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VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Comprehensive Annual Financial Report

For the fiscal year ended December 31, 2014

(With Independent Auditors' Report Thereon)

Presented by
The Department of Finance

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

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Virginia Birth-Related
Neurological Injury
Compensation Program

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Richmond, VA 23225
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www.vabirthinjury.info

A lifetime of help

June 11, 2015

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, 2014, 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 (U.S. GAAP) 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.

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 (the Governor) 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 have an actuarial study of the Program conducted.

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 2014, 715 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 2014, 38 hospitals were enrolled in the Program. According to estimates, approximately 90-95% 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 7%.

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 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 U.S. GAAP. 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, 2014. This was the seventh 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 U.S. GAAP 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.

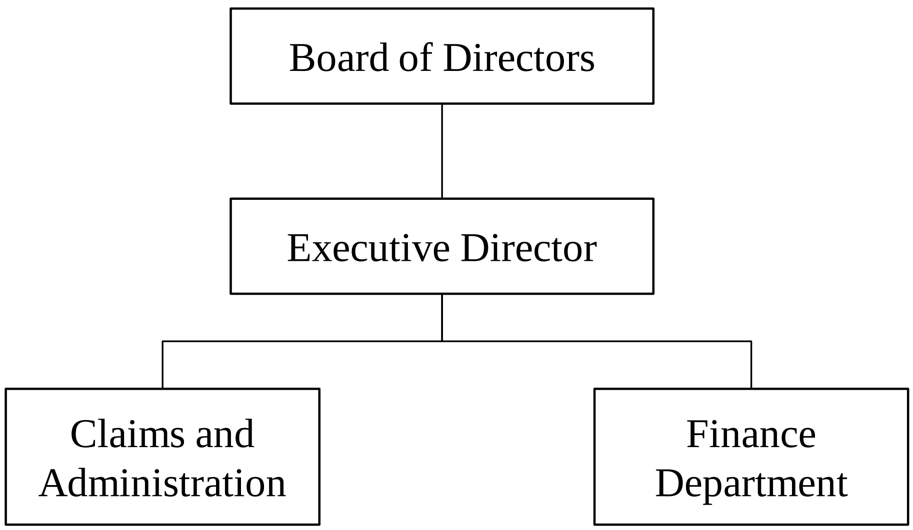
The staff of the Finance Department accomplished the preparation of this CAFR for the year ended December 31, 2014. We would like to express our appreciation to all members of the Finance Department who assisted and contributed to its preparation.

Respectfully submitted,

George Deebo	Candace Thomas, CGFM, CICP
Executive Director	Deputy Director

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Organizational Chart



VIRGINIA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PROGRAM

Principal Officials

BOARD OF DIRECTORS

David R. Barrett, Chair
Neal C. Schulwolf, Esq., Vice Chair
Lydia Byrd
Vicki Harris, JD
Vanessa S. Rakestraw, Ph.D., CRC
John W. Seeds, MD
Vienne Murray, MD

OTHER OFFICIALS

Executive Director	George Deebo
Deputy Director	Candace Thomas, CGFM, CICP
Assistant Attorney General	Carla Collins, Esq.

Government Finance Officers Association

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Presented to

Virginia Birth Related

Neurological Injury Compensation

Program

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2013

Executive Director/CEO

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FINANCIAL SECTION

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KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

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, 2014, 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 an opinion 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.

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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, 2014 and the changes in its financial position and its cash flows thereof for the year then ended in accordance 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 21 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 financial statements that collectively comprise 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 June 11, 2015 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 provide an opinion on 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

June 11, 2015

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Management's Discussion and Analysis (unaudited)

December 31, 2014

This section of the Virginia Birth-Related Neurological Injury Compensation Program's (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, 2014 and 2013. Please read it in conjunction with the Program's basic financial statements and accompanying notes.

Financial Highlights

- The 2014 revenue from total fees and assessments increased by $814,000 or 3.4%. Fees assessed from participating physicians decreased $10,000 or 0.2%, participating hospitals increased $324,000 or 9.5%, insurance companies increased $540,000 or 4.5% and mandated physician fees decreased $40,000 or 0.9%. (An explanation of significant variances is included later in this report).
- The Program's total net position changed from a deficit of approximately $81,775,000 in 2013 to approximately $56,557,000 in 2014. This decrease in the deficit is primarily due to a $29.3 million increase in operating income from a loss of ($19.8) million in 2013 to income of approximately $9.5 million in 2014. In addition, investment income decreased by $20.8 million. (An explanation of significant variances is included later in this report).
- The Program provided approximately $9,967,000 in nursing care, $467,000 in therapy, $693,000 for 18 handicapped accessible vans, $1,203,000 for housing benefits, $252,000 for durable medical equipment and technology, $97,000 for hospital and physician visits, and $428,000 for claimant legal fees during 2014.
- During 2014, an additional 6 claimants became eligible to receive the wage benefit for a total of 52 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 $1,295,000 was paid to the 44 eligible claimants requesting the benefit and $1,275,000 was accrued for the 52 eligible claimants.
- The average cost per active claimant in 2014 and 2013 was approximately $113,000 and $107,000, respectively.
- As of December 31, 2014, there were 715 participating physicians, up 10 from 705 physicians in 2013. There were 38 participating hospitals as of December 31, 2014, up 2 from 36 hospitals in 2013.
- Administrative expenses were 7% of the total expenses (administrative plus claimant, excluding change in claims reserve) paid in both 2014 and 2013.
- As of December 31, 2014, 101 families received reimbursement for nursing or attendant care provided by a relative or legal guardian according to Virginia Code §38.2-5009 up 8 from 93 families in 2013. The Program began to reimburse family members for providing care beginning July 1, 2008.

