KPMG

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Financial Statements

For fiscal year end December 31, 2016

(With Independent Auditors’ Report Thereon)

Presented by
The Department of Finance

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

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KPMG LLP
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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Virginia Birth-Related Neurological Injury Compensation Program (the Program) as of and for the year ended December 31, 2016, 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 these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

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, 2016 and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in not 1(g) to the basic financial statements, in 2016 the Program adopted Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Claims Development Information on page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that U.S. generally accepted accounting principles requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic 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 June 8, 2021 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 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.

KPMG LLP

Richmond, Virginia
June 8, 2021

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Statement of Net Position

December 31, 2016

Assets		
Current assets:		
Cash and cash equivalents	$	20,773,524
Accrued interest and dividends		879,405
Total current assets		21,652,929
Noncurrent assets:		
Investments		419,760,710
Capital assets, net		1,333
Total noncurrent assets		419,762,043
Total assets	$	441,414,972
Liabilities and Deferred Inflows		
Current liabilities:		
Accounts payable	$	1,056,800
Accrued liabilities		974,504
Current portion of unpaid claims reserve		17,000,000
Total current liabilities		19,031,304
Noncurrent liabilities:		
Unpaid claims reserve:		
Admitted claims, less current portion		370,700,000
Incurred but not reported claims		125,600,000
Total unpaid claims reserve		496,300,000
Accrued liabilities		20,707,965
Total noncurrent liabilities		517,007,965
Total liabilities		536,039,269
Deferred inflows of resources – deferred assessment and fee receipts		25,964,636
Total liabilities and deferred inflows	$	562,003,905
Net Position (Deficit)		
Net position, net investment in capital assets	$	1,333
Unrestricted deficit		(120,590,266)
Total net position (deficit)	$	(120,588,933)

See accompanying notes to basic financial statements.

VIRGINIA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PROGRAM

Statement of Revenues, Expenses, and Changes in Net Position

Year ended December 31, 2016

Operating revenues:	
Participating hospitals	$ 3,638,758
Participating physicians	4,260,779
Mandated physician fees	4,548,095
Insurance fees	13,858,096
Total operating revenues	26,305,728
Operating expenses:	
Provision for claims, net	40,805,998
General and administration	279,792
Total operating expenses	41,085,790
Operating loss	(14,780,062)
Nonoperating income:	
Net investment income	18,261,327
Net nonoperating income	18,261,327
Change in net position	3,481,265
Net position (deficit) at beginning of year	(124,070,198)
Net position (deficit) at end of year	$ (120,588,933)

See accompanying notes to basic financial statements.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Statement of Cash Flows

Year ended December 31, 2016

Cash flows from operating activities:		
Receipts from participating hospitals	$	3,888,243
Receipts from participating physicians		4,655,523
Mandated physician fee receipts		4,867,658
Receipts from insurance companies		14,327,455
Payments on behalf of claimants		(15,815,481)
Payments to suppliers of goods and services		(484,916)
Payments to employees		(633,994)
Net cash provided by operating activities		10,804,488
Cash flows from investing activities:		
Purchase of investments		(287,150,409)
Proceeds from sale and maturity of investments		249,918,137
Earnings on investments		8,504,975
Net cash used in investing activities		(28,727,297)
Net decrease in cash and cash equivalents		(17,922,809)
Cash and cash equivalents:		
Beginning of year		38,697,438
End of year	$	20,773,524
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(14,780,062)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		2,711
Increase (decrease) in:		
Accounts payable		(128,651)
Accrued liabilities		277,339
Deferred inflows of resources		1,433,151
Claims reserve		24,000,000
Net cash provided by operating activities	$	10,804,488
Noncash investing activities:		
Net appreciation in fair value of investments	$	10,587,725
Unsettled purchases of investments		(44,381)
Due to custodian for unsettled purchases of investments		44,381

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Nature of Organization

The Virginia Birth-Related Neurological Injury Compensation Program (the Program) was established under the Virginia Birth-Related Neurological Injury Compensation Act (1987, c.540) (the Act). The Program is a related organization of the Commonwealth of Virginia of which elected officials are accountable as they appoint a voting majority of the Board of Directors (the Board). The Act creates a compensation program that assures lifetime care of infants with severe neurological injuries. The Program is funded through annual assessments of participating physicians and participating hospitals. Liability insurers and nonparticipating physicians contribute to the Program, if necessary, based upon actual experience of the Program. The Program receives no federal or state government funding.

