

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

Financial Statements

For Years Ended
December 31, 2006 and 2005

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

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VIRGINIA BIRTH-RELATED
NEUROLOGICAL INJURY
COMPENSATION PROGRAM

April 13, 2007

Board of Directors
9100 Arboretum Parkway Suite 365
Richmond, VA 23842

Dear Members of the Board:

The annual financial report of the Virginia Birth-Related Neurological Compensation Program (the "Program") for the year ended December 31, 2006, is submitted herewith. This financial report has been prepared by the Program's finance department in accordance with accounting principles generally accepted in the United States of America and conforms with the requirements of the Governmental Accounting Standards Board (GASB).

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

This letter of transmittal is designed to compliment 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 auditor's 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 state's obstetricians were threatened with having to close their office doors. To alleviate this crisis, Virginia worked with all stakeholders including physicians, 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 Virginia (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 it operates as a separate organization. A seven member volunteer board appointed by the Governor directs the Program. The Program is regulated by statute and the Code of Virginia is very specific in how it operates. All admissions are through the Virginia Workers' compensation

A lifetime of help

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Commission; the Program itself does not admit claimants. Financial Reports are filed annually with the Governors 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 Birth-Injury Program does not provide for any set 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.

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

Reporting Entity

The annual financial report includes all funds and accounts of the Program. In accordance with accounting principles generally accepted in the United States of America for governmental entities, there are no component units to be included in the reporting entity.

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 Birth Injury Program is important to both families and health services providers.

Of the 850 physicians that regularly deliver babies in Virginia, 578 participated in 2006, a record high in program history. Along with the coverage benefits of participation, physicians also receive a reduction or credit on their malpractice insurance premiums. During 2006 33 hospitals enrolled in the Program.

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 statute 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 board 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 operations and staff are efficient and administrative cost, as a percentage of total expenses (administrative plus claimant), remain low at 8.4%.

Philosophy

The Birth-Injury Program plays a unique role in the Commonwealth of Virginia. As previously noted, the Program was established due to a need to improve the tort climate for medical care in the state, 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 Birth-Injury Program is still fulfilling this role.

However, over the past 20 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 Birth-Injury 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.

With no legislated ability to increase funding, the Program continues to utilize such prudent practices to assure that available resources provide ongoing care for admitted claimants.

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. All internal control evaluations occur within this framework. The Program's internal control structure adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

The Program's accounting records are maintained on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. The accounting and reporting policies conform with accounting principles generally accepted in the United States of America and reflect practices appropriate for a governmental enterprise.

Independent Audit

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

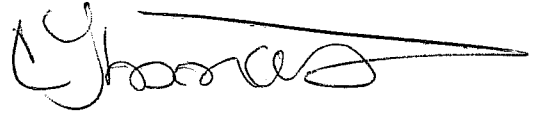
Acknowledgements

The staff of the Finance Department accomplished the preparation of this annual financial report for year ended December 31, 2006. 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



Independent Auditors' Report

The Audit Committee
Virginia Birth-Related Neurological Injury Compensation Program
Richmond, Virginia

We have audited the accompanying statements of net assets of the Virginia Birth-Related Neurological Injury Compensation Program (the "Program") as of December 31, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years 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 financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2006 and 2005 and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2007 on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of 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 read in conjunction with this report in considering the results of our audits.

Management's Discussion and Analysis on pages 3 through 9 and other required supplementary information on pages 24 through 26 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was made for the purpose of forming our opinion on the basic financial statements taken as a whole. The schedule of general and administrative expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cherry, Behant + Halland, LLP

Richmond, Virginia
April 13, 2007

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Management's Discussion and Analysis

This section of the Virginia Birth Related Neurological Injury Compensation Program (the Program) annual financial report represents our discussion and analysis of the Program's financial performance during the fiscal years ended December 31, 2005 and 2006. Please read it in conjunction with the Program's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- In 2006 the Board of Directors completed the transition process of developing and adopting an updated investment policy moving from a single domestic manager to a globally diversified strategy. The objective for the new policy is to implement an effective combination of active and passive management styles to enable the Program to achieve its long term objectives while prudently managing risk.
- The 2006 revenue from fees and assessments increased by \$1,596,029 or (8%). Fees assessed from participating physicians increased \$501,344 or (21%), participating hospitals increased \$173,450 or (6%), insurance companies increased \$631,645 or (6%) and mandated physicians fees increased \$289,590 or (8%). (An explanation of significant variances is included later in this report).
- The 2005 revenue from fees and assessments increased by \$1,527,396 or (8%). Fees assessed from participating physicians increased \$131,265 or (6%), participating hospitals increased \$22,541 or (1%), insurance companies increased \$1,365,292 or (14%) and mandated physicians fees increased \$8,298 or (0.2%).
- The Program's total net assets decreased by \$4.2 million and \$26.0 million in 2006 and 2005 respectively. The smaller decrease in 2006 is primarily due to the \$7.6 million decrease in provision for claims and the increase in investment income of \$12.5 million from 2005 to 2006.
- In 2006 the Program provided \$6,186,000 in nursing care, \$232,000 in therapy, \$849,000 for 21 handicapped accessible vans, \$1,445,000 for housing benefits, \$323,000 for durable medical equipment and technology, \$81,000 for hospitals and physician visits, and \$467,000 for claimant legal fees.
- The average cost per active claimant in 2006 and 2005 was approximately \$115,000 and \$104,000 respectively.
- As of December 31, 2006 there was a record high of 578 participating physicians, up 42 from 536 physicians in 2005. Participating Hospitals increased by 1 from 32 in 2005 to 33 in 2006.
- Administrative expenses were 8.4% and 9.5% of the total expenses (administrative plus claimant) paid in 2006 and 2005 respectively.
- In 2006 several meetings were conducted in response to a letter from Delegate Harvey Morgan, Chair of the House Commerce and Labor Committee, urging the Program to meet with stakeholders to develop a legislative plan for reducing or eliminating the Program's actuarial deficit. The group recessed after its December 2006 meeting with a joint statement that they were not yet ready to propose legislation however they would resume meeting following the 2007 General Assembly to continue their work.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Management's Discussion and Analysis

