,454	501,407	334,207	245,052	97,163	—	—	—	—	—
WCC ordered award	156,053	200,000	164,820	595,850	200,000	—	—	—	—	—	—
Claimant related administrative	1,047,669	1,072,606	851,426	784,645	752,504	789,413	754,290	732,654	600,000	562,500	495,000
Other (note 2)	29,357	49,545	126,601	69,002	59,598	162,483	26,870	83,906	126,939	338,558	381,230
Total claims expense	\$ 14,039,703	13,109,627	11,858,868	11,372,049	11,658,390	10,209,839	11,054,225	9,453,223	6,863,625	6,021,718	5,700,653
Percent increase or decrease from prior year	7.1%	10.55%	4.28%	(2.46)%	14.19%	(7.64)%	16.94%	37.73%	13.98%	5.6%	(7.5)%
Percentage of expense per total claims expense											
Category	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Nursing	65.16%	65.08%	67.38%	63.27%	59.90%	63.16%	55.96%	58.62%	63.71%	48.10%	45.67%
Physician/Hospital	0.43	0.59	0.66	0.52	0.58	0.94	0.73	0.68	2.08	3.98	8.69
Therapy	2.34	2.59	2.62	1.93	2.19	2.50	2.10	2.09	1.62	2.01	2.19
Incidentals	1.19	1.17	1.45	1.22	1.66	1.49	1.63	1.92	1.87	2.03	1.41
Prescription	0.66	0.70	1.10	1.34	1.16	1.25	1.04	1.10	1.12	1.90	2.24
Housing	4.10	3.13	3.57	7.38	11.67	7.41	13.07	9.92	4.78	13.72	14.37
Van	5.43	4.38	3.25	3.09	4.52	4.92	7.81	7.77	4.60	9.08	3.33
Medical equipment	1.12	1.21	1.35	1.47	1.81	1.85	2.89	1.72	3.19	1.59	2.13
Legal	1.53	2.83	1.39	1.46	2.57	2.78	4.25	3.71	4.60	0.86	4.27
Legal fees – attorney general	1.28	1.37	1.43	1.03	1.29	1.47	1.70	2.38	—	—	—
Auto/Health insurance	1.02	1.02	1.27	1.24	1.23	1.48	1.09	1.11	1.43	1.22	0.19
Mileage reimbursement	0.53	0.52	0.66	0.37	0.63	0.48	0.66	0.34	0.41	0.54	0.15
Wage benefit payment	6.41	5.33	4.23	2.94	2.10	0.95	—	—	—	—	—
WCC ordered award	1.11	1.53	1.39	5.24	1.72	—	—	—	—	—	—
Claimant related administrative	7.46	8.18	7.18	6.90	6.45	7.73	6.82	7.75	8.74	9.34	8.68
Other (note 2)	0.21	0.38	1.07	0.61	0.51	1.59	0.24	0.89	1.85	5.62	6.69
Total	100%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Change in claims provision	\$ 41,300,000	(37,900,000)	38,600,000	15,200,000	21,800,000	27,800,000	33,200,000	42,400,000	41,100,000	14,600,000	13,900,000
Nonclaims related administrative and other	263,108	268,151	212,856	196,161	188,126	197,353	188,573	183,164	136,569	129,397	168,682
Total operating expense	\$ 55,602,811	(24,522,222)	50,671,724	26,768,210	33,646,516	38,207,192	44,442,798	52,036,387	48,100,194	20,751,115	19,769,335

Notes:

- Active claimants are the total admitted claimants less deceased
- Other expenses may include medical review, therapeutic toys, computer equipment, funeral expense and medical service d

See accompanying independent auditors' report.