As of December 31, 2014, the Program had a total of 190 admitted claimants, 46 of which are deceased. During the year ended December 31, 2014, 7 claimants were admitted into the Program. Six claimant petitions for admission were pending as of December 31, 2014. See chart below:

	Total December 31, 2013	2014 Activity	Total December 31, 2014
Active	139	5	144
Deceased	44	2	46
Admitted	183	7	190

Overview of the Financial Statements

The Program's CAFR consists of four sections: introductory, financial, statistical, and compliance. The financial section consists of four components; the independent auditors' report, management's discussion and analysis (this component), 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 Net Position, the Statement of Cash Flows, and notes to the basic financial statements. 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.

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, 2014 and 2013

(In millions)

		2014	2013
Current assets	$	18.8	24.6
Noncurrent assets		386.8*	359.2*
Total assets		405.6	383.8
Current liabilities		16.7	16.0
Noncurrent unpaid claims reserve:			
Admitted claims, less current portion		303.7	293.6
Incurred but not reported claims		120.2	132.4
Total unpaid claims reserve, noncurrent		423.9	426.0
Total liabilities		440.6	442.0
Total deferred inflows		21.6	23.6
Total liabilities and deferred inflows		462.2	465.6
Unrestricted deficit		(56.6)*	(81.8)*
Total net position	$	(56.6)*	(81.8)*

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

At December 31, 2014 and 2013, the total assets of the Program were $405.6 million and $383.8 million, respectively; total deferred inflows and liabilities were $462.2 million and $465.6 million, respectively; and total net position was $(56.6) million and $(81.8) million, respectively. The actuarial estimate of future claim payments of children born on or prior to December 31, 2014, plus the actuarial estimate of future claim administration expenses, exceeds the assets of the Program.

The $27.6 million increase in noncurrent assets from $359.2 million in 2013 to $386.8 million in 2014 was primarily due to net investment income of $15.7 million and additions to the investment portfolio as a result of positive operational cash flows.

(Continued)

The total unpaid claims reserve at December 31, 2014 and 2013 was $438.9 million and $440 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 a bi-annual actuarial study.

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

		2014	2013
Estimated future payments for claimants	$	22.5	25.8
Decrease in provision for changes in methodology and assumptions		(23.6)	—
Estimated future payments for new claimants admitted in prior years		21.9	21.6
Estimated claim payments		(21.9)	(18.6)
Net change in claims reserve	$	(1.1)	28.8

The net change in claims reserve for the years ended December 31, 2014 and 2013 was a decrease of $(1.1) million and increase of $28.8 million, respectively. Several factors contribute to the stabilization of the claims reserve and substantial decrease in the Program's deficit as follows:

- Favorable investment performance contributed to larger than expected investment income, which increased the Program's assets thus substantially decreasing the Program's deficit.
- A slight decrease in the assumed inflation rate, which compounded over many years into the future, serves to reduce the present value of liabilities, and thus the deficit as well.
- A leveling off of the increase in benefits payments during calendar years 2012 and 2013 from the $1.5 million increase seen in 2011.
- A small decrease in projected present value lifetime claimant benefits resulting from both the decrease in the assumed inflation rate and lower than assumed annual benefit payments.

Statements of Revenues, Expenses and Changes in Net Position

(Continued)

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

Table 2

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

Years ended December 31, 2014 and 2013

(In millions)

		Year ended December 31	
		2014	**2013**
Operating revenues:			
Participating hospitals	$	3.8	3.4
Participating physicians		4.2	4.2
Mandated physician fees		4.4	4.5
Insurance fees		12.6	12.0
Total operating revenues		25.0	24.1
Operating expenses:			
Provision for claims, net		15.3	43.7
General and administration		0.2	0.2
Total operating expenses		15.5	43.9
Operating income (loss)		9.5	(19.8)
Nonoperating revenue:			
Net investment income		15.7	36.5
Miscellaneous		—	0.2
Net nonoperating revenue		15.7	36.7
Change in net position		25.2	16.9
Net position at beginning of year		(81.8)	(98.7)
Net position at end of year	$	(56.6)	(81.8)

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, 2014 and 2013, operating revenue was $25 million and $24.1 million, respectively, and nonoperating revenue was $15.7 million and $36.7 million, respectively.

Assessments for both 2014 and 2013 for participating and nonparticipating physicians were $6,200 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 2014 and 2013, liability insurers paid one quarter of one percent on the net direct premiums written during the prior year.

