VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

(Program of the Commonwealth of Virginia)

NEUROLOGICAL INJURY

VIRGINIA BIRTH-RELATED

COMPENSATION PROGRAM

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Comprehensive Annual Financial Report

For Years Ended
December 31, 2007 and 2006

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Years Ended
December 31, 2007 and 2006

NEUROLOGICAL INJURY
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Presented By
The Department of Finance

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April 14, 2008

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, 2007, 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 to the requirements of the Governmental Accounting Standards Board (GASB).

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

This letter of transmittal is designed to 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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9100 Arboretum Pkwy
Suite 365
Richmond, VA 23236
www.vabirthinjury.com

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, 622 participated in 2007, 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 2007 31 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 9.4%.

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 to 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, 2007. We would like to express our appreciation to all members of the Finance Department who assisted and contributed to its preparation.

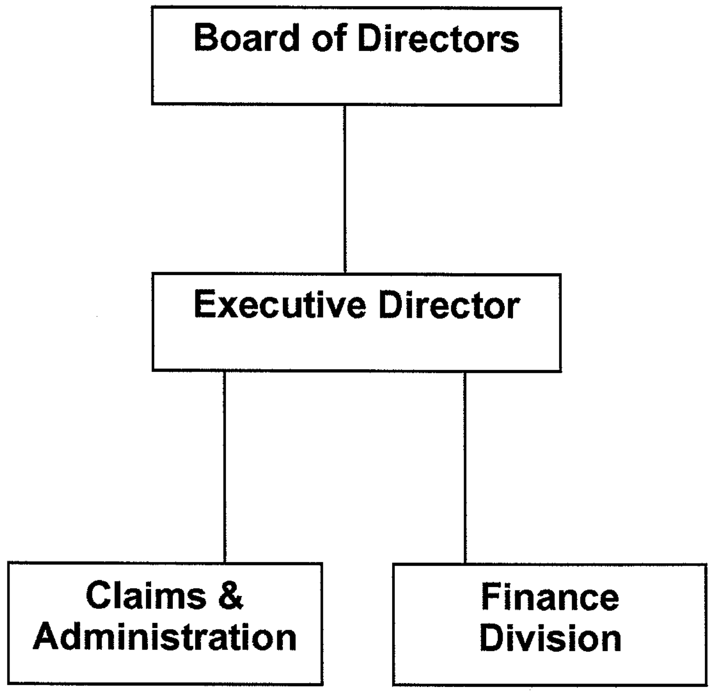
Respectfully submitted,

George Deebo
Executive Director

Candace Thomas, CGFM
Deputy Director

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Organizational Chart



VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Principal Officials

BOARD OF DIRECTORS

Susan Lucas, MD, PHD, Chair
Ralph Shelman
Robert Boyle,MD
Lynn M Chapman, Esq.
McLain O'Ferall
Jennifer Ogburn,
Dalal Salomon

OTHER OFFICIALS

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

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CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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, 2007 and 2006, 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, 2007 and 2006 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 14, 2008 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 31 through 33 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, Bekaert & Holland, LLP

Richmond, Virginia
April 14, 2008

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRM

Management's Discussion & 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, 2007 and 2006. Please read it in conjunction with the Program's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- The 2007 revenue from fees and assessments increased by $877,907 or (4%). Fees assessed from participating physicians increased $379,553 or (13%), participating hospitals decreased $211,117 or (7%), insurance companies increased $695,822 or (6%) and mandated physicians fees increased $13,649 or (.4%). (An explanation of significant variances is included later in this report).

- 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%).

- The Program's total net assets increased by $1.7 million from a deficit of $129.3 in 2006 to a deficit of $127.6 in 2007. The relatively small change is primarily due to the increase in investments of $28.5 million being offset by the increase in the unpaid claims reserve (liability) of $27.8 million.

- In 2007 the Program provided $6,449,000 in nursing care, $255,000 in therapy, $581,000 for 15 handicapped accessible vans, $757,000 for housing benefits, $203,000 for durable medical equipment and technology, $96,000 for hospitals and physician visits, and $284,000 for claimant legal fees.

