



VIRGINIA BIRTH-RELATED
NEUROLOGICAL INJURY
COMPENSATION PROGRAM

July 5, 2022

The Honorable Governor Glenn Youngkin
State Capitol, 3rd Floor
Richmond, VA 23219

Dear Governor Youngkin:

In compliance with Virginia statute 38.2-5016, F, and 38.2-5015, B, please find enclosed a report regarding the investments of the Virginia Birth-Related Neurological Injury Compensation Program and the annual audits for years 2017, 2018 and 2019. These audits were unfortunately delayed primarily due to legal issues that arose during those years. Financial audits for 2020 and 2021 are in process and will be forwarded as available.

Of note, the Fund continues to be actuarially unsound however the most recent Actuarial Report states that it has sufficient assets to continue to pay for claimants' benefits for several years.

Thank you for your support of the Birth Related Injury Program. If you have any questions, please feel free to contact me.

On behalf of the Board of Directors,

George Deebo
Executive Director

Virginia Birth-Related Neurological Injury Compensation Program

Phone: 804-330-2471

Fax: 804-330-3054

7501 Boulders View Drive

Suite 210

Richmond, VA 23225-4047

www.vabirthinjury.com

www.vabirthinjury.info

A lifetime of help

Enc: Performance Report, 2017-2019 Audited Financial Statements



VIRGINIA BIRTH-RELATED
NEUROLOGICAL INJURY
COMPENSATION PROGRAM

July 5, 2022

The Honorable Todd Gilbert
Speaker of the House
House of Delegates
P.O. Box 406
Richmond, VA 23218

Dear Delegate Gilbert:

In compliance with Virginia statute 38.2-5016, F, and 38.2-5015, B, please find enclosed a report regarding the investments of the Virginia Birth-Related Neurological Injury Compensation Program and the annual audits for years 2017, 2018 and 2019. These audits were unfortunately delayed primarily due to legal issues that arose during those years. Financial audits for 2020 and 2021 are in process and will be forwarded as available.

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VIRGINIA BIRTH-RELATED
NEUROLOGICAL INJURY
COMPENSATION PROGRAM

July 5, 2022

The Honorable Mamie E. Locke
Chair of Senate Rules Committee
P.O. Box 396
Richmond, VA 23218

Dear Senator Locke;

In compliance with Virginia statute 38.2-5016, F, and 38.2-5015, B, please find enclosed a report regarding the investments of the Virginia Birth-Related Neurological Injury Compensation Program and the annual audits for years 2017, 2018 and 2019. These audits were unfortunately delayed primarily due to legal issues that arose during those years. Financial audits for 2020 and 2021 are in process and will be forwarded as available.

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Executive Director

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VIRGINIA BIRTH-RELATED
NEUROLOGICAL INJURY
COMPENSATION PROGRAM

July 5, 2022

The Honorable G. Paul Nardo
Clerk of the House of Delegates
House of Delegates
P.O. Box 406
Richmond, VA 23218

Dear Mr. Nardo:

In compliance with Virginia statute 38.2-5016, F, and 38.2-5015, B, please find enclosed a report regarding the investments of the Virginia Birth-Related Neurological Injury Compensation Program and the annual audits for years 2017, 2018 and 2019. These audits were unfortunately delayed primarily due to legal issues that arose during those years. Financial audits for 2020 and 2021 are in process and will be forwarded as available.

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On behalf of the Board of Directors,

George Deebo

Executive Director

Virginia Birth-Related Neurological Injury Compensation Program

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VIRGINIA BIRTH-RELATED
NEUROLOGICAL INJURY
COMPENSATION PROGRAM

July 5, 2022

The Honorable Susan Clarke Schaar
Clerk of the Senate
P.O. Box 396
Richmond, VA 23218

Dear Ms. Scharr:

In compliance with Virginia statute 38.2-5016, F, and 38.2-5015, B, please find enclosed a report regarding the investments of the Virginia Birth-Related Neurological Injury Compensation Program and the annual audits for years 2017, 2018 and 2019. These audits were unfortunately delayed primarily due to legal issues that arose during those years. Financial audits for 2020 and 2021 are in process and will be forwarded as available.

