# VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Comprehensive Annual Financial Report

December 31, 2011

(With Independent Auditors' Report Thereon)

Presented by
The Department of Finance

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

**Table of Contents**


| | Page |
|---|---|
| Introductory Section: | |
| Letter of Transmittal | i |
| Organization Chart | v |
| Directory of Officials | vi |
| Financial Section: | |
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 3 |
| Basic Financial Statements: | |
| Statement of Net Assets (Deficit) | 10 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets (Deficit) | 11 |
| Statement of Cash Flows | 12 |
| Notes to Basic Financial Statements | 13 |
| Required Supplementary Information: | |
| Claims Development Information | 21 |
| Notes to Required Supplementary Information | 22 |
| Statistical Section: | 23 |
| Financial Trends: | |
| Net Deficit by Component | 24 |
| Schedule of Revenues, Expenses, and Changes in Fund Net Assets (Deficit) | 25 |
| Analysis of Average Cost per Active Claimant | 26 |
| Schedule of General and Administrative Expenses | 27 |
| Revenue Capacity: | |
| Rates and Assessments | 28 |
| Economic and Demographic Information: | |
| Physicians, Hospitals, and Insurance Companies | 29 |
| Virginia Demographic Statistics | 30 |
| Operating Information: | |
| Number of Admitted, Deceased, and Active Claimants | 31 |
| Number of Employees by Identifiable Activities | 32 |
| Compliance Section: | |
| 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* | 33 |

This page left intentionally blank

# INTRODUCTORY SECTION

This page left intentionally blank

VIRGINIA BIRTH-RELATED
NEUROLOGICAL INJURY
COMPENSATION PROGRAM

May 29, 2012

The Board of Directors
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 Compensation Program (the Program) for the year ended December 31, 2011, 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).

*Phone:* 804-330-2471
*Fax:* 804-330-3054
7501 Boulders View Drive
Suite 210
Richmond, VA 23225
www.vabirthinjury.com
www.vabirthinjury.info

*A lifetime of help*

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 '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.

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 2011, 676 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 2011, 37 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 10%.

**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 24 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, 2010. This was the fourth 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, 2011. We would like to express our appreciation to all members of the Finance Department who assisted and contributed to its preparation.

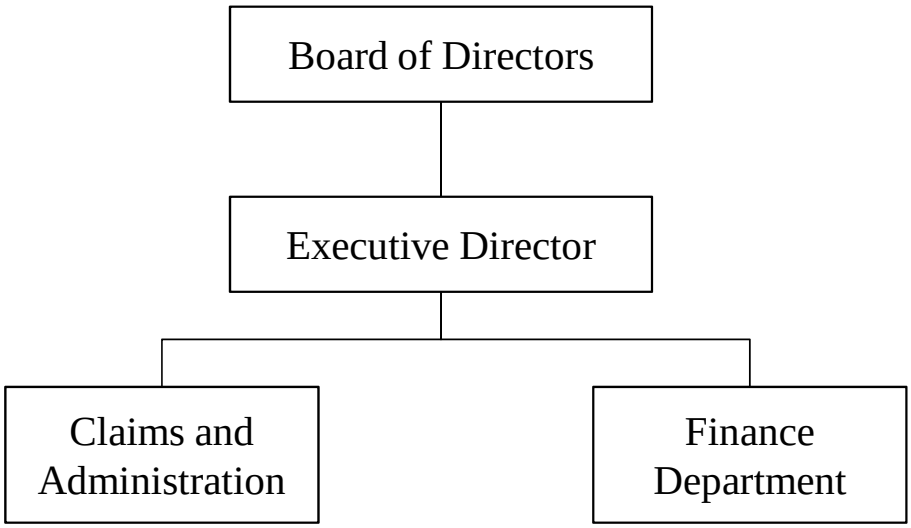
Respectfully submitted,

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**

Susan Lucas, MD, PHD, Chair
David R. Barrett, Vice Chair
Neal C. Schulwolf, Esq.
McLain O'Ferrall
Francoise Mullen
J. Scott Walters, Esq.
Arthur Lee Talley, Jr.
Hope F. Cupit, CPA
John W. Seeds, MD

**OTHER OFFICIALS**

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

This page left intentionally blank

# FINANCIAL SECTION

This page left intentionally blank

**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:

We have audited the accompanying statement of net assets (deficit) of the Virginia Birth-Related Neurological Injury Compensation Program (the Program) as of December 31, 2011 and the related statements of revenues, expenses and changes in fund net assets (deficit) and cash flows for the year then ended, which collectively comprise the Program's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program as of December 31, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2012 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 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 and the Claims Development Information on pages 21 and 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

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Introductory and Statistical Sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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 it.

KPMG LLP

May 29, 2012

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

Management's Discussion and Analysis

December 31, 2011

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, 2011 and 2010. Please read it in conjunction with the Program's basic financial statements and accompanying notes.