- At the close of 2006 the Program had a total of 119 admitted claimants, 23 of which are deceased. Eight claimants were admitted and three other claimants became deceased. Nine claimants were pending as of December 31, 2006. See chart below.

Total Active Claimants as of 12/31/2006

	Total 12/31/05	2006 Activity	Total 12/31/2006
Admitted	111	8	119
Deceased	20	3	23
Active	91		96

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and the notes to the financial statements, and other supplemental information.

FINANCIAL ANALYSIS

Net Assets:

The following table reflects the condensed Net Assets of the Program:

Table 1
Net Assets
As of December 31, 2006, 2005, and 2004
(In millions)

	2006	2005	2004
Current assets	\$ 17.4	\$ 10.7	\$ 12.3
Non current assets	179.0	155.8	134.6
Total assets	196.4	166.5	146.9
Current liabilities	13.8	12.1	10.3
Deferred revenue	20.5	19.3	16.5
Unpaid claims reserve			
Admitted claims	183.3	164.9	129.5
Incurred but not reported claims	108.1	95.3	89.8
Total unpaid claims reserve	291.4	260.2	219.3
Total liabilities	325.7	291.7	246.1
Unrestricted net assets	(129.3)	(125.2)	(99.2)
Total net assets	\$ (129.3)	\$ (125.2)	\$ (99.2)

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Management's Discussion and Analysis

At December 31, 2006 and 2005, the total assets of the Program were \$196.4 and \$166.5 million, respectively; total liabilities were \$325.7 and \$291.7 million, respectively, while combined net assets were negative \$129.3 and \$125.2 million, respectively. The actuarial estimate of future claim payments of children born on or prior to December 31, 2006, plus their estimate of future claim administration expenses, exceeds the funds assets. This deficit is primarily due to the portion of the unpaid claims reserve for claims incurred but not reported of \$108.1 million in 2006 and \$95.3 million in 2005.

The increase in current assets from 2005 of \$10.7 million to 2006 of \$17.4 million consists primarily of assessments collected and deposited. The amount held in current assets (cash & cash equivalents) is in compliance with the Investment Policy Statement (IPS). The \$23.2 million increase in non current assets from \$155.8 million in 2005 to \$179 million in 2006 consists primarily of \$12.4 million in investment income and \$11.0 million in assessments deposited and invested.

Current assets exceed current liabilities by \$3.6 million in 2006. Current assets are comprised of cash, cash equivalents and short term investments while current liabilities consist primarily of claims estimated to be paid within the next year. According to the IPS the target allocation for cash is around 5% of investments and current assets are in compliance. As revenue is received it is invested on a monthly basis with approximately \$1 million held in liquid cash equivalents to meet the short-term needs of the fund.

The total unpaid claims reserve for December 31, 2006 and 2005 were \$304.4 and \$271.2 million respectively. At December 31, 2004 the total unpaid claims reserve was \$228.8 million. This represents the estimated cost for claimants currently admitted into the Program and an estimated number of not yet admitted claimants (incurred but not reported, IBNR) with birth dates prior to fiscal year-end that will be admitted to the Program subsequent to fiscal year-end. This reserve is based on a mandated biannual actuarial study.

A summary of the claims provision (in millions) is as follows:

	2006	2005
Provision for insured events of current year	\$ 23.0	\$ 21.0
Increase (decrease) in provision for insured events of prior years	3.5	16.1
Interest	17.8	15.0
Total claims provision	\$ 44.3	\$ 52.1

Due to the program's relatively short history changes in actuarial assumptions add volatility to this important estimate. Those changes for 2006 and 2005 are summarized as follows:

Effects of Changes in Assumptions on the Prior Year Provision (in millions)

Assumption Changes	2006	2005
Mortality	\$ 9.2	\$ 13.5
Nursing	9.7	-
Deceased at admission	(14.0)	-
Other Factors	(1.4)	2.6
	\$ 3.5	\$ 16.1

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Management's Discussion and Analysis

The most volatile piece of the claims provision, the change in the provision for prior years, is described in the above table. As the Program gains more claims experience the actuaries refine the assumptions they use for their forecasts. These changes in assumptions not only affect the current years forecast but also have a particularly volatile affect on the prior years estimate. The mortality table continues to be revised increasing the life expectancies of the claimants and the estimate of future claim payments. The actuaries increased their forecast by \$9.7 million in 2006 to reflect an increase in nursing cost observed in 2005. In addition, the actuaries reduced their estimate by \$14 million in consideration of claimants who are deceased at the time of admission to the Program. Other factors may include inflation, interest rates, investment performance, and number of claimants.