- The Program paid the first award of $100,000 according to Virginia Code §38.2-5009.1 Infants dying shortly after birth.

- In 2007 nine claimants became eligible to receive the wage benefit when they reached their 18th birthday. Eligible claimants could receive half of the average weekly wage in the Commonwealth of workers in the private non-farm sector. (See Virginia Code §38.2-5009.2) A total of $49,000 was paid to the four eligible claimants requesting the benefit.

- The average cost per active claimant in 2007 and 2006 was approximately $94,000 and $115,000 respectively. (An explanation of the decrease is included later in this report).

- As of December 31, 2007 there was a record high of 622 participating physicians, up 45 from 577 physicians in 2006. Participating Hospitals decreased by 2 from 33 in 2006 to 31 in 2007.

- Administrative expenses were 9.4% and 8.4% of the total expenses (administrative plus claimant) paid in 2007 and 2006 respectively. Administrative expenses increased a percentage point primarily due to expenses related to the stakeholders meetings, including conference rooms, meals, and actuarial research.

- The stakeholders of the Program continued to meet during 2007 to develop a legislative plan for reducing or eliminating the Program's actuarial deficit. Resulting legislation included changing the actuarial methodology to that used in the Florida program, reimbursing family members for providing nursing or attendant care, and an increase in assessments for participating physicians and hospitals. The legislation was submitted to the 2008 General Assembly legislative session for consideration.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRM

Management's Discussion & Analysis

- At the close of 2007 the Program had a total of 134 admitted claimants, 25 of which are deceased. Fifteen claimants were admitted one of which was deceased and one existing claimant became deceased. Eight claimants were pending as of December 31, 2007. See chart below.

Total Active Claimants as of 12/31/2006 and 2007

	Total 12/31/05	2006 Activity	Total 12/31/2006	2007 Activity	Total 12/31/2007
Admitted	111	8	119	15	134
Deceased	20	3	23	2	25
Active	91		96		109

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, 2007, 2006 and 2005
(In millions)

	2007	2006	2005
Current Assets	$ 20.6	$ 17.4	$ 10.7
Non current Assets	206.5	179.0	155.8
Total Assets	227.1	196.4	166.5
Current Liabilities	12.0	13.8	12.1
Deferred Revenue	21.5	20.5	19.3
Unpaid Claims Reserve			
Admitted Claims	223.8	183.3	164.9
Incurred but not reported claims	97.4	108.1	95.3
Total Unpaid Claims Reserve	321.2	291.4	260.2
Total Liabilities	354.7	325.7	291.6
Unrestricted Net Assets (Deficit)	(127.6)	(129.3)	(125.1)
Total Net assets	$ (127.6)	$ (129.3)	$ (125.1)

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRM

Management's Discussion & Analysis

At December 31, 2007 and 2006, the total assets of the Program were $227.1 and $196.4 million, respectively; total liabilities were $354.7 and $325.7 million, respectively, while combined net assets were negative $127.6 and $129.3 million, respectively. The actuarial estimate of future claim payments of children born on or prior to December 31, 2007, 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 $102.2 million in 2007 and $108.1 million in 2006.

The increase in current assets from $17.4 million in 2006 to $20.6 million in 2007 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 $27.5 million increase in non current assets from $179 million in 2006 to $206.5 million in 2007 consists primarily of $17.6 million in investment income and $12.0 million in assessments deposited and invested.

Current assets exceed current liabilities by $8.6 million in 2007. 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 range for cash allocation is between 3% and 15% and current assets are in compliance. As revenue is received it is invested 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, 2007 and 2006 were $332.2 and $304.4 million respectively. At December 31, 2005 the total unpaid claims reserve was $271.2 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 annual actuarial study.