Net investment income is $15.7 million in 2014 and $36.5 million in 2013, a decrease of $20.8 million. This is due primarily to net appreciation in fair value of investments of $22 million in 2013 and net depreciation in fair value of investments of $10.2 million in 2014. In addition, net realized gain on investments increased $10.9 million from $7.9 million to $18.8 million in 2013 and 2014, respectively.

Expenses

For the years ended December 31, 2014 and 2013, expenses totaled $15.5 million and $43.9 million, respectively. The difference is primarily due to the net change in claims reserve which decreased by $1.1 million in 2014 and increased $28.8 million in 2013. For further explanation see summary and explanation of claims provision on page 6. Expenses are comprised of general administrative and claims related expenses, the latter of which reflects the increase or decrease 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 7% of the total expenses (administrative plus claimant, excluding change in claims reserve) for both 2014 and 2013. Management estimates that approximately 80% of the total administrative expenses are directly related to claims administration. Of the total administrative expenses of approximately $1.2 million in 2014, approximately $966,000 or 80% is related to claims and approximately $242,000 is related to program administration. Of the total administrative expenses of approximately $1.1 million in 2013, approximately $854,000 or 80% is related to claims and approximately $213,000 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 decreased from $43.7 million 2013 to $15.3 million in 2014. For further explanation see summary and explanation of claims provision on page 6.

(Continued)

Economic Factors

Strong equity manager performance and a diversified portfolio allowed the Program's funds to gain 4.4% for the year and 1.7% in the fourth quarter. The asset allocation includes 43% stocks, 32% bonds, 20% alternatives and 5% 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, 2014, 26% of the investment portfolio was invested in separate accounts, 52% in mutual funds, 20% 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

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Statement of Net Position

December 31, 2014

Assets		
Current assets:		
Cash and cash equivalents	$	18,297,113
Accrued interest and dividends		455,168
Total current assets		18,752,281
Noncurrent assets:		
Investments		386,883,474
Capital assets, net		8,392
Total noncurrent assets		386,891,866
Total assets		405,644,147
Liabilities and Deferred Inflows		
Current liabilities:		
Accounts payable		1,111,638
Accrued liabilities		552,488
Current portion of unpaid claims reserve		15,000,000
Total current liabilities		16,664,126
Noncurrent liabilities:		
Unpaid claims reserve:		
Admitted claims, less current portion		303,700,000
Incurred but not reported claims		120,200,000
Total unpaid claims reserve		423,900,000
Total noncurrent liabilities		423,900,000
Total liabilities		440,564,126
Deferred inflows of resources – deferred assessment and fee receipts		21,636,839
Total liabilities and deferred inflows		462,200,965
Net Position (Deficit)		
Net position, net investment in capital assets		8,392
Unrestricted deficit		(56,565,210)
Total net position (deficit)	$	(56,556,818)

See accompanying notes to basic financial statements.

VIRGINIA BIRTH-RELATED NEUROLOGICAL
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Statement of Revenues, Expenses, and Changes in Net Position

Year ended December 31, 2014

Operating revenues:		
Participating hospitals	$	3,754,421
Participating physicians		4,207,685
Mandated physician fees		4,412,205
Insurance fees		12,584,222
Total operating revenues		24,958,533
Operating expenses:		
Provision for claims, net		15,232,542
General and administration		241,574
Total operating expenses		15,474,116
Operating income		9,484,417
Nonoperating revenue:		
Net investment income		15,733,399
Net nonoperating revenue		15,733,399
Change in net position		25,217,816
Net position at beginning of year		(81,774,634)
Net position at end of year	$	(56,556,818)

See accompanying notes to basic financial statements.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Statement of Cash Flows

Year ended December 31, 2014

Cash flows from operating activities:		
Receipts from participating hospitals	$	3,685,885
Receipts from participating physicians		3,746,581
Mandated physician fee receipts		4,168,066
Receipts from insurance companies		11,458,707
Payments on behalf of claimants		(15,567,859)
Payments to suppliers of goods and services		(608,328)
Payments to employees		(726,609)
Net cash provided by operating activities		6,156,443
Cash flows from investing activities:		
Purchase of investments		(259,858,764)
Proceeds from sale and maturity of investments		240,529,306
Earnings on investments		7,359,685
Net cash used in investing activities		(11,969,773)
Net decrease in cash and cash equivalents		(5,813,330)
Cash and cash equivalents:		
Beginning of year		24,110,443
End of year	$	18,297,113
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	9,484,417
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		6,569
Decrease in:		
Accounts payable		(201,612)
Accrued liabilities		(133,637)
Deferred inflows of resources		(1,899,294)
Claims reserve		(1,100,000)
Net cash provided by operating activities	$	6,156,443
Noncash investing activities:		
Net depreciation in fair value of investments	$	(10,239,064)

See accompanying notes to basic financial statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

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(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 Program, if necessary, based upon actual experience of the Program. The Program receives no federal or state government funding.

(b) Basis of Accounting

The Program operates as an enterprise fund subject to Governmental Accounting Standards Board (GASB) Codification Section Po20 – Public Entity Risk Pools.

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.

(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.