**Financial Highlights**

- The 2011 revenue from total fees and assessments decreased by $355,000 or 1.5%. The decrease is primarily due to the general economic slowdown and its impact on liability insurers. Fees assessed from participating physicians increased $57,000 or 1.5%, participating hospitals decreased $148,000 or 3.9%, insurance companies decreased $412,000 or 3.4% and mandated physician fees increased $148,000 or 3.5%. (An explanation of significant variances is included later in this report).
- The Program's total net assets increased by $50,400,000 from a deficit of $149,100,000 in 2010 to a deficit of $98,700,000 in 2011. The increase in net assets is primarily due to operating revenues of $23,700,000 and a decrease in the provision for claims of $37,900,000. (An explanation is included later in this report).
- The Program provided $8,531,000 in nursing care, $339,000 in therapy, $574,000 for 16 handicapped accessible vans, $410,000 for housing benefits, $159,000 for durable medical equipment and technology, $78,000 for hospitals and physician visits, and $371,000 for claimant legal fees.
- The Program paid 2 awards of $100,000 each according to Virginia Code §38.2-5009.1 – Infants Dying Shortly after Birth.
- An additional 7 claimants became eligible to receive the wage benefit for a total of 34 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 $698,000 was paid to the 26 eligible claimants requesting the benefit.
- The average cost per active claimant in 2011 and 2010 was approximately $103,000 and $101,000 respectively.
- As of December 31, 2011 there were 676 participating physicians, down 2 from 678 physicians in 2010. Participating hospitals remained the same at 37 in 2010 and 2011.
- Administrative expenses were 10% and 9% of the total expenses (administrative plus claimant) paid in 2011 and 2010.
- As of December 31, 2011, 78 families received reimbursement for nursing or attendant care provided by a relative or legal guardian according to Virginia Code §38.2-5009 up 11 from 67 families in 2010. The Program began to reimburse family members for providing care beginning July 1, 2008.

As of December 31, 2011, the Program had a total of 169 admitted claimants, 42 of which are deceased. During the year ended December 31, 2011, 14 claimants were admitted into the Program, 3 of which were deceased. One existing claimant became deceased. 8 claimant petitions for admission were pending as of December 31, 2011. See chart below:

| | Total December 31, 2010 | 2011 Activity | Total December 31, 2011 |
|---|---|---|---|
| Admitted | 155 | 14 | 169 |
| Deceased | 38 | 4 | 42 |
| Active | 117 | 10 | 127 |

**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 Assets (Deficit), the Statement of Revenues, Expenses, and Changes in Fund Net Assets (Deficit), 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.

## Financial Analysis

### *Statements of Net Assets*

The following table reflects the summarized Statements of Net Assets (Deficit) of the Program:

**Table 1**

Summarized Statements of Net Assets (Deficit)

December 31, 2011 and 2010

(In millions)

| | 2011 | 2010 |
|---|---|---|
| Current assets | $ 21.3 | 18.2 |
| Noncurrent assets | 272.8* | 263.8* |
| Total assets | 294.1 | 282.0 |
| Current liabilities | 35.9 | 35.3 |
| Noncurrent unpaid claims reserve: | | |
| Admitted claims | 263.5 | 270.8 |
| Incurred but not reported claims | 93.4 | 125.0 |
| Total unpaid claims reserve, noncurrent | 356.9 | 395.8 |
| Total liabilities | 392.8 | 431.1 |
| Unrestricted net assets (deficit) | (98.7)* | (149.1)* |
| Total net assets (deficit) | $ (98.7) | (149.1) |

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

At December 31, 2011 and 2010, the total assets of the Program were $294.1 million and $282.0 million, respectively; total liabilities were $392.8 million and $431.1 million, respectively, while net assets (deficit) were $(98.7) million and $(149.1) million, respectively. The actuarial estimate of future claim payments of children born on or prior to December 31, 2011, plus the actuarial estimate of future claim administration expenses, exceeds the assets of the Program.

The $9 million increase in noncurrent assets from $263.8 million in 2010 to $272.8 million in 2011 consists primarily of net cash provided by operating activities of $10 million, which was invested.

The total unpaid claims reserve at December 31, 2011 and 2010 was $369.9 million and $407.8 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 claims provision is as follows (in millions):

| | | 2011 | 2010 |
|---|---|---|---|
| Estimated future payments for claimants | $ | 23.8 | 23.5 |
| Increase (decrease) in provision for change in methodology and assumptions | | (63.7) | 7.7 |
| Estimated future payments for new claimants admitted in prior years | | 18.8 | 22.9 |
| Estimated claim payments | | (16.8) | (15.5) |
| Net change in claims reserve | $ | (37.9) | 38.6 |

The net change in claims reserve for the years ended December 31, 2011 and 2010 was $37.9 million decrease and $38.6 million increase, respectively. Several factors contribute to the significant change in the claims reserve as follows:

- A lower number of actual new Program admissions than previously forecasted.
- A lower estimated number of Program participants born as of December 31, 2010, but not admitted as of that date.
- Lower than predicted benefits payments during 2010.
- Favorable investment income results during 2010 contributing to higher asset values. This is one of the largest contributing factors to the reduction of the claims reserve.
- Continued increases in assessment income from participating physicians and hospitals and non participating physicians due to legislated assessment levels.
- Several methodology changes affecting development of future benefit estimates, reliance on mortality tables, and a downward adjustment in the interest rate for discounting.