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On behalf of the Board of Directors,

George Deebo

Executive Director

Virginia Birth-Related Neurological Injury Compensation Program

A lifetime of help

Enc: Performance Report, 2017-2019 Audited Financial Statements

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

Richmond, Virginia

FINANCIAL REPORT

DECEMBER 31, 2017

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Winchester, VA 22601

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INDEPENDENT AUDITOR'S REPORT

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

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 December 31, 2017, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements for the year then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the 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' judgement, 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 opinions.

Opinion

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position, as of December 31, 2017, and the changes in its financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

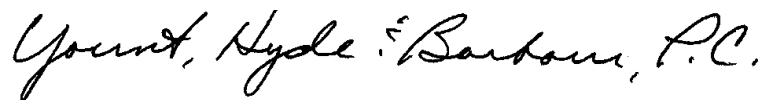
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Claims Development Information on page 14 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Management has omitted the Management's Discussion and Analysis that U.S. generally accepted accounting principles requires to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2022 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 solely 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 effectiveness of the Program's 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.



Winchester, Virginia
March 4, 2022

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

Statement of Net Position

December 31, 2017

Assets	
Current Assets	
Cash and cash equivalents	\$ 14,753,096
Accrued interest and dividends	<u>724,948</u>
Total current assets	<u>15,478,044</u>
Noncurrent Assets	
Investments	490,744,380
Capital assets, net	<u>1,202</u>
Total noncurrent assets	<u>490,745,582</u>
Total assets	<u><u>\$ 506,223,626</u></u>
Liabilities, Deferred Inflows and Net Position (Deficit)	
Current Liabilities	
Accounts payable	\$ 1,641,908
Accrued liabilities	1,274,542
Current portion of unpaid claims reserve	20,262,635
Accrued settlement liability	<u>20,707,965</u>
Total current liabilities	<u>43,887,050</u>
Noncurrent Liabilities	
Unpaid claims reserve:	
Admitted claims, less current portion	375,137,365
Incurred but not reported claims	<u>136,600,000</u>
Total noncurrent liabilities	<u>511,737,365</u>
Total liabilities	<u>555,624,415</u>
Deferred Inflows , deferred assessment and fee receipts	<u>25,468,865</u>
Total liabilities and deferred inflows	<u>581,093,280</u>
Net Position (Deficit)	
Net investment in capital assets	1,202
Unrestricted deficit	<u>(74,870,856)</u>
Total net position (deficit)	<u>(74,869,654)</u>
Total liabilities, deferred inflows and net position (deficit)	<u><u>\$ 506,223,626</u></u>

See Notes to Financial Statements.

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

Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2017

Operating Revenues	
Participating hospitals	\$ 3,777,885
Participating physicians	4,531,799
Mandated physician fees	4,901,746
Insurance fees	<u>14,290,054</u>
Total operating revenues	<u>27,501,484</u>
Operating Expenses	
Provision for claims, net	36,984,226
General and administration	<u>251,082</u>
Total operating expenses	<u>37,235,308</u>
Operating (loss)	<u>(9,733,824)</u>
Nonoperating Income,	
net investment income	<u>55,453,103</u>
Net nonoperating income	<u>55,453,103</u>
Change in net position	<u>45,719,279</u>
Net position (deficit) at beginning of year	<u>(120,588,933)</u>
Net position (deficit) at end of year	<u>\$ (74,869,654)</u>

See Notes to Financial Statements.