(d) Administrative Expenses

Administrative expenses include salaries and benefits, rent, cost of noncapitalizable office equipment and other expenses not directly related to claims. In 2014, administrative expenses related to claims processing of approximately $1,208,000 were allocated to provision for claims, net in the amount of approximately $966,000 and to general and administration expense in the amount of approximately $242,000.

(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*

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, mid, and small cap equities and fixed income securities. 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 and 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 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, which is three to seven years for equipment and automobiles, using the straight-line method.

(h) *Deferred Inflows of Resources*

Deferred inflows represent amounts for which revenue recognition criteria have not been met due to a time requirement. 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.

(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.

(2) Deposits and Investments

The Program's deposit and investment portfolio consists of the following at December 31, 2014:

Cash and cash equivalents	$ 18,297,113
Investments:	
Mutual funds:	
Large cap equity	61,919,128
Small and mid cap equity	9,168,924
Developed international	39,766,680
Emerging markets	12,453,987
Domestic fixed income	58,963,902
Global fixed income	19,758,042
Alternative strategies	79,013,499
Separate accounts:	
Large cap equity	43,445,982
Small and mid cap equity	5,297,506
Domestic fixed income	50,453,089
Real estate held in trust	6,642,735
Total investments	386,883,474
Total cash and cash equivalents and investments	405,180,587

(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.

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, 2014 is as follows:

		Rating	Fair value 2014	Percent of portfolio (3)	Average maturity (in years)
Mutual funds:					
Vanguard Bond Index	(1)	AA	$ 19,574,726	5.1%	7.7
Western Asset Core Plus	(1)	BB	20,083,275	5.3%	9.1
Loomis Sayles Global Bond Fund	(1)	A	19,758,042	5.2%	7.8
JP Morgan Strategic Income	(1)	BB	19,305,901	5.1%	2.0
Separate accounts:					
Richmond Capital Management	(2)	AA	50,453,089	13.3%	7.2
Total			$ 129,175,033		

(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.

(3) Excludes real estate held in trust.

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, 2014 include U.S. publicly traded mutual funds which have an international strategy totaling $71,978,709.

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.

The Program's return on investments for the year ended December 31, 2014 is summarized as follows:

Interest income	$	1,537,482
Dividend income		6,273,432
Realized gain on investments, net		18,848,989
Net depreciation in fair value of investments		(10,239,064)
Investment fees		(608,069)
Fiduciary fees		(79,371)
Net investment income	$	15,733,399

(3) Capital Assets

Capital assets at December 31, 2014 and the related changes for the year ended were as follows:

		January 1, 2014	Increases	Decreases	December 31, 2014
Computer equipment	$	59,274	—	—	59,274
Office equipment		43,174	—	—	43,174
Automobiles		17,237	—	—	17,237
		119,685	—	—	119,685
Less accumulated depreciation		(104,724)	(6,569)	—	(111,293)
Capital assets, net	$	14,961	(6,569)	—	8,392

(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. 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.

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, 2014 (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 2014 include:

	2014
Rate of claims inflation (varies based on category of expense)	2.56% - 4.58%
Investment earnings/discount rate	5.25%
Mortality:	
Life expectancy at:	
Birth	28.4 years
Age 3	29.1 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.	47

The total number of claimants (admitted claimants and not-yet-admitted claimants) is estimated to be 241 as of December 31, 2014.

The following represents changes in the unpaid claims reserves for the Program for the year ended December 31, 2014 and 2013:

		2014	2013
Unpaid claims and claim adjustment expenses at beginning of year	$	440,000,000	411,200,000
Incurred claims:			
Estimated future payments for new claimants admitted in current year		22,500,000	25,800,000
Estimated future payments for new claimants admitted in prior years		21,900,000	21,600,000
Total incurred claims		44,400,000	47,400,000
Claims payments:			
Estimated claims payments for claimants admitted in current year		(2,000,000)	(1,700,000)
Estimated claims payments for claimants admitted in prior years		(19,900,000)	(16,900,000)
Total estimated claims payments		(21,900,000)	(18,600,000)
Decrease in provision for change in methodology and assumptions		(23,600,000)	—
Unpaid claims and claim adjustment expenses at end of year	$	438,900,000	440,000,000

Several factors contribute to the stabilization of the claims reserve as follows:

- Favorable investment performance contributed to larger than expected investment income, which increased the Program's assets thus substantially decreasing the Program's deficit.
- A slight decrease in the assumed inflation rate, which compounded over many years into the future, serves to reduce the present value of liabilities, and thus the deficit as well.
- A leveling off of the increase in benefits payments during calendar years 2012 and 2013 from the $1.5 million increase seen in 2011.
- A small decrease in projected present value lifetime claimant benefits resulting from both the decrease in the assumed inflation rate and lower than assumed annual benefit payments.

The total undiscounted unpaid claims and claim adjustment expenses amount to $1,643.9 million at December 31, 2014 and represent unaudited estimates.

(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 and short term disability insurance and amounted to approximately $185,000 for the year ending December 31, 2014.

(6) Operating Lease Commitments

The Program leases its office space under an operating lease expiring in September 2018. Rent expense totaled $55,700 for the year ended December 31, 2014.