(Continued)

***Statements of Revenues, Expenses and Changes in Fund Net Assets (Deficit)***

The following table shows the summarized Statements of Revenues, Expenses, and Changes in Fund Net Assets (Deficit) of the Program:

**Table 2**

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

Years ended December 31, 2011 and 2010

(In millions)

| | Year ended December 31 | |
|---|---|---|
| | **2011** | **2010** |
| Operating revenues: | | |
| Participating hospitals | $ 3.6 | 3.8 |
| Participating physicians | 3.9 | 3.8 |
| Mandated physician fees | 4.3 | 4.2 |
| Insurance fees | 11.9 | 12.3 |
| Total operating revenues | 23.7 | 24.1 |
| Operating expenses: | | |
| Provision for claims, net | (24.8) | 50.5 |
| General and administration | 0.3 | 0.2 |
| Total operating expenses | (24.5) | 50.7 |
| Operating gain (loss) | 48.2 | (26.6) |
| Nonoperating revenue: | | |
| Net investment income | 2.2 | 24.3 |
| Net nonoperating revenue | 2.2 | 24.3 |
| Change in net assets | 50.4 | (2.3) |
| Net assets (deficit) at beginning of year | (149.1) | (146.8) |
| Net assets (deficit) at end of year | $ (98.7) | (149.1) |

**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, 2011 and 2010, operating revenue was $23.7 million and $24.1 million respectively, and nonoperating revenue (expense) was $2.2 million and $24.3 million, respectively.

Assessments for 2011 for participating and nonparticipating physicians were $6,000 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 2011 and 2010, liability insurers paid one quarter of one percent on the direct premiums written during the prior year.

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

| Year | Participating physician fee | Mandated physician fee | Hospital |
|---|---|---|---|
| 2012 | $ 6,100 | 300 | $55/live birth not to exceed $200,000 |
| 2013 | 6,200 | 300 | $55/live birth not to exceed $200,000 |

Net investment income decreased $22.1 million in 2011 to $2.2 million from $24.3 million in 2010. The difference is primarily due to the change in net appreciation in fair value of the investments of $11 million increase in 2010 and an $8.6 million decrease in 2011.

**Expenses**

For the years ended December 31, 2011 and 2010, expenditures totaled $(24.5) million and $50.7 million, respectively. The decrease is primarily due to the decrease in provision for change 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 10% and 9% of the total expenses (administrative plus claimant) in 2011 and 2010. Management estimates that approximately 80% of the total administrative expenses are directly related to claims 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. Of the total administrative expenses of approximately $1,064,000 in 2010, approximately $851,000 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 $50.5 million in 2010 to $(24.8) million in 2011. This decrease 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).

## Economic Factors

The fourth quarter rally helped the Program's funds manage a slight gain of 0.6% for the year and a 10.6% average annual return for the last three years. The portfolio's gross and net returns have matched or exceeded the target returns. The asset allocation includes 20% alternatives, 40% stocks, 35% bonds 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, 2011, 33% of the investment portfolio was invested in separate accounts, 45% 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.

This page left intentionally blank

# BASIC FINANCIAL STATEMENTS

This page left intentionally blank

## INJURY COMPENSATION PROGRAM

Statement of Net Assets (Deficit)

December 31, 2011

| | | |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ | 20,857,057 |
| Accrued interest and dividends | | 466,191 |
| Total current assets | | 21,323,248 |
| Noncurrent assets: | | |
| Investments | | 272,753,426 |
| Capital assets, net | | 24,302 |
| Other assets | | 3,009 |
| Total noncurrent assets | | 272,780,737 |
| Total assets | $ | 294,103,985 |
| **Liabilities** | | |
| Current liabilities: | | |
| Accounts payable | $ | 754,852 |
| Accrued liabilities | | 340,896 |
| Unearned revenue | | 21,762,176 |
| Current portion of unpaid claims reserve | | 13,000,000 |
| Total current liabilities | | 35,857,924 |
| Noncurrent liabilities: | | |
| Unpaid claims reserve: | | |
| Admitted claims, less current portion | | 263,500,000 |
| Incurred but not reported claims | | 93,400,000 |
| Total unpaid claims reserve | | 356,900,000 |
| Total noncurrent liabilities | | 356,900,000 |
| Total liabilities | $ | 392,757,924 |
| **Net Assets (Deficit)** | | |
| Invested in capital assets | $ | 24,302 |
| Unrestricted deficit | | (98,678,241) |
| Total net assets (deficit) | $ | (98,653,939) |

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets (Deficit)

Year ended December 31, 2011

| | | |
|---|---|---|
| Operating revenues: | | |
| Participating hospitals | $ | 3,623,350 |
| Participating physicians | | 3,868,705 |
| Mandated physician fees | | 4,362,116 |
| Insurance fees | | 11,861,936 |
| Other | | 759 |
| Total operating revenues | | 23,716,866 |
| Operating expenses: | | |
| Provision for claims, net | | (24,790,373) |
| General and administration | | 268,151 |
| Total operating expenses | | (24,522,222) |
| Operating gain | | 48,239,088 |
| Nonoperating revenue: | | |
| Net investment income | | 2,188,430 |
| Miscellaneous | | 19,314 |
| Net nonoperating revenue | | 2,207,744 |
| Change in net assets (deficit) | | 50,446,832 |
| Net assets (deficit) at beginning of year | | (149,100,771) |
| Net assets (deficit) at end of year | $ | (98,653,939) |

See accompanying notes to basic financial statements.