A summary of the claims provision is a follows:

	2007	2006	2005
Provision for insured events of current year	$ 24.3	$ 23.0	$ 21.0
Increase (decrease) in provision for insured events of prior years	(6.2)	3.5	16.1
Interest	19.9	17.8	15.0
Total Claims Provision	$ 38.0	$ 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 2007, 2006 and 2005 are summarized as follows:

Effects of Changes in Assumptions on the Prior Year Provision

Assumption Changes	2007 Change in Prior Year Provision	2006 Change in Prior Year Provision	2005 Change in Prior Year Provision
Mortality	9.9	9.2	13.5
Nursing	(8.3)	9.7	-
Deceased at admission	-	(14.0)	-
Claims Administration Expense	1.6		
Other Factors	(9.4)	(1.4)	2.6
	(6.2)	3.5	16.1

The most volatile piece of the claims provision, the change in the provision for prior year's, 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. While there was no overall change in the total estimate, the decrease in the projections for nursing cost offset the projected increase from mortality and claims administration expense. The actuaries decreased their forecast by $8.3 million to reflect a decrease in nursing cost observed in 2006. In addition, the actuaries increased their estimate by $9.9 million due to the increasing life expectancy of claimants and $1.6 million for future claims administration expense. The $11.8 million decrease in "Other Factors" is primarily due to actual claims expenses being significantly less than the actuary's estimates. These changes in assumptions together with the difference in estimated and actual claims expense resulted in a $6.2 million decrease in the total claims provision from $44.3 in 2006 to $38.1 in 2007. Other factors may also include inflation, interest rates, investment performance, and number of claimants.

The Program does not recognize a liability for the two claimants the actuaries estimated would be eligible to receive the award up to $100,000 according to Virginia Code §38.2-5009 Infants dying shortly after birth. It is assumed they will receive this one time award immediately when they are admitted so there is no effect on future liability. In addition, it is difficult to predict how often this benefit will be awarded to eligible claimants.

For more detailed information for the claims reserve refer to Note 5 of the financial statements.

Accounts payable as of December 31, 2007 and 2006 is $1,009,500 and $805,600 respectively, showing an increase of $203,900. The increase 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 2008

In addition, claimant expenses decreased $760,000 from $11,050,000 in 2006 to $10,290,000 in 2007. This decrease was primarily due to a decrease in housing expenses, specifically renovation cost. The Program's guidelines allow for a one-time benefit of an addition of a handicapped accessible bedroom, bath, and storage area to the claimants home. During 2006 there were 17 projects with an average cost of $66,000 compared to 2007 with 15 projects with an average cost of $32,000. Most of the renovations in 2006 were large projects located in northern Virginia where construction costs are higher than the rest of the state. The Program purchased 21 vans with an average cost of $40,000 in 2006 compared to 15 in 2007 with an average cost of $37,000. The reduction of average cost in vans is primarily due to the Program finding dealers that were willing to sell the vans at a lower price. In addition, claimant legal expenses and purchase of medical equipment decreased in 2007.

Changes in Net Assets:

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

Table 2
Changes in Net Assets
As of December 31, 2007, 2006 and 2005
(in millions)

	2007	2006	2005
Revenues			
Fees and Assessments	$ 22.3	$ 21.6	$ 19.9
Net Investment Income & other	17.6	18.6	6.1
Total Revenues	39.9	40.2	26.0
Expenses			
Provision for claims	38.1	44.2	51.9
General and administrtation	0.1	0.1	0.1
Total Liabilities	38.2	44.3	52.0
Change in net assets	1.7	(4.1)	(26.0)
Beginning net assets	(129.3)	(125.2)	(99.1)
Ending net assets	$ (127.6)	$ (129.3)	$ (125.1)

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, 2007 and 2006, revenues totaled $39.9 and $40.2 million, respectively. The slight decrease in total revenues is primarily due to the increase in fees and assessments being offset by the decrease in investment income (as described below).

Assessments for 2007 for participating and non-participating physicians were $5,300 and $280 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 $180,000. In 2007 liability insurers paid one quarter of one percent on the direct premiums written during the prior year.