Future minimum obligations under this lease are as follows:

2015	55,583
2016	57,255
2017	58,959
2018	45,359

(7) Liquidity

The most recent actuarial study performed for the year ended December 31, 2014, which used claims data as of December 31, 2013, 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 (unaudited)

December 31, 2014

(In thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
(1) Premiums, investment revenue and miscellaneous:										
Earned	$ 26,032	40,292	39,964	(20,801)	60,741	48,392	25,925	55,518	60,907	40,692
(2) Unallocated expenses	183	189	197	188	196	213	268	263	213	242
(3) Estimated losses and expenses, end of birth year:										
Incurred	21,652	23,000	24,500	23,300	22,300	23,500	23,800	24,800	25,800	22,500
(4) Net paid (cumulative) as of:										
End of birth year	—	—	—	—	68	—	—	—	—	—
One year later	—	157	124	331	303	—	—	—	—	—
Two years later	41	341	369	372	614	267	44	143	—	—
Three years later	88	420	438	895	822	498	395	—	—	—
Four years later	421	574	625	1,133	1,338	723	—	—	—	—
Five years later	437	829	1,019	1,372	1,691	—	—	—	—	—
Six years later	519	1,120	1,270	1,569	—	—	—	—	—	—
Seven years later	797	1,339	1,816	—	—	—	—	—	—	—
Eight years later	1,092	1,718	—	—	—	—	—	—	—	—
Nine years later	1,565	—	—	—	—	—	—	—	—	—
(5) Reestimated ceded losses and expenses	—	—	—	—	—	—	—	—	—	—
(6) Reestimated net incurred losses and expenses:										
End of birth year	21,652	23,000	24,500	23,300	22,300	23,500	23,800	24,800	25,800	22,500
One year later	22,038	22,332	23,372	21,630	22,575	18,136	24,609	24,548	23,768	—
Two years later	21,409	21,273	21,615	21,917	17,485	18,934	24,367	22,594	—	—
Three years later	20,412	19,624	21,918	16,599	18,243	18,696	22,492	—	—	—
Four years later	18,859	19,908	16,325	17,391	18,016	16,844	—	—	—	—
Five years later	19,127	14,658	17,158	17,154	16,260	—	—	—	—	—
Six years later	14,184	15,440	16,909	15,319	—	—	—	—	—	—
Seven years later	14,920	15,206	14,979	—	—	—	—	—	—	—
Eight years later	14,700	13,394	—	—	—	—	—	—	—	—
Nine years later	12,995	—	—	—	—	—	—	—	—	—
(7) Decrease in estimated net incurred losses and expenses from end of birth year	(8,657)	(9,606)	(9,521)	(7,981)	(6,040)	(6,656)	(1,308)	(2,206)	(2,032)	—

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

(1) Claims Development Information

The table on the preceding page illustrates how the Program's premiums, investment income and miscellaneous 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 and miscellaneous 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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NEUROLOGICAL INJURY

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STATISTICAL SECTION

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Neurological Injury

Virginia Birth-Related

Compensation Program

Since 1987

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 (Deficit) by Component
Table 2	Schedule of Revenues, Expenses, and Changes in 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

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
Table 8	Virginia Principal Employers

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 9	Number of Admitted, Deceased, and Active Claimants
Table 10	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 (Deficit) by Component

Last ten fiscal years

Year ended December 31	Net investment in capital assets	Unrestricted deficit	Total net position (deficit)
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)
2013	14,961	(81,789,595)	(81,774,634)
2014	8,392	(56,565,210)	(56,556,818)

See accompanying independent auditors' report.

Table 2

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Schedule of Revenues, Expenses, and Changes in Net Position

Last ten fiscal years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Operating revenues:										
Participating hospitals	$ 3,754,421	3,430,238	3,495,915	3,623,350	3,771,265	3,750,364	3,373,339	2,715,783	2,926,900	2,753,450
Participating physicians	4,207,685	4,217,819	4,102,419	3,868,705	3,811,821	3,532,187	3,358,073	3,223,346	2,843,793	2,342,449
Mandated physician fees	4,412,205	4,451,865	4,139,786	4,362,116	4,214,365	4,170,750	3,992,183	3,747,915	3,734,266	3,444,676
Insurance fees	12,584,222	12,044,647	11,842,527	11,861,936	12,273,510	12,620,887	12,830,024	12,641,617	11,945,795	11,314,150
Other	—	—	—	759	8,528	54	71	21,296	136,676	—
Total operating revenues	24,958,533	24,144,569	23,580,647	23,716,866	24,079,489	24,074,242	23,553,690	22,349,957	21,587,430	19,854,725
Operating expenses:										
Provision for claims, net	15,232,542	43,729,663	55,339,703	(24,790,373)	50,458,868	26,572,068	33,458,390	38,009,839	44,254,224	51,853,223
General and administration	241,574	213,457	261,917	268,151	212,856	196,161	188,126	197,353	188,573	183,164
Other	—	—	1,191	—	—	—	—	—	—	—
Total operating expenses	15,474,116	43,943,120	55,602,811	(24,522,222)	50,671,724	26,768,229	33,646,516	38,207,192	44,442,797	52,036,387
Operating income (loss)	9,484,417	(19,798,551)	(32,022,164)	48,239,088	(26,592,235)	(2,693,987)	(10,092,826)	(15,857,235)	(22,855,367)	(32,181,662)
Nonoperating revenue (expense):										
Net investment income (loss) and miscellaneous	15,733,399	36,762,341	31,937,679	2,207,744	24,312,352	36,666,862	(43,065,248)	17,534,040	18,704,230	6,177,754
Change in net position	25,217,816	16,963,790	(84,485)	50,446,832	(2,279,883)	33,972,875	(53,158,074)	1,676,805	(4,151,137)	(26,003,908)
Net position (deficit) at beginning of year	(81,774,634)	(98,738,424)	(98,653,939)	(149,100,771)	(146,820,888)	(180,793,763)	(127,635,689)	(129,312,494)	(125,161,357)	(99,157,449)
Net position (deficit) at end of year	$ (56,556,818)	(81,774,634)	(98,738,424)	(98,653,939)	(149,100,771)	(146,820,888)	(180,793,763)	(127,635,689)	(129,312,494)	(125,161,357)