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

Statement of Cash Flows

Year ended December 31, 2011

| | | |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts from hospitals | $ | 3,373,210 |
| Receipts from participating physicians | | 4,078,998 |
| Mandated physician fee receipts | | 4,333,549 |
| Receipts from insurance companies | | 11,653,900 |
| Other receipts | | 759 |
| Payments on behalf of claimants | | (12,191,859) |
| Payments to suppliers of goods and services | | (646,882) |
| Payments to employees | | (679,781) |
| Net cash provided by operating activities | | 9,921,894 |
| Cash flows used in capital and related financing activities: | | |
| Purchase of capital assets | | (17,370) |
| Cash flows from investing activities: | | |
| Purchase of investments | | (177,607,569) |
| Proceeds from sale and maturity of investments | | 164,017,866 |
| Earnings on investments | | 6,831,721 |
| Net cash used in investing activities | | (6,757,982) |
| Net increase in cash and cash equivalents | | 3,146,542 |
| Cash and cash equivalents: | | |
| Beginning of year | | 17,710,515 |
| End of year | $ | 20,857,057 |
| Reconciliation of operating gain to net cash provided by operating activities: | | |
| Operating gain | $ | 48,239,088 |
| Adjustments to reconcile operating gain to net cash provided by operating activities: | | |
| Depreciation | | 5,960 |
| Increase (decrease) in: | | |
| Accounts payable | | (154,838) |
| Accrued liabilities | | 8,134 |
| Unearned revenue | | (276,450) |
| Claims reserve | | (37,900,000) |
| Net cash provided by operating activities | $ | 9,921,894 |
| Noncash investing activities: | | |
| Net depreciation in fair value of investments | $ | (8,575,718) |

See accompanying notes to basic financial statements.

This page left intentionally blank

# NOTES TO BASIC FINANCIAL STATEMENTS

This page left intentionally blank

## (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/or 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/or 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. 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.

### *(d) Administrative Expenses*

Administrative expenses include salaries, rent, cost of noncapitalizable office equipment and other expenses not directly related to claims. In 2011, administrative expenses related to claims processing

of approximately $1,341,000 were allocated to provision for claims expense in the amount of approximately $1,073,000 and to general and administrative expense in the amount of approximately $268,000.

### *(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, 2011, 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.

### *(h) Unearned Revenue*

Unearned revenue 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.

***(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 assets (deficit) that will be admitted to the Program subsequent to the date of the statement of net assets (deficit). 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, 2011:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 20,857,057 |
| Investments: | | |
| Mutual funds: | | |
| Large cap | | 28,090,066 |
| U.S. fixed income | | 56,118,971 |
| International fixed income | | 5,872,587 |
| International growth | | 14,551,345 |
| International value | | 14,813,572 |
| Emerging markets | | 8,508,033 |
| Alternative strategies | | 55,031,342 |
| Separate accounts: | | |
| Large cap growth | | 16,544,348 |
| Large cap value | | 19,099,574 |
| Small cap growth | | 5,651,165 |
| Small cap value | | 5,617,292 |
| Core fixed income | | 36,519,598 |
| Real estate held in trust | | 6,335,533 |
| Total investments | | 272,753,426 |
| Total cash and cash equivalents and investments | $ | 293,610,483 |



(Continued)

***(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, 2011 is as follows:

| | | Rating | Fair value | Percent of portfolio | Average maturity (in years) |
|---|---|---|---|---|---|
| Mutual funds: | | | | | |
| Vanguard Bond Index | (1) | AA+ | $ 18,041,402 | 6.8% | 7.2 |
| Western Asset Core Plus | (1) | A | 22,407,395 | 8.4 | 8.1 |
| Loomis Sayles Global Bond Fund | (1) | A | 5,872,587 | 2.2 | 7.6 |
| PIMCO Total Return Fund | (1) | A+ | 15,670,174 | 5.9 | 9.0 |
| Separate accounts: | | | | | |
| Atlantic Asset Management | (3) | Aa2/AA | 16,499,043 | 6.2 | 8.3 |
| Richmond Capital Management | (2) | AA | 20,020,555 | 7.5 | 6.2 |
| Total | | | $ 98,511,156 | | |

(1) Average credit quality per Callan Associates, Inc, Morning star and fund company websites.

(2) Average of Moodys and Standard & Poors ratings

(3) Moodys Investors Service/Standard & Poors

*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, 2011 include U.S. publicly traded mutual funds which have an international strategy totaling approximately $43,746,000.

*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 market value of the fixed income portfolio shall be rated less than single "A" quality.