Accounts payable as of December 31, 2006 and 2005 is \$805,600 and \$1,050,000 respectively, showing a decrease of \$244,400. The decrease is primarily due to timing; however the total still represents approximately one month's expenses. The majority of the accounts payable are nursing expense and other miscellaneous medical expenses that were paid in January and February 2007.

In addition, claimant expenses increased \$1,550,000 from \$9,500,000 in 2005 to \$11,050,000 in 2006. This increase was due, in part, to thirteen new claimants admitted in 2005 as well as eight in 2006 increasing both the number and amounts of invoices. Nursing expenses increased \$645,000 from 2005 to 2006. The number of renovation projects tripled from approximately six in 2005 to approximately 18 in 2006 with an increase of \$404,000.

Changes in Net Assets:

The following chart shows the revenue and expenses for the current fiscal year:

Table 2
Changes in Net Assets
Year End December 31, 2006, 2005, and 2004
(in millions)

	2006	2005	2004
Revenues			
Fees and assessments	\$ 21.6	\$ 19.9	\$ 18.3
Net investment income	18.6	6.1	7.1
Total revenues	40.2	26.0	25.4
Expenses			
Provision for claims	44.2	51.9	48.0
General and administration	0.1	0.1	0.1
Total liabilities	44.3	52.0	48.1
Change in net assets	(4.1)	(26.0)	(22.7)
Beginning net assets	(125.2)	(99.2)	(76.5)
Ending net assets	\$ (129.3)	\$ (125.2)	\$ (99.2)

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Management's Discussion and Analysis

REVENUES

Revenues consist of legislatively established assessments placed on participating and non-participating physicians, hospitals, and insurance companies and also investment income. For the fiscal years ended December 31, 2006 and 2005, revenues totaled \$40.2 and \$26.0 million, respectively. The increase in total revenues is primarily due to the increase in investment income (as described below).

Assessments for 2006 for participating and non-participating physicians were \$5,200 and \$270 respectively. Participating Hospitals are assessed a fee of \$50 per live birth for the prior year, as reported by the Department of Health, not to exceed \$170,000. In 2006 liability insurers paid one quarter of one percent on the direct premiums written during the prior year.

The participating physicians assessments increased \$501,000 or (21%) from \$2.3 million in 2005 to \$2.8 million in 2006. The number of physicians participating reached a record high of 578, 42 more than in 2005. From 2004 to 2005 the number of participating physicians increased by 28 from 508 and 536 respectively. The continued increase is due in part to the increased awareness of the benefits of the Program as well as the malpractice insurers requiring the insured to participate.

In 2004 the General Assembly authorized increases in future years assessments according to the following chart, however the 2005 actuarial report states that these increases will not be enough to restore the fund to actuarial soundness.

Year	Participating	Non-Participating	Hospital
2005	\$ 5,100.00	\$ 260.00	\$50/live birth not to exceed \$160,000
2006	5,200.00	270.00	\$50/live birth not to exceed \$170,000
2007	5,300.00	280.00	\$50/live birth not to exceed \$180,000
2008	5,400.00	290.00	\$50/live birth not to exceed \$190,000
2009	5,500.00	300.00	\$50/live birth not to exceed \$200,000

Liability Insurers pay one quarter of one percent of premiums written in prior year.

Net investment income increased by \$12.5 million from 2005 to 2006. In 2005 the Program employed SunTrust Bank as custodian of the Program's funds replacing Merrill Lynch. Investments held at Merrill Lynch were liquidated and transferred to SunTrust. Subsequently, during the last quarter of 2005 those proceeds were invested in various Vanguard Index funds. During 2006 the Investment Committee completed the conversion from a single manager to a diversified portfolio of both passive and active managers. Several Vanguard Index funds were sold as well as a portion of the Bond and Large Cap Index funds and the proceeds invested in diverse active managers. This sale contributed greatly to the \$5.6 million increase in realized gains from 2005 to 2006. Additional contributors to the large increase in investment income include the \$3.3 million in dividends paid by the Vanguard Bond Index fund and the \$5.6 million increase in unrealized gains due to a more diversified portfolio and favorable market conditions. (See Note 2).

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Management's Discussion and Analysis

EXPENSES

For the fiscal years ended December 31, 2006 and 2005 expenditures totaled \$44.4 million and \$52.0 million respectively. 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 8.4% and 9.5% of the total expenses (administrative plus claimant) paid in 2006 and 2005 respectively. Management estimates that approximately 80% of the total administrative expenses are directly related to claims administration. Of the total administrative expenses of \$943,000 in 2006 approximately \$754,000 or 80% is related to claims and \$189,000 is related to program administration. In 2005 80% or \$733,000 of a total \$916,000 in Administration expenses was related to claims and \$183,000 was 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, and durable medical equipment. Provision for claims has fluctuated from \$48.0 million in 2004 to \$51.9 million in 2005 to \$44.3 million in 2006. These fluctuations are primarily due to the changes in the assumptions reflected in the actuarial study completed and published in September 2006 and discussed previously in this report.