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	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Claims expense excluding change in claims reserve	$ 16,332,542	14,929,663	14,039,703	13,109,627	11,858,868	11,372,049	11,658,390	10,209,839	11,054,225	9,453,223
Number of active claimants (note 1)	144	139	134	127	117	113	111	109	96	91
Average expense per claimant	$ 113,420	107,408	104,774	103,225	101,358	100,638	105,031	93,668	115,148	103,882
Percent increase or decrease from prior year	5.60%	2.50%	1.50%	1.84%	0.72%	(4.18)%	12.13%	(18.65)%	10.84%	24.11%
Breakdown of claims expenses, excluding change in claims reserve, into major categories:										
Category	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Nursing	$ 9,967,152	9,876,877	9,147,939	8,531,487	7,990,795	7,194,528	6,983,584	6,448,647	6,186,118	5,541,310
Physician/Hospital	96,579	75,476	60,464	77,828	78,057	59,474	68,119	96,123	81,115	63,976
Therapy	466,704	334,026	328,579	339,347	310,829	219,303	254,923	254,876	231,712	197,991
Incidentals	185,802	159,793	167,650	153,112	172,224	139,064	193,317	151,903	179,888	181,039
Prescription	100,374	83,123	93,148	91,233	130,381	151,905	135,239	127,809	115,265	104,329
Housing	1,202,662	553,852	575,319	409,937	423,352	839,436	1,360,826	756,673	1,445,145	937,368
Van	693,035	538,029	762,149	574,437	385,084	351,673	526,513	501,827	863,555	734,953
Medical equipment	251,899	190,707	157,206	158,558	160,510	166,926	211,562	188,897	319,405	162,970
Legal fees – claimant	427,676	465,807	215,190	371,045	165,164	165,654	299,892	283,809	470,204	350,667
Legal fees – attorney general	180,000	180,000	180,000	180,000	170,000	117,500	150,000	150,000	187,500	225,000
Auto/Health insurance	127,468	164,413	143,509	134,082	150,137	141,193	143,283	150,940	120,678	104,718
Mileage reimbursement	81,893	62,003	74,857	67,956	78,081	41,689	73,978	49,276	72,480	32,342
Wage benefit payment	1,274,947	1,082,549	900,614	698,454	501,407	334,207	245,052	97,163	—	—
WCC ordered award	285,750	251,834	156,053	200,000	164,820	595,850	200,000	—	—	—
Claimant related administrative	966,295	853,829	1,047,669	1,072,606	851,426	784,645	752,504	789,413	754,290	732,654
Other (note 2)	24,306	57,345	29,357	49,545	126,601	69,002	59,598	162,483	26,870	83,906
Total claims expense, excluding change in claims reserve	16,332,542	14,929,663	14,039,703	13,109,627	11,858,868	11,372,049	11,658,390	10,209,839	11,054,225	9,453,223
Percent increase or decrease from prior year	9.40%	6.3%	7.1%	10.55%	4.28%	(2.46)%	14.19%	(7.64)%	16.94%	37.73%
Percentage of expense, excluding change in claims reserve, per total claims expense:										
Category	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Nursing	61.03%	66.16%	65.16%	65.08%	67.38%	63.27%	59.90%	63.16%	55.96%	58.62%
Physician/Hospital	0.59	0.51	0.43	0.59	0.66	0.52	0.58	0.94	0.73	0.68
Therapy	2.86	2.24	2.34	2.59	2.62	1.93	2.19	2.50	2.10	2.09
Incidentals	1.14	1.07	1.19	1.17	1.45	1.22	1.66	1.49	1.63	1.92
Prescription	0.61	0.56	0.66	0.70	1.10	1.34	1.16	1.25	1.04	1.10
Housing	7.36	3.71	4.10	3.13	3.57	7.38	11.67	7.41	13.07	9.92
Van	4.24	3.60	5.43	4.38	3.25	3.09	4.52	4.92	7.81	7.77
Medical equipment	1.54	1.28	1.12	1.21	1.35	1.47	1.81	1.85	2.89	1.72
Legal	2.62	3.12	1.53	2.83	1.39	1.46	2.57	2.78	4.25	3.71
Legal fees – attorney general	1.10	1.21	1.28	1.37	1.43	1.03	1.29	1.47	1.70	2.38
Auto/Health insurance	0.78	1.10	1.02	1.02	1.27	1.24	1.23	1.48	1.09	1.11
Mileage reimbursement	0.50	0.42	0.53	0.52	0.66	0.37	0.63	0.48	0.66	0.34
Wage benefit payment	7.81	7.25	6.41	5.33	4.23	2.94	2.10	0.95	—	—
WCC ordered award	1.75	1.69	1.11	1.53	1.39	5.24	1.72	—	—	—
Claimant related administrative	5.92	5.72	7.46	8.18	7.18	6.90	6.45	7.73	6.82	7.75
Other (note 2)	0.15	0.38	0.21	0.38	1.07	0.61	0.51	1.59	0.24	0.89
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Change in claims provision	$ (1,100,000)	28,800,000	41,300,000	(37,900,000)	38,600,000	15,200,000	21,800,000	27,800,000	33,200,000	42,400,000
Nonclaims related administrative and other	241,574	213,457	263,108	268,151	212,856	196,161	188,126	197,353	188,573	183,164
Total operating expense	$ 15,474,116	43,943,120	55,602,811	(24,522,222)	50,671,724	26,768,210	33,646,516	38,207,192	44,442,798	52,036,387