The Program's return on investments for the year ending December 31, 2011 is summarized as follows:

| | | |
|---|---|---|
| Interest income | $ | 1,662,562 |
| Dividend income | | 5,734,943 |
| Realized gain on investments | | 4,050,890 |
| Net depreciation in fair value of investments | | (8,575,718) |
| Investment fees | | (625,028) |
| Fiduciary fees | | (59,219) |
| Net investment income | $ | 2,188,430 |

## (3) Capital Assets

Capital assets at December 31, 2011 and the related changes for the year ended were as follows:

| | | January 1, 2010 | Increases | Decreases | December 31, 2011 |
|---|---|---|---|---|---|
| Computer equipment | $ | 47,736 | 13,799 | (4,743) | 56,792 |
| Office equipment | | 36,023 | 3,571 | — | 39,594 |
| Automobiles | | 17,237 | — | — | 17,237 |
| | | 100,996 | 17,370 | (4,743) | 113,623 |
| Less accumulated depreciation | | (86,053) | (5,960) | 2,692 | (89,321) |
| Capital assets, net | $ | 14,943 | 11,410 | (2,051) | 24,302 |

## (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 assets (deficit) that will be admitted to the Program subsequent to the date of the statement of net assets (deficit). This discounted cost represents the amount that would need to be

invested, as of the date of the statement of net assets (deficit), 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 2011 and 2010). Eligible costs under the Program are costs not otherwise paid by private insurance or other government programs. Costs include nursing, housing, hospitals and physicians, 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, 2011 (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 2011 include:

| | **2011** |
|---|---|
| Rate of claims inflation (varies based on category of expense) | 2.59% – 4.91% |
| Investment earnings/discount rate | 5.50% |
| 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. | 42 |

The total number of claimants (admitted claimants and not-yet-admitted claimants) is estimated to be 206 as of December 31, 2011.



(Continued)

The following represents changes in the unpaid claims reserves for the Program for the year ended December 31, 2011:

| | 2011 | 2010 |
|---|---|---|
| Unpaid claims and claim adjustment expenses at beginning of year | $ 407,800,000 | 369,200,000 |
| Incurred claims: | | |
| Estimated future payments for new claimants admitted in current year | 23,800,000 | 23,500,000 |
| Estimated future payments for new claimants admitted in prior years | 18,800,000 | 22,900,000 |
| Total incurred claims | 42,600,000 | 46,400,000 |
| Claims payments: | | |
| Estimated claims payments for claimants admitted in current year | (1,500,000) | (1,400,000) |
| Estimated claims payments for claimants admitted in prior years | (15,300,000) | (14,100,000) |
| Total claims payments | (16,800,000) | (15,500,000) |
| Increase (decrease) in provision for change in methodology and assumptions | (63,700,000) | 7,700,000 |
| Unpaid claims and claim adjustment expenses at end of year | $ 369,900,000 | 407,800,000 |

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

- A lower number of actual new Program admissions than previously forecasted.
- A lower estimated number of Program participants born as of December 31, 2010, but not admitted as of that date.
- Lower than predicted benefits payments during 2010.
- Favorable investment income results during 2010 contributing to higher asset values. This is one of the largest contributing factors to the reduction of the claims reserve.
- Continued increases in assessment income from participating physicians and hospitals and non participating physicians due to legislated assessment levels.
- Several methodology changes affecting development of future benefit estimates, reliance on mortality tables, and a downward adjustment in the interest rate for discounting.

The total undiscounted unpaid claims and claim adjustment expenses amount to $1,605,000,000 at December 31, 2011 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 amounted to $121,654 for the year ending December 31, 2011. These benefits are included as salary and benefits expense on the Program's supplementary schedule of general and administrative expenses.

## (6) Operating Lease Commitments

The Program leases its office space under an operating lease expiring in April 2013. Rent expense totaled $64,799 for 2011.

Future minimum obligations under this lease are as follows:

| | | |
|---|---|---|
| 2012 | $ | 67,833 |
| 2013 | | 22,833 |

## (7) Liquidity

The most recent actuarial study performed for the year ended December 31, 2011, which used claims data as of December 31, 2010, 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.

This page left intentionally blank

# REQUIRED SUPPLEMENTARY INFORMATION

This page left intentionally blank

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

Claims Development Information

December 31, 2011

(In thousands)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| (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 |
| (2) Unallocated expenses | 169 | 129 | 137 | 183 | 189 | 197 | 188 | 196 | 213 | 268 |
| (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 |
| (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 | — | — |
| Three years later | 1,190 | 1,548 | 211 | 88 | 420 | 438 | 895 | — | — | — |
| Four years later | 2,008 | 2,414 | 569 | 421 | 574 | 625 | — | — | — | — |
| Five years later | 2,773 | 3,324 | 802 | 437 | 829 | — | — | — | — | — |
| Six years later | 3,859 | 3,913 | 1,187 | 519 | — | — | — | — | — | — |
| Seven years later | 4,330 | 4,727 | 1,493 | — | — | — | — | — | — | — |
| Eight years later | 4,737 | 5,658 | — | — | — | — | — | — | — | — |
| Nine years later | 5,195 | — | — | — | — | — | — | — | — | — |
| (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 |
| One year later | 13,244 | 15,333 | 22,558 | 22,038 | 22,332 | 23,372 | 21,630 | 22,575 | 18,136 | — |
| Two years later | 14,544 | 16,565 | 22,927 | 21,409 | 21,273 | 21,615 | 21,917 | 17,485 | — | — |
| Three years later | 15,747 | 16,814 | 22,325 | 20,412 | 19,624 | 21,918 | 16,599 | — | — | — |
| Four years later | 15,990 | 16,408 | 21,370 | 18,859 | 19,908 | 16,325 | — | — | — | — |
| Five years later | 15,593 | 15,763 | 19,884 | 19,127 | 14,658 | — | — | — | — | — |
| Six years later | 14,964 | 14,759 | 20,140 | 14,184 | — | — | — | — | — | — |
| Seven years later | 13,984 | 14,932 | 15,407 | — | — | — | — | — | — | — |
| Eight years later | 14,153 | 11,736 | — | — | — | — | — | — | — | — |
| Nine years later | 11,035 | — | — | — | — | — | — | — | — | — |
| (7) Increase (decrease) in estimated net incurred losses and expenses from end of birth year | (2,626) | (2,264) | (5,326) | (7,468) | (8,342) | (8,175) | (6,701) | (4,815) | (5,364) | — |