Table 4

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

Schedule of General and Administrative Expenses

Last ten fiscal years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Advertising and brochures	\$ 6,385	1,610	1,059	2,177	3,841	1,533	4,260	5,249	11,980	35,350	54,139
Computer services	15,958	25,194	11,946	13,065	10,672	10,028	9,558	13,226	12,758	16,159	13,123
Depreciation and amortization	7,591	5,960	1,866	5,936	4,299	6,504	8,669	10,528	11,536	10,993	10,458
Office	13,552	11,107	10,486	14,409	11,623	7,714	9,460	7,771	6,785	7,256	8,455
Other	34,022	26,707	24,419	24,002	22,974	34,130	48,090	55,111	34,541	39,457	46,376
Postage and mailing	7,318	6,029	6,263	8,071	11,100	10,292	8,879	9,909	12,790	13,254	10,348
Professional fees	458,728	510,241	367,967	280,842	234,935	327,188	282,766	286,744	174,480	158,413	119,515
Rent	70,260	66,551	65,365	68,008	62,844	60,957	60,589	59,143	53,498	52,216	48,397
Salaries and benefits	688,136	679,781	567,446	556,899	568,263	518,682	502,315	458,511	352,770	345,988	334,745
Telephone	7,636	7,577	7,465	7,397	10,079	9,736	8,277	9,625	11,709	12,811	16,124
	<u>1,309,586</u>	<u>1,340,757</u>	<u>1,064,282</u>	<u>980,806</u>	<u>940,630</u>	<u>986,764</u>	<u>942,863</u>	<u>915,817</u>	<u>682,847</u>	<u>691,897</u>	<u>661,680</u>
Less claims administration (allocated)	1,047,669	1,072,606	851,426	784,645	752,504	789,411	754,290	732,654	546,278	562,500	495,000
Unallocated expenses	<u>\$ 261,917</u>	<u>268,151</u>	<u>212,856</u>	<u>196,161</u>	<u>188,126</u>	<u>197,353</u>	<u>188,573</u>	<u>183,163</u>	<u>136,569</u>	<u>129,397</u>	<u>166,680</u>

See accompanying independent auditors' report.

Table 5

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

Rates and Assessments

Last ten fiscal years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Participating physicians	\$ 6,100	6,000	5,900	5,600	5,400	5,300	5,200	5,100	5,000	5,000	5,000
Non participating physicians	300	300	300	300	290	280	270	260	250	250	250
	\$55/live birth not to exceed	\$55/live birth not to exceed	\$55/live birth not to exceed	\$52.50/live birth not to exceed	\$50/live birth not to exceed	\$50/live birth not to exceed	\$50/live birth not to exceed	\$50/live birth not to exceed	\$50/live birth not to exceed	\$50/live birth not to exceed	\$50/live birth not to exceed
Hospitals	\$ 200,000	200,000	200,000	200,000	190,000	180,000	170,000	160,000	150,000	150,000	\$150,000
Insurance companies estimated net direct premiums subject to assessment	\$ 4,737,010,800	4,744,774,400	4,909,404,000	5,048,354,800	5,132,009,600	5,056,646,800	4,778,318,000	4,525,660,000	3,979,543,200	3,597,446,400	3,217,023,200

Notes:

Insurance companies pay one quarter of one percent of net direct premiums written, however, only the liability portion of the premium is assessable as determined by Virginia Workers Compensation Commission

Legislation states (§38.2-5020 E) that if required to maintain the Program on an actuarially sound basis, liability insurers shall pay an assessment to the Program. During the years 1998 through 2001, the Program was considered actuarially sound by the Virginia State Corporation Commission and insurance carriers were not required to pay. During the years 2003 through 2011 the Program was determined not to be actuarially sound and the liability insurers were required to pay

Legislation states (§38.2-5020 G) that if the Virginia State Corporation Commission determines the Program is actuarially sound it will suspend the assessment on nonparticipating physicians. The assessment will be reinstated if it is determined that the assessment is required to maintain actuarial soundness. During the years 1998 through 2001, the Program was considered actuarially sound and nonparticipating physicians were not required to pay. During the years 2003 through 2012, the Program has been determined not actuarially sound and the assessment was reinstated.

See accompanying independent auditors' report.

Table 6

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

Physicians, Hospitals, and Insurance Companies

Last ten fiscal years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Participating:											
Doctors	691	665	675	648	653	622	577	536	508	410	358
Residents	—	—	—	—	88	77	155	147	456	174	131
Total participating physicians	691	665	675	648	741	699	732	683	964	584	489
Mandatory:											
Total mandatory physicians	13,866	14,554	14,055	14,076	13,797	13,817	13,597	13,219	13,445	12,200	12,413
Delinquent:											
Total delinquent physician:	3,991	2,932	2,769	2,670	1,893	1,184	621	737	648	978	1,502
Exempt:											
E1	2,043	1,934	1,955	1,856	1,903	1,852	1,733	1,723	1,701	405	1,282
E2	842	903	954	1,876	2,777	2,739	3,145	2,252	2,742	1,614	2,482
E3	1,316	1,349	1,514	1,457	1,547	1,443	1,596	1,458	1,544	480	1,528
E4	154	183	194	195	204	179	168	167	170	55	170
E5	3,428	3,770	3,697	3,471	3,789	3,661	4,189	3,982	4,085	1,144	3,812
E6	536	372	—	—	531	800	546	442	15	48	1,284
Total exempt physicians	8,319	8,511	8,314	8,855	10,751	10,674	11,377	10,024	10,257	3,746	10,558
Total physicians	26,867	26,662	25,813	26,249	27,182	26,374	26,327	24,663	25,314	17,508	24,962
Hospitals	36	37	37	38	38	31	33	32	33	29	23
Insurance Companies	516	521	504	505	503	506	495	496	484	497	497