Notes:

1. Active claimants are the total admitted claimants less deceased.
2. Other expenses may include medical review, therapeutic toys, computer equipment, funeral expense and medical service dog.

See accompanying independent auditors' report.

Table 4

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Schedule of General and Administrative Expenses

Last ten fiscal years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Advertising and brochures	$ —	843	6,385	1,610	1,059	2,177	3,841	1,533	4,260	5,249
Computer services	14,790	6,793	15,958	25,194	11,946	13,065	10,672	10,028	9,558	13,226
Depreciation and amortization	6,569	7,811	7,591	5,960	1,866	5,936	4,299	6,504	8,669	10,528
Office	14,647	14,685	13,552	11,107	10,486	14,409	11,623	7,714	9,460	7,771
Other	82,234	33,298	34,022	26,707	24,419	24,002	22,974	34,130	48,090	55,111
Postage and mailing	5,610	5,721	7,318	6,029	6,263	8,071	11,100	10,292	8,879	9,909
Professional fees	288,222	284,442	458,728	510,241	367,967	280,842	234,935	327,188	282,766	286,744
Rent	58,448	35,067	70,260	66,551	65,365	68,008	62,844	60,957	60,589	59,143
Salaries and benefits	726,609	669,877	688,136	679,781	567,446	556,899	568,263	518,682	502,315	458,511
Telephone	10,740	8,749	7,636	7,577	7,465	7,397	10,079	9,736	8,277	9,625
	1,207,869	1,067,286	1,309,586	1,340,757	1,064,282	980,806	940,630	986,764	942,863	915,817
Less claims administration (allocated)	966,295	853,829	1,047,669	1,072,606	851,426	784,645	752,504	789,411	754,290	732,654
Unallocated expenses	$ 241,574	213,457	261,917	268,151	212,856	196,161	188,126	197,353	188,573	183,163

See accompanying independent auditors’ report.

Table 5

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Rates and Assessments

Last ten fiscal years

Year		Non participating physicians	Hospitals		Insurance companies estimated net direct premiums subject to assessment
2014	$	300.00	$55/live birth not to exceed $200,000	$	5,033,688,800
2013		300.00	$55/live birth not to exceed $200,000		4,817,858,800
2012		300.00	$55/live birth not to exceed $200,000		4,737,010,800
2011		300.00	$55/live birth not to exceed $200,000		4,744,774,400
2010		300.00	$55/live birth not to exceed $200,000		4,909,404,000
2009		300.00	$52.50/live birth not to exceed $200,000		5,048,354,800
2008		290.00	$50/live birth not to exceed $190,000		5,132,009,600
2007		280.00	$50/live birth not to exceed $180,000		5,056,646,800
2006		270.00	$50/live birth not to exceed $170,000		4,778,318,000
2005		260.00	$50/live birth not to exceed $160,000		4,525,660,000

Notes:

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

The September 2002 actuarial report estimated that the fund was not actuarially sound as of December 31, 2001. Beginning with year 2002 through 2014, the liability insurers were assessed one quarter of one percent of net premiums written.

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 September 2002 actuarial report estimated that the fund was not actuarially sound as of December 31, 2001. Beginning with year 2002 through 2014, nonparticipating physicians were required to pay the assessment.

See accompanying independent auditors' report.