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

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

Notes to Required Supplementary Information

December 31, 2011

## (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.

This page left intentionally blank

# STATISTICAL SECTION

This page left intentionally blank

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

Statistical Section

December 31, 2011

## 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 Deficit by Component |
| Table 2 | Schedule of Revenues, Expenses, and Changes in Fund Net Assets (Deficit) |
| 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 |

### *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 Deficit by Component

Last ten fiscal years

| Year ended December 31 | Invested in capital assets, net of related debt | Unrestricted deficit | Total net deficit |
|---|---|---|---|
| 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) |

See accompanying independent auditors' report.

**Table 2**

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

Schedule of Revenues, Expenses, and Changes in Fund Net Assets (Deficit)

Last ten fiscal years

| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating revenues: | | | | | | | | | | |
| Participating hospitals | $ 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 | 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 | 4,362,116 | 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 | 11,861,936 | 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 | 23,716,866 | 24,079,489 | 24,074,242 | 23,553,690 | 22,349,957 | 21,587,430 | 19,854,725 | 18,327,429 | 16,486,038 | 15,105,548 |
| Operating expenses: | | | | | | | | | | |
| Provision for claims, net | (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 administration | 268,151 | 212,856 | 196,161 | 188,126 | 197,353 | 188,573 | 183,164 | 136,569 | 129,397 | 168,682 |
| Total operating expenses | (24,522,222) | 50,671,724 | 26,768,229 | 33,646,516 | 38,207,192 | 44,442,797 | 52,036,387 | 48,100,194 | 20,751,115 | 19,769,335 |
| Operating gain | 48,239,088 | (26,592,235) | (2,693,987) | (10,092,826) | (15,857,235) | (22,855,367) | (32,181,662) | (29,772,765) | (4,265,077) | (4,663,787) |
| Nonoperating revenue (expense): | | | | | | | | | | |
| Net investment income and miscellaneou | 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 assets (deficit) | 50,446,832 | (2,279,883) | 33,972,875 | (54,967,775) | 1,676,805 | (4,151,137) | (26,003,908) | (22,654,750) | 5,380,174 | (715,311) |
| Net assets (deficit) at beginning of year | (149,100,771) | (146,820,888) | (180,793,763) | (127,635,689) | (129,312,494) | (125,161,357) | (99,157,449) | (76,502,699) | (81,882,873) | (81,167,562) |
| Net assets (deficit) at end of year | $ (98,653,939) | (149,100,771) | (146,820,888) | (182,603,464) | (127,635,689) | (129,312,494) | (125,161,357) | (99,157,449) | (76,502,699) | (81,882,873) |