CAPITAL ASSETS

Capital assets consist of computer equipment, office equipment and automobiles. Depreciation is calculated on the straight-line method over the estimated lives of the related assets. The seventeen Trust Homes owned by the Program are recorded as investments (real estate held in trust) because they are considered appreciable.

ECONOMIC FACTORS

The increase in claims reserve for December 31, 2006 and 2005 are \$33.2 million and \$42.4 million respectively. The increases both years are due to changes made in the actuarial assumptions from year to year as more credible data on the Program is collected. These changes are discussed earlier in this report. It is important to note that there are significant uncertainties related to the estimates of future claim payments. Forecasts are highly sensitive to changes in assumptions like inflation, interest rates and mortality. There are few claimants in the program (119 admitted as of 2006), nine who are 16 or older, only one has attained the age of 17. Only 75 claimants have been in the program three years or more as of 2005. There is also considerable variability in the actual payment made to individual claimants. Nursing expenses are the largest payment category and any changes in cost or utilization of nursing services would have a major impact on findings. Forecasts of the number of eligible claimants are also uncertain due to the length of time from birth to application to the program, number of participating doctors and hospitals, and legislative changes. An increase in the number of eligible claimants will have a direct effect on the number admitted and will increase the cost of the program. These factors have a volatile effect on the estimate of the claims reserve.

The 2006 Actuarial report states that the Program is not in any immediate danger of defaulting on the payment of benefits; although not actuarially sound, it has sufficient assets to pay benefits for about 17 years. The report explains that if the Program collects the required assessments and if the level of participation of physicians and hospitals remains at the 2006 level, the fund will be able to continue to make claim payments for all claimants,

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Management's Discussion and Analysis

including those admitted after December 31, 2005 (even if those claimants are born after December 31, 2005), for approximately the next 17 years. This time span has decreased from the 18 years cited in the 2005 report due to the increase in the forecasted lifetime costs per claimant, most of which is nursing.

As previously mentioned in this report in 2006 the Board has completed the transition that began with the adoption of an updated investment policy and resulted in the implementation of a globally diversified strategy utilizing both passive and active managers. As of December 31, 2006 the portfolio was invested in 60% active managers and 40% Index Funds. 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, 9100 Arboretum Pkwy. Suite 365, Richmond, VA 23236, 804-330-2471 or visit our website at <http://www.vabirthinjury.com>

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

Statements of Net Assets

	December 31,	
	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$ 16,808,050	\$ 10,332,289
Short Term Investments	115,257	-
Accrued interest/dividends	505,672	380,655
Other receivables		
Total current assets	17,428,979	10,712,944
Investments	173,877,095	150,614,312
Real estate held in trust	5,110,121	5,142,281
Property and equipment, net	16,302	19,755
Other assets		
Security deposits	3,009	3,009
Total noncurrent assets	179,006,527	155,779,357
Total assets	\$ 196,435,506	\$ 166,492,301
Liabilities		
Current liabilities		
Accounts payable	\$ 805,601	\$ 1,051,682
Accrued liabilities	42,146	54,069
Estimated current portion of claims reserve	13,000,000	11,000,000
Total current liabilities	13,847,747	12,105,751
Deferred revenue	20,500,254	19,347,906
Unpaid claims reserve		
Admitted claims, less estimated current portion	183,300,000	164,900,000
Incurred but not reported claims	108,100,000	95,300,000
Total unpaid claims reserve	291,400,000	260,200,000
Total liabilities	325,748,001	291,653,657
Net Assets		
Invested in capital assets, net of related debt	16,302	19,755
Unrestricted (deficit)	(129,328,796)	(125,181,112)
Total net assets	\$ (129,312,494)	\$ (125,161,357)

See notes to financial statements.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

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

	Year Ended December 31,	
	2006	2005
Operating revenues		
Participating hospitals	\$ 2,926,900	\$ 2,753,450
Participating doctors	2,843,793	2,342,449
Mandated physician fees	3,734,266	3,444,676
Insurance fees	11,945,795	11,314,150
Other	136,676	-
Total operating revenues	21,587,430	19,854,725
Operating expenses		
Provision for claims	44,254,224	51,853,223
General and administration	188,573	183,164
Total operating expenses	44,442,797	52,036,387
Operating loss	(22,855,367)	(32,181,662)
Nonoperating revenue (expense)		
Net investment income	18,601,829	6,088,153
Revaluation of real estate	117,141	89,730
Loss on sale of assets	(14,740)	(129)
Net nonoperating revenue	18,704,230	6,177,754
Change in net assets	(4,151,137)	(26,003,908)
Net assets (deficit) at beginning of year	(125,161,357)	(99,157,449)
Net assets (deficit) at end of year	\$ (129,312,494)	\$ (125,161,357)