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

Statement of Cash Flows
Year Ended December 31, 2017

Cash Flows from Operating Activities	
Receipts from participating hospitals	\$ 3,709,781
Receipts from participating physicians	4,450,104
Mandated physician fee receipts	4,813,382
Receipts from insurance companies	14,032,446
Payments on behalf of claimants	(16,694,791)
Payments to suppliers of goods and services	(297,685)
Payments to employees	<u>(656,331)</u>
Net cash provided by operating activities	<u>9,356,906</u>
Cash Flows from Investing Activities	
Purchase of capital assets	(1,224)
Cash paid for purchase of investments	(185,594,624)
Proceeds from sales of investments	159,342,738
Earnings on investments	<u>10,875,776</u>
Net cash (used in) investing activities	<u>(15,377,334)</u>
Net (decrease) in cash and cash equivalents	(6,020,428)
Cash and Cash Equivalents	
Beginning of year	<u>20,773,524</u>
End of year	<u>\$ 14,753,096</u>
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities	
Operating (loss)	\$ (9,733,824)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation	1,355
Increase (decrease) in:	
Accounts payable	585,108
Accrued liabilities	300,038
Deferred inflows of resources	(495,771)
Claims reserve	<u>18,700,000</u>
Net cash provided by operating activities	<u>\$ 9,356,906</u>
Noncash Investing Activities,	
net appreciation in fair value of investments	<u>\$ 36,232,593</u>

See Notes to Financial Statements.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Notes to Financial Statements

Note 1. Summary of Significant Accounting Politics

Nature of Organization

The Virginia Birth-Related Neurological Injury Compensation Program (the Program) was established under the Virginia Birth-Related Neurological Injury Compensation Act (I 987, 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.

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 financial statement of the enterprise fund is 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.

Use of Estimates

The preparation of the 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.

Cash Equivalents

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.

Notes to Financial Statements

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, private 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. The Program's Level 3 investments, excluding real estate held in trust, are valued based on amounts provided by the investment advisor or fund administrator, using unadjusted third-party transactions and quotations and are 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.

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.

Deferred Inflows of Resources

Deferred inflows of resources 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.

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.

Notes to Financial Statements

Note 2. Deposits and Investments

The Program's deposit and investment portfolio consists of the following at December 31, 2017:

Cash and Cash Equivalents	<u>\$ 14,753,096</u>
Investments	
Mutual funds	
Large cap equity	78,665,790
Small and mid cap equity	10,177,790
Developed international	74,072,536
Emerging markets	28,854,308
Domestic fixed income	75,956,560
Multi asset	40,809,824
Liquid alternatives	21,395,166
Private equity	2,812,500
Separate accounts	
Large cap equity	55,535,537
Small and mid cap equity	10,131,829
Domestic fixed income	82,038,973
Global fixed income	3,380,008
Real estate held in trust	<u>6,913,559</u>
Total investments	<u>490,744,380</u>
Total cash and cash equivalents and investments	<u>\$ 505,497,476</u>

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.

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.

Notes to Financial Statements

Credit Risk: - 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 fixed income portfolio at December 31, 2017 is as follows:

	<u>Rating</u>	<u>Fair Value 2017</u>	<u>Percent of Portfolio</u>	<u>Average Maturity (in Years)</u>
Mutual funds:				
Western Asset Core Plus	BBB	\$ 34,957,366	7.1%	12.7
JP Morgan Strategic Income	BB	20,387,100	4.2%	2.1
Oppenheimer Senior Floating Rate Fund	B	20,612,095	4.2%	0.2
Separate accounts:				
Richmond Capital Management	AA	62,890,153	12.8%	7.7
Wasmer Schroeder & Company	AA	<u>22,528,827</u>	4.6%	3.9
Total		<u>\$ 161,375,541</u>		

Note: Percent of Portfolio calculations 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, 2017 include U.S. publicly traded mutual funds which have an international strategy totaling \$102,926,844.

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.

Investment Policy

In December 2017, the Program updated the formal investment policy that was adopted in March 2005. It is the policy that the investment and administration of its funds be made in accordance with the provisions of the Virginia Public Procurement Act and the Program follows the standards of investment prudence required of fiduciaries under the Virginia Uniform Prudent Investor Act. It is intent to be in compliance with all federal, state and local laws; and other regulations and statutes governing the investment of public funds.