The participating physicians assessments increased $380,000 or (13%) from $2.8 million in 2006 to $3.2 million in 2007. The number of physicians participating reached a record high of 622, 45 more than in 2006. From 2005 to 2006 the number of participating physicians increased by 41 from 536 to 577 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.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRM

Management's Discussion & Analysis

In 2004 the General Assembly authorized increases in future years assessments according to the following chart, however the 2006 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 decreased by $1.0 million from 2006 to 2007. In 2007 the Program experienced the first year with it's fully diversified portfolio established by the Board in 2006. Although interest and dividend income increased by $.9 and $1.8 respectively it was offset by decreases in realized and unrealized gains of $1.8 and $1.6 respectively. The decrease in the value of the portfolio is not significant especially considering the extreme volatility in the markets.

EXPENSES

For the fiscal years ended December 31, 2007 and 2006 expenditures totaled $38.2 million and $44.3 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 9.4% and 8.4% of the total expenses (administrative plus claimant) paid in 2007 and 2006 respectively. Administrative expenses increased a percentage point primarily due to expenses related to the stakeholders meetings including conference rooms, meals, and actuarial research. Management estimates that approximately 80% of the total administrative expenses are directly related to claims administration. Of the total administrative expenses of $987,000 in 2007 approximately $789,000 or 80% is related to claims and $197,000 is related to program administration. In 2006 80% or $754,000 of a total $943,000 in Administration expenses was related to claims and $189,000 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, the wage benefit and durable medical equipment. Provision for claims has decreased from $51.9 million in 2005 to $44.2 million in 2006 to $38.1 million in 2007. These decreases are primarily due to the changes in the assumptions and differences in the estimated future claims expense and actual expense 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.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRM

Management's Discussion & Analysis

ECONOMIC FACTORS

The increase in claims reserve for December 31, 2007 and 2006 are $27.8 million and $33.2 million respectively. The decrease is 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 (134 admitted as of 2007), twenty-one are 16 years or older and 9 have attained the age of 18. Only 97 claimants have been in the program three years or more as of 2007. 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 2007 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 20 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 2007 level, the fund will be able to continue to make claim payments for all claimants, including those admitted after December 31, 2006 (even if those claimants are born after December 31, 2006), for approximately the next 20 years. This time span has increased from the 17 years cited in the 2006 report due to the higher investment yield and favorable nursing experience in 2006.

As previously mentioned in this report 2007 was the first complete year with the newly established investment portfolio. The relatively conservative asset allocation and diversification of investment strategies allow the portfolio to minimize risk but still take advantage of a positive market. Considering the volatility in the market the Program's investments earned a respectable 9.8% return for the year and 10.3% return since inception. Even with a significantly more conservative asset allocation plan than most benefit or non-profit funds, the Program's account's results again exceed 90% of the funds in the Callan institutional account database. This database contains performance data from other large institutional funds and allows the investment advisor to compare and rank the Program's investment results to similar funds.

As of December 31, 2007 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.

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BASIC FINANCIAL STATEMENTS

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VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Statements of Net Assets

	December 31, 2007	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	$ 19,052,501	$ 16,808,050
Short Term Investments	959,973	115,257
Accrued interest/dividends	588,736	505,672
Other receivables		
Total current assets	20,601,210	17,428,979
Investments	201,321,840	173,877,095
Real estate held in trust	5,180,492	5,110,121
Property and equipment, net	10,504	16,302
Other assets		
Security deposits	3,009	3,009
Total noncurrent assets	206,515,845	179,006,527
Total assets	$ 227,117,055	$ 196,435,506
Liabilities		
Current liabilities		
Accounts payable	$ 1,009,482	$ 805,600
Accrued liabilities	42,146	42,146
Current portion of unpaid claims reserve	11,000,000	13,000,000
Total current liabilities	12,051,628	13,847,746
Unearned revenue	21,501,116	20,500,254
Unpaid claims reserve		
Admitted claims, less current portion	223,800,000	183,300,000
Incurred but not reported claims	97,400,000	108,100,000
Total unpaid claims reserve	321,200,000	291,400,000
Total liabilities	354,752,744	325,748,000
Net assets		
Invested in capital assets, net of related debt	10,504	16,302
Unrestricted (deficit)	(127,646,193)	(129,328,796)
Total net assets	$ (127,635,689)	$ (129,312,494)