(b) Basis of Accounting

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

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

(c) Use of Estimates

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

(d) Administrative Expenses

Administrative expenses include salaries and benefits, rent, cost of noncapitalizable office equipment and other expenses not directly related to claims. In 2016, administrative expenses related to claims processing of approximately $1,399,000 were allocated to the provision for claims expense, net in the amount of approximately $1,119,000 and to general and administration expense in the amount of approximately $280,000.

(e) Cash Equivalents

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

(f) Investments

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

(g) Fair Value Hierarchy

During the year ended December 31, 2016 the Program adopted GASB Statement No. 72, *Fair Value Measurement and Application.* In accordance with GASB Statement No. 72, fair value measurements not valued at net asset value using the practical expedient are categorized into a three-level hierarchy that gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3).

The Program uses valuation approaches that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Program determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels (see Note 2):

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

(Continued)

(h) 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.

(i) 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.

(j) Estimated Liability for Unpaid Claims

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

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

(2) Deposits and Investments

The Program's deposit and investment portfolio consists of the following at December 31, 2016:

Cash and cash equivalents	$	20,773,524
Investments:		
Mutual funds:		
Large cap equity		68,078,162
Small and mid cap equity		14,792,405
Developed international		40,895,541
Emerging markets		11,689,578
Domestic fixed income		63,258,338
Multi asset		60,638,165
Separate accounts:		
Large cap equity		49,095,413
Small and mid cap equity		7,640,365
Domestic fixed income		96,881,654
Real estate held in trust		6,791,089
Total investments		419,760,710
Total cash and cash equivalents and investments	$	440,534,234

The follow table presents the placement in the fair value hierarchy of the Program's deposits and investments (excluding cash and cash equivalents) that are measured at fair value on a recurring basis at December 31, 2016:

		Fair value 2016	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Mutual funds	$	259,352,189	259,352,189	—	—
Equity securities		56,735,779	56,735,779	—	—
Corporate obligations		55,286,425	—	55,286,425	—
US Government & Agency bonds		33,481,866	—	33,481,866	—
Municipal obligations		8,113,362	—	8,113,362	—
Real estate		6,791,089	—	—	6,791,089
Total	$	419,760,710	316,087,968	96,881,653	6,791,089

(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 is 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, 2016 is as follows:

		Rating		Fair value 2016	Percent of portfolio (4)	Average maturity (in years)
Mutual funds:						
Vanguard Bond Index	(1)	AA	$	20,597,146	5.0%	8.3
Western Asset Core Plus	(1)	BB		42,661,191	10.3%	11.4
Separate accounts:						
Richmond Capital Management	(2)	AA		75,626,332	18.3%	7.2
Wasmer Schroeder & Company	(3)	AA		21,255,322	5.1%	3.9
Total			$	160,139,991		

(1) Average credit quality per Capital Advisory Group, Morning Star and fund company websites.
(2) Average credit quality per Bond Edge Fixed Income Analytic models.
(3) Average credit quality per Barclays Capital.
(4) 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, 2016 include U.S. publicly traded mutual funds which have an international strategy totaling $52,585,000.

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 return on investments for the year ending December 31, 2016 is summarized as follows:

Interest income	$	2,839,512
Dividend income		6,716,728
Realized loss on investments, net		(1,178,654)
Net appreciation in fair value of investments, net		10,587,725
Investment fees		(635,892)
Fiduciary fees		(68,092)
Net investment income	$	18,261,327

(3) Capital Assets

Capital assets at December 31, 2016 and the related changes for the year then ended were as follows:

		January 1, 2016	Increases	Decreases	December 31, 2016
Computer equipment	$	23,960	1,106	—	25,066
Office equipment		12,759	—	—	12,759
		36,719	1,106	—	37,825
Less accumulated depreciation		(33,781)	(2,711)	—	(36,492)
Capital assets, net	$	2,938	(1,605)	—	1,333

(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.

(Continued)

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, 2016 (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 2016 include:

	2016
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.	51
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 261 as of December 31, 2016.

The following represents changes in the unpaid claims reserves for the Program for the year ended December 31, 2016:

		2016
Unpaid claims and claim adjustment expenses at beginning of year	$	489,300,000
Incurred claims:		
Total incurred claims		40,800,000
Claims payments:		
Total claims payments		(16,800,000)
Unpaid claims and claim adjustments expenses at end of year	$	513,300,000

The total undiscounted unpaid claims and claim adjustment expenses amount to approximately $1,854.5 million at December 31, 2016 and represent unaudited estimates.