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

Statements of Cash Flows

	Year Ended December 31,	
	2006	2005
Cash flows from operating activities		
Receipts from hospitals	\$ 2,843,450	\$ 2,934,100
Receipts from participating doctors	3,052,256	2,986,463
Mandated physician fee receipts	3,847,926	3,646,854
Receipts from insurance companies	12,859,473	13,160,326
Other receipts	136,676	-
Payments on behalf of claimants	(10,546,016)	(8,360,023)
Payments to suppliers of goods and services	(443,802)	(446,780)
Payments to employees	(502,315)	(458,511)
Net cash provided by operating activities	11,247,648	13,462,429
Cash flows used in capital and related financing activities		
Purchase of capital assets	(5,216)	(3,523)
Cash flows from investing activities		
Purchase of investment securities	(120,803,432)	(190,504,436)
Proceeds from sale and maturity of investment securities	109,397,807	169,844,896
Earnings on investment securities	6,504,395	6,059,262
Proceeds from real estate investment properties	134,559	-
Net cash provided by (used in) investing activities	(4,766,671)	(14,600,278)
Net increase (decrease) in cash and cash equivalents	6,475,761	(1,141,372)
Cash and cash equivalents		
Beginning of year	10,332,289	11,473,661
End of year	\$ 16,808,050	\$ 10,332,289
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (22,855,367)	\$ (32,181,662)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	8,669	10,527
Increase (decrease) in:		
Accounts payable	(246,081)	360,545
Accrued liabilities	(11,923)	-
Deferred revenue	1,152,350	2,873,019
Claims reserve	33,200,000	42,400,000
Net cash provided by operating activities	\$ 11,247,648	\$ 13,462,429
Noncash investing activities		
Net appreciation in fair value of investment securities	\$ 7,675,684	\$ 1,820,061

See notes to financial statements.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Notes to Financial Statements Years Ended December 31, 2006 and 2005

Note 1 – Summary of significant accounting policies

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 Program is a related organization for which the elected officials of the Commonwealth of Virginia are accountable as they appoint a voting majority of 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 non-participating physicians contribute to the fund, if necessary, based upon actual experience of the fund. The Program receives no federal government funding.

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

The 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. Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and collecting fees in connection with the proprietary fund’s principal ongoing operations.

In accordance with Governmental Accounting Standards Board (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 Financial Accounting Standards Board (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.

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 amounts and disclosures. Accordingly, actual results could differ from these estimates.

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.

Investments - At December 31, 2006 and 2005, the Program's investments are stated at fair value based on quoted market prices. The Program’s investments consist of various index mutual funds and actively managed investments 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. All other investments are valued based on amounts provided by the investment advisor or fund administrator. Real estate is stated at lower of cost or fair value. The fair value of real estate investments is based on independent appraisals.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Notes to Financial Statements Years Ended December 31, 2006 and 2005

Note 1 – Summary of significant accounting policies (continued)

Capital assets – Capital assets with a cost of \$1,000 or more (threshold implemented in fiscal year 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.

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 in the period in which the assessment or coverage is related. Unearned revenue has been classified as non-current because it is not attributable to claims which will be paid during the next year.

Estimated liability for unpaid claims – The liability for unpaid claims represents management's estimate, developed in conjunction with the assistance of the Program'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 that will be admitted to the Program subsequent to the date of the net assets. Changes in estimates of such costs are recognized in results of operations in the period in which the changes in estimate are made.

Management believes the estimate of the discounted liability for unpaid claims is adequate. The development of liabilities for future benefit requires management to make estimate 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.

Reclassifications – Certain prior year amounts have been reclassified for comparative purposes to conform to the current year presentation.

(continued)

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Notes to Financial Statements Years Ended December 31, 2006 and 2005

Note 2 – Deposits and investments

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

	2006	2005
Cash and deposits:		
Cash on hand	\$ 106	\$ 240
Deposits with financial institutions - demand deposits	5,115,735	899,653
Investments:		
Deposits with financial institutions - money market accounts	9,671,033	9,432,395
Mutual funds:		
Small cap index	-	7,122,494
Large cap index	21,600,256	49,190,198
International emerging markets index	-	4,836,125
International developed markets index	-	19,605,871
Bond index	43,638,281	69,859,624
INTECH Risk Managed Large Cap	8,815,748	-
Artisan Funds Inc. (Int'l Growth)	12,462,918	-
Harbor Funds (Int'l Value)	12,848,871	-
SSGA Funds (Emerging Markets)	5,224,308	-
Western Asset Core Plus (Bond Fund)	16,668,091	-
Investment Managers:		
Rainier Investment Management (Large Cap Growth)	8,647,578	-
Great Lakes Advisors Large Cap Value)	8,765,291	-
Alliance Bernstein (Large Cap Value)	9,396,272	-
Eagle Asset Management (Small Cap Growth)	4,682,066	-
TAMRO Capital Partners (Small Cap Value)	4,687,294	-
Atlantic Asset Management (Core Fixed Income)	9,294,832	-
Richmond Capital Management (Core Fixed Income)	9,281,722	-
	\$ 190,800,402	\$ 160,946,600

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 of Directors is given the authority to invest the Program's funds in a careful and prudent manner at the advice of the investment advisor.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Notes to Financial Statements Years Ended December 31, 2006 and 2005

Note 2 – Deposits and investments (continued)

Credit risk: The Program manages the credit quality of its investment portfolio by limiting its fixed income portfolio having ratings of less than single “A” quality to 20%. The Program’s rated debt investments at December 31, 2006 are as follows:

		Rating	Market value 2006	Market value 2005
Money Market Accounts				
Rated money market accounts	(1)	AA	\$ 9,404,383	\$ 9,072,525
Unrated money market accounts		N/A	266,650	359,870
Mutual fund				
Bond index	(2)	AA1/AA2	43,638,281	69,859,624
Western Asset Core Plus	(1)	AA	16,668,091	-
Investment Managers:				
Atlantic Asset Management	(1)	AA	9,294,832	-
Richmond Capital Management	(3)	AA	9,281,722	-
Total			\$88,553,959	\$ 79,292,019

(1) Average of Moodys and Standard & Poors ratings

(2) Moodys Investors Service/Standard & Poors

(3) Lehman rating

Interest rate risk: As of year-end 2006 and 2005 the underlying investments of the above bond index mutual fund have a stated average weighted maturity of 7.2 years. The Western Asset Core Plus bond fund has a stated average weighted maturity of 8.7 years. The investments of Atlantic Asset Management and Richmond Capital Management have an average weighted maturity of 7.8 years and 6.7 years respectively. 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.

Foreign currency risk: The Program manages its risk associated with foreign currency fluctuations by limiting its investments in international developed and emerging index funds to 20% of its overall portfolio. The Program’s investments subjected to foreign currency risk at December 31, 2005 are as follows:

Fund description		Market Value 2006	Market Value 2005
Mutual funds:			
Artisan Funds Inc. (Int'l Growth)	(1)	\$ 12,462,918	\$ -
Harbor Funds (Int'l Value)	(2)	12,848,871	-
SSGA Funds (Emerging Markets)	(3)	5,224,308	-
International emerging markets exchange-traded fun	(4)		4,836,125
International developed markets index fund	(5)		19,605,871
		\$ 30,536,097	\$ 24,441,996
Percentage of total investment portfolio		16.4%	15.3%

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Notes to Financial Statements Years Ended December 31, 2006 and 2005

Note 2 – Deposits and investments (continued)

1. Artisan Fund typically holds between 80-120 stocks, diversified across most major sectors and typically at least 18 countries. The team invests primarily in developed markets, but also may invest up to 20% of the Fund's net assets at market value at the time of purchase in emerging markets.
2. Harbor Fund holds between 70-90 stocks selected from a select universe of stocks and is usually invested in a minimum of ten countries throughout the world. The fund focuses on companies located in Europe, and the Pacific Basin and emerging industrialized countries whose economies and political regimes appear more stable and are believed to provide some protection to foreign shareholders.
3. SSGA Fund will typically invest at least 80% of its assets in securities issued by companies domiciled, or doing business, in countries determined to have a developing or emerging economy or securities market. The investments are diversified across many countries, usually 10, in order to reduce volatility associated with specific markets. The fund invests primarily in the International Finance Corporation Investable (S&P/IFCI) Index and/or Morgan Stanley Capital International Emerging Market (MSCI EM) countries.
4. This fund invests in common stock of emerging markets, mirroring the MSCI Select Emerging Markets Index. This index includes approximately 660 common stocks of companies located in emerging markets around the world, with the largest markets covered in the index being South Korea, Taiwan, Brazil, South Africa, and China, making up 20%, 15%, 12%, 11% and 8% of the index's investments respectively. The remaining 33% of the index is invested in thirteen other countries.
5. 67% of this fund is invested in the European Stock Index Fund, which invests in common stocks included in the MSCI Europe Index. The MSCI Europe Index consists of approximately 590 common stocks of companies located in sixteen European countries, including the United Kingdom (37%), France (14%), Switzerland (10%) and Germany (10%). Twelve other countries comprise the remaining 29%. The remaining 33% of this fund is invested in the Pacific Stock Index Fund, which invests in common stocks included in the MSCI Pacific Index. The MSCI Pacific Index consists of approximately 540 common stocks of companies located in the Pacific Basin. The Index is dominated by the Japanese stock market, which represents 75% of the funds holdings with the remaining 25% of the holdings being allocated among four other countries.

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 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 and investment securities are held at SunTrust and registered in SunTrust's name.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Notes to Financial Statements Years Ended December 31, 2006 and 2005

Note 2 – Deposits and investments (continued)

The Program's return on investments for years ending December 31, 2006 and 2005 is summarized as follows:

	<u>2006</u>	<u>2005</u>
Interest income	\$ 201,663	\$ 2,799,652
Dividend income	6,604,829	3,108,910
Realized gain (loss) on investments	4,296,732	(1,382,267)
Net appreciation in fair value of investments	7,675,684	1,820,061
Investment fees	(111,949)	(189,293)
Fiduciary fees	<u>(65,130)</u>	<u>(68,910)</u>
 Net investment income	 <u>\$ 18,601,829</u>	 <u>\$ 6,088,153</u>

The calculation of realized gains and losses is independent of the calculation of the net appreciation in fair value of investments; therefore, realized gains and losses in 2006 and 2005 include realized gains and losses on those same investments recognized in prior periods as part of the net appreciation or depreciation in the fair value of investments.

Note 3 – Investments in real estate

Under guidelines established by the Board of Directors, the Program could, up until 1999, approve the purchase or construction of a home for the family 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.

Properties are stated at original cost plus the cost of any improvements, but not in excess of appraised fair values. The carrying value of the real estate investments amounted to \$5,110,121 at December 31, 2006 and \$5,142,281 at December 31, 2005.