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, 2007	Year Ended December 31, 2006
Operating revenues		
Participating hospitals	$ 2,715,783	$ 2,926,900
Participating doctors	3,223,346	2,843,793
Mandated physician fees	3,747,915	3,734,266
Insurance fees	12,641,617	11,945,795
Other	21,296	136,676
Total operating revenues	22,349,957	21,587,430
Operating expenses		
Provision for claims	38,089,537	44,254,224
General and administration	197,353	188,573
Total operating expenses	38,286,890	44,442,797
Operating loss	(15,936,933)	(22,855,367)
Nonoperating revenue (expense)		
Net investment income	17,546,688	18,601,829
Revaluation of real estate	70,371	117,141
Loss on sale of assets	(3,321)	(14,740)
Net nonoperating revenue	17,613,738	18,704,230
Change in net assets (deficit)	1,676,805	(4,151,137)
Net assets (deficit) at beginning of year	(129,312,494)	(125,161,357)
Net assets (deficit) .at end of year	$ (127,635,689)	$ (129,312,494)

See notes to financial statements.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Statements of Cash Flows

	Year Ended December 31, 2007	Year Ended December 31, 2006
Cash flows from operating activities		
Receipts from hospitals	$ 3,170,333	$ 2,843,450
Receipts from participating doctors	3,368,651	3,052,256
Mandated physician fee receipts	3,785,111	3,847,926
Receipts from insurance companies	13,005,426	12,859,473
Other receipts	21,296	136,676
Payments on behalf of claimants	(9,296,242)	(10,546,016)
Payments to suppliers of goods and services	(461,581)	(443,802)
Payments to employees	(518,682)	(502,315)
Net cash provided by operating activities	13,074,312	11,247,648
Cash flows used in capital and related financing activities		
Purchase of capital assets	(4,027)	(5,216)
Cash flows from investing activities		
Purchase of investment securities	(72,974,679)	(120,803,432)
Proceeds from sale and maturity of investment securitites	53,191,495	109,397,807
Earnings on investment securities	8,957,350	6,504,395
Proceeds from real estate investment properties	-	134,559
Net cash provided by (used in) investing activities	(10,825,834)	(4,766,671)
Net increase (decrease) in cash and cash equivalents	2,244,451	6,475,761
Cash and cash equivalents		
Beginning of year	16,808,050	10,332,289
End of year	$ 19,052,501	$ 16,808,050
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (15,936,933)	$ (22,855,367)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	6,504	8,669
Increase (decrease) in:		
Accounts payable	203,881	(246,081)
Accrued liabilities	-	(11,923)
Deferred revenue	1,000,860	1,152,348
Claims reserve	27,800,000	33,200,000
Net cash provided by operating activities	$ 13,074,312	$ 11,247,646
Noncash investing activities		
Net appreciation in fair value of investment securities	$ 6,058,034	$ 7,675,684

See notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS

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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, 2007 and 2006, 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.

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 is classified as non-current since management has determined that it will not be used to pay expenses in the next twelve months.

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 statement of 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.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Notes to Financial Statements
Years Ended December 31, 2007 and 2006

Note 2 – Deposits and investments

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

	2007	2006
Cash and deposits:		
Cash on hand	$ 123	$ 106
Deposits with financial institutions - demand deposits	7,991,369	5,115,735
Investments:		
Deposits with financial institutions - money market accounts	11,061,009	9,671,033
Mutual funds:		
Small cap index	-	-
Large cap index	22,452,850	21,600,256
Bond index	51,760,006	43,638,281
INTECH Risk Managed Large Cap	11,812,029	8,815,748
Artisan Funds Inc. (Int'l Growth)	14,922,012	12,462,918
Harbor Funds (Int'l Value)	15,651,869	12,848,871
SSGA Funds (Emerging Markets)	7,364,008	5,224,308
Western Asset Core Plus (Bond Fund)	17,125,228	16,668,091
Investment Managers:		
Rainier Investment Management (Large Cap Growth)	15,348,754	8,647,578
Great Lakes Advisors (Large Cap Value)	7,718,758	8,765,291
Alliance Bernstein (Large Cap Value)	8,956,969	9,396,272
Eagle Asset Management (Small Cap Growth)	5,406,126	4,682,066
TAMRO Capital Partners (Small Cap Value)	4,423,922	4,687,294
Atlantic Asset Management (Core Fixed Income)	9,693,176	9,294,832
Richmond Capital Management (Core Fixed Income)	9,646,106	9,281,722
	$ 221,334,314	$ 190,800,402

Deposits – The Program's bank deposits are in local bank accounts subject to FDIC coverage; however, such balances substantially exceed those limits of coverage.