Table 6

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Physicians, Hospitals, and Insurance Companies

Last ten fiscal years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Participating:										
Doctors	715	705	691	665	675	648	653	622	577	536
Residents	—	—	—	—	—	—	88	77	155	147
Total participating physicians	715	705	691	665	675	648	741	699	732	683
Mandatory:										
Total mandatory physicians	14,537	14,998	13,908	14,583	14,055	14,076	13,797	13,817	13,597	13,219
Delinquent:										
Total delinquent physicians	4,516	1,881	2,892	2,030	2,769	2,670	1,893	1,184	621	737
Exempt:										
El	1,680	2,024	2,043	1,934	1,955	1,856	1,903	1,852	1,733	1,723
E2	1,302	1,140	842	903	954	1,876	2,777	2,739	3,145	2,252
E3	1,478	1,449	1,316	1,349	1,514	1,457	1,547	1,443	1,596	1,458
E4	180	198	154	183	194	195	204	179	168	167
E5	3,503	3,525	3,428	3,770	3,697	3,471	3,789	3,661	4,189	3,982
E6	196	683	536	372	—	—	531	800	546	442
Total exempt physicians	8,339	9,019	8,319	8,511	8,314	8,855	10,751	10,674	11,377	10,024
Total physicians	28,107	26,603	25,810	25,789	25,813	26,249	27,182	26,374	26,327	24,663
Hospitals	38	36	36	68	37	38	38	31	33	32
Insurance companies	559	557	542	521	504	505	503	506	495	496

Notes:

State law allows a physician to be exempt from paying the mandated assessment if one of the five following criteria are met:

El. Employed by the Commonwealth of Virginia or federal government and income from professional fees from a source other than the Commonwealth of Virginia or 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 in 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.

The September 2002 actuarial report estimated that the fund was not actuarially sound as of December 31, 2001. Beginning with year 2002 through 2014, the liability insurers were assessed one quarter of one percent of net premiums written.

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 September 2002 actuarial report estimated that the fund was not actuarially sound as of December 31, 2001. Beginning with year 2002 through 2014, nonparticipating physicians were required to pay the assessment.

See accompanying independent auditors’ report.

Table 7

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Virginia Demographic Statistics

Last ten fiscal years

Year	Population (1)	Number of births (1)	Number of petitions filed (2)	Number of claimants awarded (2)	Total personal income (in thousands) (3)	Per capita personal income (3)	Unemployment rate (4)
2014	N/A	N/A	7	7	N/A	N/A	N/A
2013	8,260,405	100,618	6	5	403,424,740	48,838	4.8%
2012	8,185,867	101,412	11	9	396,005,223	48,377	5.6
2011	8,096,604	101,032	12	14	381,930,403	47,126	6.2
2010	8,001,024	102,934	12	5	355,054,942	44,246	6.7
2009	7,882,590	104,979	10	8	347,630,625	44,129	6.8
2008	7,769,089	106,578	9	8	348,893,800	44,756	4.0
2007	7,712,091	108,417	15	15	321,245,259	41,727	3.0
2006	7,642,884	106,474	10	8	306,918,105	40,234	3.0
2005	7,567,465	104,488	16	14	286,685,185	37,988	3.5

1 Statistics provided by the Virginia Center for Health Statistics
2 Statistics provided by Program management
3 Statistics provided by the Bureau of Economic Analysis
4 Statistics provided by the Local Area Unemployment Statistics Unit and Bureau of Labor Statistics
N/A – not available

See accompanying independent auditors' report.

Table 8

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Virginia Principal Employers

Rank	Name
1	U.S. Department of Defense
2	Walmart
3	Fairfax County Public Schools
4	Huntington Ingalls Industries, Inc.
5	Sentara Healthcare
6	Food Lion
7	County of Fairfax
8	U.S. Postal Service
9	HCA Virginia Health System
10	U.S. Department of Homeland Defense

The Virginia Employment Commission is precluded from disclosing the actual number of employees per the Confidential Information Protection and Statistical Efficiency Act-Title V of Public Law 107-347. All employers have an employment size of 1,000 or more.

See accompanying independent auditors' report.

Table 9

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Number of Admitted, Deceased, and Active Claimants

Last ten fiscal years

Year	Total admitted	Deceased*	Deceased on award**	Total deceased	Active claimants
2014	190	26	20	46	144
Activity	7	1	1		
2013	183	25	19	44	139
Activity	5	—	—		
2012	178	25	19	44	134
Activity	9	1	1		
2011	169	24	18	42	127
Activity	14	1	3		
2010	155	23	15	38	117
Activity	5	—	1		
2009	150	23	14	37	113
Activity	8	4	3		
2008	142	19	11	30	112
Activity	8	2	3		
2007	134	17	8	25	109
Activity	15	1	1		
2006	119	16	7	23	96
Activity	8	3	—		
2005	111	13	7	20	91

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 of admission into the Program

See accompanying independent auditors' report.

Table 10

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Number of Employees by Identifiable Activities

Last ten fiscal years

Year	Executive director	Finance division	Claims and administration
2014	1	2	5
2013	1	2	5
2012	1	2	6
2011	1	3	6
2010	1	3	6
2009	1	3	6
2008	1	3	6
2007	1	2	6
2006	1	2	5
2005	1	2	5

See accompanying independent auditors' report.

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COMPLIANCE SECTION

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NEUROLOGICAL INJURY

VIRGINIA BIRTH-RELATED COMPENSATION PROGRAM

SINCE 1987

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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, 2014, and the related statements of revenues, expenses and changes in 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 June 11, 2015.

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

June 11, 2015