Notes to Financial Statements

The investment policy established the minimum and maximum percentages of the portfolio permitted in each of the following instruments:

Asset Class	Lower Limit	Upper Limit
Domestic Equity	12%	40%
International Equity	5%	32%
Fixed Income/Cash Equivalents	15%	45%
Alternatives	10%	46%

Fair Value Measurements

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). Level 1 valuation inputs are quoted prices in active exchange markets. Level 2 inputs are less active markets, but still significant other observable inputs. Level 3 inputs include other valuation methodologies. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Program establishes valuation processes and procedures to ensure that the valuation techniques are fair and consistent, and valuation inputs are supportable. Valuations determined by the Program are supported by market data, third-party pricing sources, industry-accepted pricing models, counterparty prices, or other methods the Program deems to be appropriate.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. For the year ended December 31, 2017, the application of valuation techniques applied has been consistent.

	Fair Value Investments			Total
	(Level 1)	(Level 2)	(Level 3)	
Mutual funds				
Large cap equity	\$ 78,665,790	\$ --	\$ --	\$ 78,665,790
Small and mid cap equity	10,177,790	--	--	10,177,790
Developed international	74,072,536	--	--	74,072,536
Emerging markets	28,854,308	--	--	28,854,308
Domestic fixed income	75,956,560	--	--	75,956,560
Multi asset	40,809,824	--	--	40,809,824
Liquid alternatives	21,395,166	--	--	21,395,166
Private equity	--	--	2,812,500	2,812,500
Separate accounts				
Large cap equity	55,535,537	--	--	55,535,537
Small and mid cap equity	10,131,829	--	--	10,131,829
Domestic fixed income	--	82,038,973	--	82,038,973
Global fixed income	3,380,008	--	--	3,380,008
Real estate held in trust	--	--	6,913,559	6,913,559
	<u>\$ 398,979,348</u>	<u>\$ 82,038,973</u>	<u>\$ 9,726,059</u>	<u>\$ 490,744,380</u>

The carrying amounts of the Program's financial instruments not described above arise in the ordinary course of business and approximate fair value.

Notes to Financial Statements

Note 3. Capital Assets

Capital assets at December 31, 2017, and the related changes for the year ended were as follows:

	<u>January 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31, 2017</u>
Computer equipment	\$ 25,066	\$ 1,224	\$ - -	\$ 26,290
Office equipment	<u>12,759</u>	<u>- -</u>	<u>- -</u>	<u>12,759</u>
	37,825	1,224	- -	39,049
Less accumulated depreciation	<u>(36,492)</u>	<u>(1,355)</u>	<u>- -</u>	<u>(37,847)</u>
Capital assets, net	<u>\$ 1,333</u>	<u>\$ (131)</u>	<u>\$ - -</u>	<u>\$ 1,202</u>

Note 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, 2017 (taking into consideration each claimant's insurance coverage), 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.

Notes to Financial Statements

Significant actuarial assumptions for 2017 include:

Rate of claims inflation (varies based on category of expense)	1.62% - 5.09%
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.	54
Estimate is based on review of how long it takes for claimants to be admitted to the Program	

The total number of claimants (admitted claimants and not-yet-admitted claimants) is estimated to be 272 as of December 31, 2017.

The following represents changes in the unpaid claims reserves for the Program for the year ended December 31, 2017:

Unpaid claims and claim adjustment expenses at beginning of year	\$ 513,300,000
Incurred claims:	
Total incurred claims	<u>35,400,000</u>
Claims payments:	
Total claims payments	<u>(16,700,000)</u>
Unpaid claims and claim adjustment expenses at end of year	<u>\$ 532,000,000</u>

Note 5. Operating Lease Commitments

The Program leases its office space under an operating lease expiring in September 2018. Rent expense totaled \$62,656 for the year ended December 31, 2017. In January 2018, the lease was extended under terms similar to those under the previous lease.

Future minimum obligations under this lease are as follows:

2018	\$ 45,359
2019	56,178
2020	57,863
2021	59,611
2022	33,681
Thereafter	310,849

Notes to Financial Statements

Note 6. Liquidity

The most recent actuarial study performed for the year ended December 31, 2017, 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.

Note 7. Contingencies and Subsequent Events

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.