(5) Employee Benefits

The Program pays each employee an amount equal to 27% of his or her salary in lieu of a benefits package. This additional salary is to be used by the employee to acquire certain benefits, if they so choose, and is subject to income and payroll taxes. Additional benefits paid by the Program to its employees includes the 27% of salary, employer paid portion of health insurance, life insurance and long and short term disability insurance and amounted to approximately $171,000 for the year ending December 31, 2016.

(6) Operating Lease Commitments

The Program leases its office space under an operating lease expiring in September 2018. Rent expense totaled $64,400 for the year ended December 31, 2016.

Future minimum obligations under this lease are as follows:

2017	$	58,959
2018		45,359

(7) Liquidity

The most recent actuarial study performed 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.

(8) 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 noncurrent accrued liabilities on the statement of net position at December 31, 2016. Additionally, the estimate of future claim costs assumptions used in estimating the unpaid claim reserve as of December 31, 2016, were increased to account for the change in payer of last resort. Finalizing this 2016 financial statement had to be delayed until the above noted legal settlement was completed in September 2018 and an updated actuarial analysis was performed.

Additionally, in 2019 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.

(Continued)

REQUIRED SUPPLEMENTARY INFORMATION

VIRGINIA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PROGRAM

Claims Development Information (unaudited)

December 31, 2016

(In thousands)

			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
(1)	Premiums, investment income (loss) and miscellaneous:											
	Earned	$	39,964	(20,801)	60,741	48,392	25,925	55,518	60,907	40,692	21,234	44,567
(2)	Unallocated expenses		197	188	196	213	268	263	213	242	248	280
(3)	Estimated losses and expenses, end of birth year:											
	Incurred		24,500	23,300	22,300	23,500	23,800	24,800	25,800	22,500	23,784	40,806
(4)	Net paid (cumulative) as of:											
	End of birth year		—	—	68	—	—	—	—	—	—	—
	One year later		124	331	303	—	—	—	—	—	208	—
	Two years later		369	372	614	267	44	143	274	102	—	—
	Three years later		438	895	822	498	395	281	735	—	—	—
	Four years later		625	1,133	1,338	723	852	456	—	—	—	—
	Five years later		1,019	1,372	1,691	1,163	1,101	—	—	—	—	—
	Six years later		1,270	1,569	2,301	1,428	—	—	—	—	—	—
	Seven years later		1,816	1,795	2,684	—	—	—	—	—	—	—
	Eight years later		2,577	1,945	—	—	—	—	—	—	—	—
	Nine years later		3,029	—	—	—	—	—	—	—	—	—
(5)	Reestimated ceded losses and expenses		—	—	—	—	—	—	—	—	—	—
(6)	Reestimated net incurred losses and expenses:											
	End of birth year		24,500	23,300	22,300	23,500	23,800	24,800	25,800	22,500	23,784	40,806
	One year later		23,372	21,630	22,575	18,136	24,609	24,548	23,768	22,299	23,261	—
	Two years later		21,615	21,917	17,485	18,934	24,367	22,594	23,537	21,768	—	—
	Three years later		21,918	16,599	18,243	18,696	22,492	22,373	22,928	—	—	—
	Four years later		16,325	17,391	18,016	16,844	22,279	21,788	—	—	—	—
	Five years later		17,158	17,154	16,260	16,634	21,718	—	—	—	—	—
	Six years later		16,909	15,319	16,060	16,080	—	—	—	—	—	—
	Seven years later		14,979	15,110	15,534	—	—	—	—	—	—	—
	Eight years later		14,760	14,561	—	—	—	—	—	—	—	—
	Nine years later		14,182	—	—	—	—	—	—	—	—	—
(7)	Decrease in estimated net incurred losses											
	and expenses from end of birth year		(10,318)	(8,739)	(6,766)	(7,420)	(2,082)	(3,012)	(2,872)	(732)	(523)	—

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

(1) Claims Development Information

The table on the preceding page illustrates how the Program's premiums, investment income (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 reported 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 mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of net incurred losses currently recognized in less mature birth years. The columns of the table show data for successive birth years.

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Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Virginia Birth-Related Neurological Injury Compensation Program (the Program), which comprise the statement of net position as of December 31, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated June 8, 2021

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program’s basic 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 Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Richmond, Virginia
June 8, 2021