Notes:

- State law allows a physician to be exempt from paying the mandated assessment if one of the five following criteria are met:
- E1. Employed by the Commonwealth of Virginia or federal government and income from professional fees from a source other than the Commonwealth of Virginia federal government is less than 10% of annual salary
 - E2. Enrolled in a full-time graduate medical education program accredited by the American Council for Graduate Medical Education
 - E3. Retired from active medical practice
 - E4. Engaged in active clinical practice that was limited to the provision of services, voluntary and without compensation, to any patient of any clinic organized whole or in part for the delivery of health care services without charge
 - E5. Not practicing medicine in Virginia (either not currently practicing or practicing in another state)
 - E6. The above exemption numbers are due to undeliverable addresses returned by the Post Office

Physicians that are delinquent as of year end are turned over to the Virginia State Corporation Commission, Division of Insurance.

Legislation states (§38.2-5020 E) that if required to maintain the Program on an actuarially sound basis, liability insurers shall pay an assessment to the Program. During the years 1998 through 2001, the Program was considered actuarially sound by the Virginia State Corporation Commission and insurance carriers were not required to pay. During the years 2003 through 2012 the Program was determined not to be actuarially sound and the liability insurers were required to pay.

Legislation states (§38.2-5020 G) that if the Virginia State Corporation Commission determines the Program is actuarially sound it will suspend the assessment on nonparticipating physicians. The assessment will be reinstated if it is determined that the assessment is required to maintain actuarial soundness. During the years 1998 through 2001, the Program was considered actuarially sound and nonparticipating physicians were not required to pay. During the years 2003 through 2012, the Program has been determined not actuarially sound and the assessment was reinstated.

See accompanying independent auditors' report.

Table 7

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

Virginia Demographic Statistics
Last ten fiscal years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Note:											
1 Population	N/A	8,096,604	8,001,024	7,882,590	7,769,089	7,712,091	7,642,884	7,567,465	7,460,066	73,863,360	7,923,848
1 Number of births	N/A	101,032	102,934	104,979	106,578	108,417	106,474	104,488	103,830	100,561	99
2 Number of petitions filed	11	12	12	10	9	15	10	16	17	11	12
2 Number of claimants awarded	9	14	5	8	8	15	8	14	10	11	8

Note:
1 Statistics provided by the Virginia Center for Health Statistics
2 Statistics provided by Program management

N/A – not available

See accompanying independent auditors' report.

VIRGINIA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PROGRAM
Number of Admitted, Deceased, and Active Claimants
Last nine fiscal years

	Total year end 2002	2003 Activity	Total year end 2003	2004 Activity	Total year end 2004	2005 Activity	Total year end 2005	2006 Activity	Total year end 2006	2007 Activity	Total year end 2007	2008 Activity	Total year end 2008	2009 Activity	Total year end 2009	2010 Activity	Total year end 2010	2011 Activity	Total year end 2011	2012 Activity	Total year end 2012
Admitted	78	10	87	10	97	14	111	8	119	15	134	8	142	8	150	5	155	14	169	9	178
Deceased*	8	2	10	1	11	2	13	3	16	1	17	3	20	4	24	—	24	1	25	1	26
Deceased on award**	1	2	3	1	4	3	7	—	7	1	8	3	11	3	14	1	15	3	17	1	18
Total deceased	9	4	13	2	15	5	20	3	23	2	25	6	31	7	38	1	39	4	42	2	44
Active	69	6	74	8	82	9	91	5	96	13	109	5	111	1	112	4	116	10	127	8	134

Notes:
* Number of children in the Program that became deceased subsequent to their award
** Number of children that were deceased at the time of award to the Program

See accompanying independent auditors' report.

Table 9

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

Number of Employees by Identifiable Activities
Last ten fiscal years

Activity	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Executive director	1	1	1	1	1	1	1	1	1	1	1
Finance divisor	2	3	3	3	3	2	2	2	2	2	2
Claims and administration	6	6	6	6	6	6	5	5	5	4	4

See accompanying independent auditors' report.

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COMPLIANCE SECTION



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KPMG LLP
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1021 East Cary Street
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**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Virginia Birth-Related Neurological Injury Compensation Program (the Program), which comprise the statement of net position as of December 31, 2012, and the related statements of revenues, expenses and changes in fund net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 30, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Program's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

May 30, 2013