In December 2015, the Program received notice of a conflict between federal and state law resulting in a lawsuit by private parties and enjoined by the U.S. Department of Justice. At issue was a discrepancy in determining whether the Program or Medicaid was the payer of last resort for medical claims. In 2018 a negotiated settlement between the Program, the Commonwealth of Virginia and the U.S. Department of Justice included a Program payment to the federal government of approximately \$21 million for prior claims paid by Medicaid and an agreement that Medicaid would be the payer of last resort for all future claim payments. The settlement was accrued as of December 31, 2015 and reported in current accrued liabilities on the statement of net position as of December 31, 2017. Additionally, the estimate of future claim costs assumptions used in estimating the unpaid claim reserve were increased to account for the change in payer of last resort.

Additionally, in 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is evolving with various cities and countries around the world responding in different ways to address the outbreak. There are direct and indirect economic effects developing for various industries and individual companies throughout the world, the financial effect cannot be estimated. Management will continue to monitor the impact COVID-19 has on the Program and reflect the consequences as appropriate in its accounting and financial reporting.

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

Claims Development Information (Unaudited)
December 31, 2017
(In Thousands)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
(1) Premiums, investment income (loss) and miscellaneous Earned	\$ (20,801)	\$ 60,741	\$ 48,392	\$ 25,925	\$ 55,518	\$ 60,907	\$ 40,692	\$ 21,234	\$ 44,567	\$ 82,955
(2) Allocated expenses	188	196	213	268	263	213	242	248	280	251
(3) Estimated losses and expenses, end of birth year: Incurred	23,300	22,300	23,500	23,800	24,800	25,800	22,500	23,784	40,806	36,984
(4) Net paid (cumulative) as of:										
End of birth year	--	68	--	--	--	--	--	--	--	--
One year later	331	303	--	--	--	--	--	208	222	--
Two years later	372	614	267	44	143	274	102	616	--	--
Three years later	895	822	498	395	281	735	260	--	--	--
Four years later	1,133	1,338	723	852	456	1,098	--	--	--	--
Five years later	1,372	1,691	1,163	1,101	594	--	--	--	--	--
Six years later	1,569	2,310	1,428	2,016	--	--	--	--	--	--
Seven years later	1,795	2,684	1,647	--	--	--	--	--	--	--
Eight years later	1,945	2,955	--	--	--	--	--	--	--	--
Nine years later	2,217	--	--	--	--	--	--	--	--	--
(5) Reestimated ceded losses and expenses	--	--	--	--	--	--	--	--	--	--
(6) Reestimated net incurred losses and expenses										
End of birth year	23,300	22,300	23,500	23,800	24,800	25,800	22,500	23,784	40,806	36,984
One year later	21,630	22,575	18,136	24,609	24,548	23,768	22,299	23,261	21,278	--
Two years later	21,917	17,485	18,934	24,367	22,594	23,537	21,768	22,626	--	--
Three years later	16,599	18,243	18,696	22,492	22,373	22,928	21,555	--	--	--
Four years later	17,391	18,016	16,844	22,279	21,788	22,684	--	--	--	--
Five years later	17,154	16,260	16,634	21,718	21,552	--	--	--	--	--
Six years later	15,319	16,060	16,080	21,492	--	--	--	--	--	--
Seven years later	15,110	15,534	15,857	--	--	--	--	--	--	--
Eight years later	14,561	15,323	--	--	--	--	--	--	--	--
Nine years later	14,340	--	--	--	--	--	--	--	--	--
(7) Decrease in estimated net incurred losses and expenses from end of birth year	(8,960)	(6,977)	(7,643)	(2,308)	(3,248)	(3,116)	(945)	(1,158)	(19,528)	--

See Independent Auditor's Report and Notes to Required Supplementary Information.

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

Notes to Required Supplementary Information

Note 1. Claims Development Information

The table on the preceding page illustrates how the Program's premiums, investment income (loss) 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 replied investment income (loss) 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 matures, 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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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS IN ACORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

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

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), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated March 4, 2022.

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) as a basis for designing 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 a 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 financial statements. 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 4, 2022