(continued)

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Notes to Financial Statements Years Ended December 31, 2006 and 2005

Note 4 – Capital assets

Capital assets at December 31, 2006 and 2005, and the related changes for the years then ended were as follows:

	January 1, 2006	Increases	Decreases	December 31, 2006
Computer equipment	\$ 50,623	\$ 2,791	\$ -	\$ 53,414
Office equipment	36,601	2,425	-	39,026
Automobiles	17,237	-	-	17,237
	<u>104,461</u>	<u>5,216</u>	<u>-</u>	<u>109,677</u>
Less accumulated depreciation	<u>(84,706)</u>	<u>(8,669)</u>	<u>-</u>	<u>(93,375)</u>
Capital assets, net	<u>\$ 19,755</u>	<u>\$ (3,453)</u>	<u>\$ -</u>	<u>\$ 16,302</u>

	January 1, 2005	Increases	Decreases	December 31, 2005
Computer equipment	\$ 53,621	\$ 915	\$ (3,913)	\$ 50,623
Office equipment	33,991	2,610	-	36,601
Automobiles	17,237	-	-	17,237
	<u>104,849</u>	<u>3,525</u>	<u>(3,913)</u>	<u>104,461</u>
Less accumulated depreciation	<u>(77,962)</u>	<u>(10,528)</u>	<u>3,784</u>	<u>(84,706)</u>
Capital assets, net	<u>\$ 26,887</u>	<u>\$ (7,003)</u>	<u>\$ (129)</u>	<u>\$ 19,755</u>

Note 5 – 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 that will be admitted to the Program subsequent to the date of the statement of net assets. This discounted cost represents the amount that would need to be invested, as of the date of the statement of net assets, 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 2006 and 2005). 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.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Notes to Financial Statements Years Ended December 31, 2006 and 2005

Note 5 – Estimated liability for unpaid claims (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).
- (2) Future payments, by category of expense paid for each claimant, are forecast. 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, 2006 and 2005 (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 forecast based on actual information through the prior fiscal year. Actuarial assumptions represent estimates that are critical to reported operations. The assumptions used in the forecast are reasonable and management believes the indicated liability is adequate.

Significant actuarial assumptions for each fiscal year include:

	2006	2005
Rate of claims inflation (varies based on category of expense)	1.00% - 5.38%	1.00% - 5.35%
Investment earnings / discount rate	6.56%	6.55%
Mortality:		
Average life expectancy of claimant at birth	22.3 years	21.2 years
Average life expectancy of claimant that attains the age of three	24.4 years	23.4 years
Estimated number of claimants born on or before year end not yet admitted to the Program. Estimate is based on review of how long it takes for claimants to be admitted to the Program.	42 claimants	44 claimants

The total number of claimants (admitted claimants and not-yet-admitted claimants) is estimated to be 166 and 157 as of December 31, 2006 and December 31, 2005 respectively.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Notes to Financial Statements Years Ended December 31, 2006 and 2005

Note 5 – Estimated liability for unpaid claims (continued)

During fiscal year 2004, House Bill No.1407 was enacted, reducing the coverage of additional administrative costs. This legislature repealed a portion of the previous bill mentioned above and became effective January 1, 2005. Management estimates that the effect on the estimated claims reserve was a reduction to the reserve of approximately \$28,600,000.

The following represents changes in the aggregate reserves for the Program during the past two years:

	2006	2005
Unpaid claims and claim adjustment expenses at beginning of year	\$ 271,200,000	\$ 228,800,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of current year	23,000,000	20,717,391
Increase (decrease) in provision for insured events of prior years	3,463,504	16,149,432
Total incurred claims and claim adjustment expenses	26,463,504	36,866,823
Interest due to decrease in the discount period	17,790,720	14,986,400
Total claims provision	44,254,224	51,853,223
Payments:		
Claims and claim adjustment expenses attributable to insured events of prior years	11,054,224	9,453,223
Total payments	11,054,224	9,453,223
Total unpaid claims and claim adjustment expenses at year end	\$ 304,400,000	\$ 271,200,000

The total undiscounted unpaid claims and claim adjustment expenses amount to \$1,115.1 million and \$933.1 million at December 31, 2006 and 2005, respectively, and represent unaudited estimates.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Notes to Financial Statements Years Ended December 31, 2006 and 2005

Note 6 – Employee benefits

The Program pays each employee an amount equal to 23% 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 their employees amounted to \$79,736 and \$70,763 for the years ending December 31, 2006 and 2005, respectively. These benefits are included as salary and benefits expense on the Program's supplementary schedule of general and administrative expenses.

Note 7 – Related party transactions

A member of the Program's Board of Directors is a member of upper management at Carilion Health System. The Program enters into transactions with various subsidiaries of Carilion Health System during its normal course of business. During 2006 and 2005, payments for medical services to these subsidiaries amounted to approximately \$271,000 and \$331,000, respectively. There was approximately \$56,000 and \$40,000 of accounts payable related to these services from subsidiaries for year-end 2006 and 2005 respectively.

Note 8 – Operating lease commitments

The Program leases its office space under an operating lease expiring on February 29, 2008. Rent expense under this lease amounted to \$56,494 and \$55,185 for fiscal years 2006 and 2005, respectively. The future minimum obligations under this lease are as follows:

2007	\$	57,616
2008		9,642
	\$	<u>67,258</u>

The Program leases office equipment on a month-to-month basis. Rent expense for this equipment amounted to \$2,387 and \$2,254 at December 31, 2006 and 2005, respectively, and is included in other expenses on the supplemental schedule of general and administrative expenses.