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 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Claims expense | $ 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 | 127 | 117 | 113 | 111 | 109 | 96 | 91 | 82 | 74 | 67 |
| Average expense per claimant | $ 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 | 1.84% | 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 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Nursing | $ 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 | 77,828 | 78,057 | 59,474 | 68,119 | 96,123 | 81,115 | 63,976 | 142,664 | 239,531 | 495,169 |
| Therapy | 339,347 | 310,829 | 219,303 | 254,923 | 254,876 | 231,712 | 197,991 | 111,324 | 121,300 | 124,756 |
| Incidentals | 153,112 | 172,224 | 139,064 | 193,317 | 151,903 | 179,888 | 181,039 | 128,642 | 122,361 | 80,536 |
| Prescription | 91,233 | 130,381 | 151,905 | 135,239 | 127,809 | 115,265 | 104,329 | 76,789 | 114,313 | 127,646 |
| Housing | 409,937 | 423,352 | 839,436 | 1,360,826 | 756,673 | 1,445,145 | 937,368 | 327,912 | 825,924 | 819,457 |
| Van | 574,437 | 385,084 | 351,673 | 526,513 | 501,827 | 863,555 | 734,953 | 315,917 | 546,992 | 189,613 |
| Medical equipment | 158,558 | 160,510 | 166,926 | 211,562 | 188,897 | 319,405 | 162,970 | 219,142 | 95,923 | 121,214 |
| Legal fees – claimant | 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 | 170,000 | 117,500 | 150,000 | 150,000 | 187,500 | 225,000 | — | — | — |
| Auto/Health insurance | 134,082 | 150,137 | 141,193 | 143,283 | 150,940 | 120,678 | 104,718 | 97,893 | 73,595 | 10,913 |
| Mileage reimbursement | 67,956 | 78,081 | 41,689 | 73,978 | 49,276 | 72,480 | 32,342 | 27,822 | 32,315 | 8,589 |
| Wage benefit payment | 698,454 | 501,407 | 334,207 | 245,052 | 97,163 | — | — | — | — | — |
| WCC ordered award | 200,000 | 164,820 | 595,850 | 200,000 | — | — | — | — | — | — |
| Claimant related administrative | 1,072,606 | 851,426 | 784,645 | 752,504 | 789,413 | 754,290 | 732,654 | 600,000 | 562,500 | 495,000 |
| Other | 49,545 | 126,601 | 69,002 | 59,598 | 162,483 | 26,870 | 83,906 | 126,939 | 338,558 | 381,230 |
| Total claims expense | $ 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 | 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 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Nursing | 65.08% | 67.38% | 63.27% | 59.90% | 63.16% | 55.96% | 58.62% | 63.71% | 48.10% | 45.67% |
| Physician/Hospital | 0.59 | 0.66 | 0.52 | 0.58 | 0.94 | 0.73 | 0.68 | 2.08 | 3.98 | 8.69 |
| Therapy | 2.59 | 2.62 | 1.93 | 2.19 | 2.50 | 2.10 | 2.09 | 1.62 | 2.01 | 2.19 |
| Incidentals | 1.17 | 1.45 | 1.22 | 1.66 | 1.49 | 1.63 | 1.92 | 1.87 | 2.03 | 1.41 |
| Prescription | 0.70 | 1.10 | 1.34 | 1.16 | 1.25 | 1.04 | 1.10 | 1.12 | 1.90 | 2.24 |
| Housing | 3.13 | 3.57 | 7.38 | 11.67 | 7.41 | 13.07 | 9.92 | 4.78 | 13.72 | 14.37 |
| Van | 4.38 | 3.25 | 3.09 | 4.52 | 4.92 | 7.81 | 7.77 | 4.60 | 9.08 | 3.33 |
| Medical equipment | 1.21 | 1.35 | 1.47 | 1.81 | 1.85 | 2.89 | 1.72 | 3.19 | 1.59 | 2.13 |
| Legal | 2.83 | 1.39 | 1.46 | 2.57 | 2.78 | 4.25 | 3.71 | 4.60 | 0.86 | 4.27 |
| Legal fees – attorney general | 1.37 | 1.43 | 1.03 | 1.29 | 1.47 | 1.70 | 2.38 | — | — | — |
| Auto/Health insurance | 1.02 | 1.27 | 1.24 | 1.23 | 1.48 | 1.09 | 1.11 | 1.43 | 1.22 | 0.19 |
| Mileage reimbursement | 0.52 | 0.66 | 0.37 | 0.63 | 0.48 | 0.66 | 0.34 | 0.41 | 0.54 | 0.15 |
| Wage benefit payment | 5.33 | 4.23 | 2.94 | 2.10 | 0.95 | — | — | — | — | — |
| WCC ordered award | 1.53 | 1.39 | 5.24 | 1.72 | — | — | — | — | — | — |
| Claimant related administrative | 8.18 | 7.18 | 6.90 | 6.45 | 7.73 | 6.82 | 7.75 | 8.74 | 9.34 | 8.68 |
| Other | 0.38 | 1.07 | 0.61 | 0.51 | 1.59 | 0.24 | 0.89 | 1.85 | 5.62 | 6.69 |
| 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 | $ (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 | 268,151 | 212,856 | 196,161 | 188,126 | 197,353 | 188,573 | 183,164 | 136,569 | 129,397 | 168,682 |
| Total operating expense | $ (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:

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 do

See accompanying independent auditors' report.

**Table 4**

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

Schedule of General and Administrative Expenses

Last ten fiscal years

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

See accompanying independent auditors' report.

**Table 5**

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

Rates and Assessments

Last ten fiscal years

| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Participating physicians | $ 6,000 | 5,900 | 5,600 | 5,400 | 5,300 | 5,200 | 5,100 | 5,000 | 5,000 | 5,000 |
| Non participating physician | 300 | 300 | 300 | 290 | 280 | 270 | 260 | 250 | 250 | 250 |
| Hospitals | $ $55/live birth not to exceed 200,000 | $55/live birth not to exceed 200,000 | $52.50/live birth not to exceed 200,000 | $50/live birth not to exceed 190,000 | $50/live birth not to exceed 180,000 | $50/live birth not to exceed 170,000 | $50/live birth not to exceed 160,000 | $50/live birth not to exceed 150,000 | $50/live birth not to exceed 150,000 | $50/live birth not to exceed $150,000 |
| Insurance companies estimated net direct premiums subject to assessment | $ 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 tl 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 to be actuarially unsound 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 considere actuarially sound and nonparticipating physicians were not required to pay. During the years 2003 through 2011, the Program has been determined not actuarially sound and the assessme 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

| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Participating: | | | | | | | | | | |
| Doctors | 676 | 678 | 648 | 653 | 622 | 577 | 536 | 508 | 410 | 358 |
| Residents | — | — | — | 88 | 77 | 155 | 147 | 456 | 174 | 131 |
| Total participating physicians | 676 | 678 | 648 | 741 | 699 | 732 | 683 | 964 | 584 | 489 |
| Mandatory: | | | | | | | | | | |
| Total mandatory physicians | 14,554 | 14,055 | 14,076 | 13,797 | 13,817 | 13,597 | 13,219 | 13,445 | 12,200 | 12,413 |
| Delinquent: | | | | | | | | | | |
| Total delinquent physicians | 2,932 | 2,769 | 2,670 | 1,893 | 1,184 | 621 | 737 | 648 | 978 | 1,502 |
| Exempt: | | | | | | | | | | |
| El | 1,934 | 1,955 | 1,856 | 1,903 | 1,852 | 1,733 | 1,723 | 1,701 | 405 | 1,282 |
| E2 | 903 | 954 | 1,876 | 2,777 | 2,739 | 3,145 | 2,252 | 2,742 | 1,614 | 2,482 |
| E3 | 1,349 | 1,514 | 1,457 | 1,547 | 1,443 | 1,596 | 1,458 | 1,544 | 480 | 1,528 |
| E4 | 183 | 194 | 195 | 204 | 179 | 168 | 167 | 170 | 55 | 170 |
| E5 | 3,770 | 3,697 | 3,471 | 3,789 | 3,661 | 4,189 | 3,982 | 4,085 | 1,144 | 3,812 |
| E6 | 372 | — | — | 531 | 800 | 546 | 442 | 15 | 48 | 1,284 |
| Total exempt physicians | 8,511 | 8,314 | 8,855 | 10,751 | 10,674 | 11,377 | 10,024 | 10,257 | 3,746 | 10,558 |
| Total physicians | 26,673 | 25,816 | 26,249 | 27,182 | 26,374 | 26,327 | 24,663 | 25,314 | 17,508 | 24,962 |
| Hospitals | 37 | 37 | 38 | 38 | 31 | 33 | 32 | 33 | 29 | 23 |
| Insurance Companies | 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 me

- El. 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 Educatio
- 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 2011 the Program was determined to be actuarially unsound 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 considere actuarially sound and nonparticipating physicians were not required to pay. During the years 2003 through 2011, the Program has been determined not actuarially sound and the assessme was reinstated.

See accompanying independent auditors' report.

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

Virginia Demographic Statistics

Last ten fiscal years

| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Note: | | | | | | | | | | |
| 1 Population | N/A | 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 | 102,934 | 104,979 | 106,578 | 108,417 | 106,474 | 104,488 | 103,830 | 100,561 | 99 |
| 2 Number of petitions filed | 12 | 12 | 10 | 9 | 15 | 10 | 16 | 17 | 11 | 12 |
| 2 Number of claimants awarded | 14 | 5 | 8 | 8 | 15 | 8 | 14 | 10 | 11 | 8 |
| 3 Total personal income (in thousands) | $ N/A | 355,054,942 | 347,630,625 | 348,893,800 | 321,245,259 | 306,918,105 | 286,685,185 | 267,520,630 | 250,605,455 | 240,533,600 |
| 3 Per capita personal income | N/A | 44,246 | 44,129 | 44,756 | 41,727 | 40,234 | 37,988 | 35,886 | 34,034 | 33,055 |
| 4 Unemployment rate | 6.2% | 6.9% | 6.8% | 4.0% | 3.0% | 3.0% | 3.5% | 3.7% | 4.1% | 4.2% |

Note:
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 LAUS Unit and Bureau of Labor Statistics
About 85% of births are covered by either participating hospitals or physicians

N/A – not available

See accompanying independent auditors' report.

Table 8

**VIRGINIA BIRTH-RELATED NEUROLOGICAI 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Admitted | 76 | 11 | 87 | 10 | 97 | 14 | 111 | 8 | 119 | 15 | 134 | 8 | 142 | 8 | 150 | 5 | 155 | 14 | 169 |
| Deceased* | 8 | 2 | 10 | 1 | 11 | 2 | 13 | 3 | 16 | 1 | 17 | 3 | 20 | 3 | 23 | — | 23 | 3 | 26 |
| Deceased on award** | 1 | 2 | 3 | 1 | 4 | 3 | 7 | — | 7 | 1 | 8 | 3 | 11 | 3 | 14 | 1 | 15 | 1 | 16 |
| Total deceased | 9 | | 13 | | 15 | | 20 | | 23 | | 25 | | 31 | | 37 | | 38 | | 42 |
| Active | 67 | | 74 | | 82 | | 91 | | 96 | | 109 | | 111 | | 113 | | 117 | | 127 |

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

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 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Executive director | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Finance divisior | 3 | 3 | 3 | 3 | 2 | 2 | 2 | 2 | 2 | 2 |
| Claims and administratior | 6 | 6 | 6 | 6 | 6 | 5 | 5 | 5 | 4 | 4 |

See accompanying independent auditors' report.

This page left intentionally blank

# COMPLIANCE SECTION

This page left intentionally blank

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

## 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 the basic financial statements of Virginia Birth-Related Neurological Injury Compensation Program (the Program) as of and for the year ended December 31, 2011, and have issued our report thereon dated May 29, 2012 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.

### Internal Control over Financial Reporting

Management of the Program is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Program's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's basic financial statements are free of 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.*



KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

This report is intended solely for the information and use of management, the Board of Directors, the Commonwealth of Virginia, and others within the Program and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 29, 2012