Note 9 – Liquidity

The actuarial study performed for the year ended December 31, 2006 determined that the Program was not actuarially sound. The forecasted information for the year ended December 31, 2006 resulted in a larger deficit. The increase in the deficit largely is attributed to the change in actuarial assumptions, including the increase in observed nursing cost and reductions in assumed mortality reduced by an increase in the number of claimants deceased at the time of acceptance. 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.

At the request of the Commonwealth of Virginia, management is evaluating possible solutions for resolving the deficit over the long-term. Once the evaluation is complete, management will present its recommendations to the legislature.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Notes to Financial Statements Years Ended December 31, 2006 and 2005

Note 10 – 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.

Required Supplementary Information

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Supplementary Schedule of Claims Development Information As of December 31, 2006 (In Thousands)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1 Premiums and investment revenue:										
Earned	\$ 5,781	\$ 8,477	\$ 4,931	\$ 6,001	\$ 9,378	\$ 18,136	\$ 26,131	\$ 25,445	\$ 26,032	\$ 40,292
2 Unallocated expenses	15	-	-	53	-	169	129	137	183	189
3 Estimated losses and expenses, end of birth year:										
Incurred	4,249	4,676	6,880	7,336	12,871	13,661	14,000	20,733	21,652	23,000
4 Net paid (cumulative) as of:										
End of birth year	-	-	-	-	-	-	-	-	-	-
One year later	78	91	142	143	119	143	159	189	-	-
Two years later	311	365	568	574	478	572	663	193	-	-
Three years later	495	582	905	914	761	1,190	1,548	-	-	-
Four years later	861	1,012	1,574	1,589	1,126	2,008	-	-	-	-
Five years later	912	1,072	1,667	2,167	1,892	-	-	-	-	-
Six years later	1,122	1,319	1,750	2,936	-	-	-	-	-	-
Seven years later	1,144	1,875	2,124	-	-	-	-	-	-	-
Eight years later	1,773	2,380	-	-	-	-	-	-	-	-
Nine years later	2,322	-	-	-	-	-	-	-	-	-

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Supplementary Schedule of Claims Development Information As of December 31, 2006 (In Thousands)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
5 Reestimated ceded losses and expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6 Reestimated net incurred losses and expenses										
End of birth year	4,249	4,676	6,880	7,336	12,871	13,661	14,000	20,733	21,652	23,000
One year later	4,416	6,495	7,368	11,827	12,357	13,244	15,333	22,558	22,038	-
Two years later	6,069	6,826	11,580	11,533	11,963	14,544	16,565	22,927	-	-
Three years later	6,370	9,689	11,305	11,309	13,188	15,747	16,814	-	-	-
Four years later	8,971	9,502	11,094	12,008	14,321	15,990	-	-	-	-
Five years later	8,801	9,359	11,749	12,653	14,550	-	-	-	-	-
Six years later	8,671	9,804	12,355	12,784	-	-	-	-	-	-
Seven years later	9,076	10,215	12,477	-	-	-	-	-	-	-
Eight years later	9,450	10,299	-	-	-	-	-	-	-	-
Nine years later	9,526	-	-	-	-	-	-	-	-	-
7 Increase (decrease) in estimated net incurred losses and expenses from end of birth year	\$ 5,201	\$ 5,539	\$ 5,475	\$ 5,317	\$ 1,450	\$ 2,085	\$ 2,565	\$ 1,825	\$ 385	\$ -

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Notes to Required Supplementary Information Years Ended December 31, 2006 and 2005

Note 1 – Claims development information

The table on the preceding pages illustrates how the Program's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by re-insurers) 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 fiscal year's gross earned premiums and reported investment revenue, amounts of premiums ceded, and reported premiums (net of reinsurance) and reported investment revenue. (2) This line shows each fiscal 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, losses assumed by reinsurers, 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.

Supplementary Information

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

Schedules of General and Administrative Expenses

	<u>2006</u>	<u>2005</u>
Advertising and brochures	\$ 4,260	\$ 5,249
Computer services	9,558	13,226
Depreciation and amortization	8,669	10,528
Office	9,460	7,771
Other	48,090	55,111
Postage and mailing	8,879	9,909
Professional fees	282,766	286,744
Rent	60,589	59,143
Salaries and benefits	502,315	458,511
Telephone	8,277	9,625
	<u>942,863</u>	<u>915,818</u>
 Less claims administration (allocations)	 <u>754,290</u>	 <u>732,654</u>
 Unallocated expenses	 <u><u>\$ 188,573</u></u>	 <u><u>\$ 183,164</u></u>



**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 Audit Committee
Virginia Birth-Related Neurological Injury Compensation Program
Richmond, Virginia

We have audited the financial statements of Virginia Birth-Related Neurological Injury Compensation Program (the "Program") as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated April 13, 2007. 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

In planning and performing our audit, we considered the Program's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial report and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We did note certain other matters that we have reported to management of the Program in a separate letter dated April 13, 2007.

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

Cherry, Bekaert & Holland, LLP

Richmond, Virginia
April 13, 2007