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.

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, 2007 are as follows:

		Rating	Market value 2007	Market value 2006
Money Market Accounts				
Rated money market accounts	(1)	AAA	$ 10,704,901	$ 9,404,383
Unrated money market accounts		N/A	356,108	266,650
Mutual fund				
Bond index	(2)	AA1/AA2	51,760,006	43,638,281
Western Asset Core Plus	(1)	AA+	17,125,228	16,668,091
Investment Managers:				
Atlantic Asset Management	(1)	AAA-BBB	9,693,176	9,294,832
Richmond Capital Management	(3)	AA	9,646,106	9,281,722
Total			$ 99,285,525	$ 88,553,959

(1) Average of Moodys and Standard & Poors ratings
(2) Moodys Investors Service/Standard & Poors
(3) Lehman rating

Interest rate risk: As of year-end 2007 and 2006 the underlying investments of the above bond index mutual fund have a stated average weighted maturity of 6.8 years. The Western Asset Core Plus bond fund has a stated average weighted maturity of 7.5 years. The investments of Atlantic Asset Management and Richmond Capital Management have an average weighted maturity of 6.7 years and 6.1 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, 2007 and 2006 are as follows:

	Fund description	Market Value 2007	Market Value 2006
Mutual funds:			
Artisan Funds Inc. (Int'l Growth)	(1)	$ 14,922,012	$ 12,462,918
Harbor Funds (Int'l Value)	(2)	15,651,869	12,848,871
SSGA Funds (Emerging Markets)	(3)	7,364,008	5,224,308
		$ 37,937,889	$ 30,536,097

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.

Note 2 – Deposits and investments (continued)

2. Harbor Fund will usually invest 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.

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

The Program's return on investments for years ending December 31, 2007 and 2006 is summarized as follows:

	2007	2006
Interest income	$ 1,146,901	$ 201,663
Dividend income	8,405,573	6,604,828
Realized gain (loss) on investments	2,448,245	4,296,732
Net appreciation in fair value of investments	6,058,034	7,675,684
Investment fees	(449,390)	(111,948)
Fiduciary fees	(62,675)	(65,130)
Net investment income	$ 17,546,688	$ 18,601,829

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 2007 and 2006 include unrealized gains and losses on those same investments recognized in prior periods as part of the net appreciation or deprecation 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 $5,180,492 at December 31, 2007 and $5,110,121 at December 31, 2006.

Note 4 – Capital assets

Capital assets at December 31, 2007 and 2006, and the related changes for the years then ended were as follows:

	January 1, 2007	Increases	Decreases	December 31, 2007
Computer equipment	$ 53,414	3,439	(10,835)	$ 46,018
Office equipment	$ 39,026	588	(8,004)	$ 31,610
Automobiles	17,237	-	-	17,237
	109,677	4,027	(18,839)	94,865
Less accumulated depreciation	(93,375)	(6,504)	15,518	(84,361)
Capital assets, net	$ 16,302	$ (2,477)	$ (3,321)	$ 10,504

	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
	104,461	5,216	-	109,677
Less accumulated depreciation	(84,706)	(8,669)	-	(93,375)
Capital assets, net	$ 19,755	$ (3,453)	$ -	$ 16,302

Depreciation expense for the year ended December 31, 2007 and 2006 was $ 6,504 and $8,669 respectively.

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 2007 and 2006). 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.

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, 2007 and 2006 (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:

	2007	2006
Rate of claims inflation (varies based on category of expense)	.76% - 5.36%	1.00% - 5.38%
Investment earnings / discount rate	6.54%	6.56%
Mortality:		
Average life expectancy of claimant at birth	23.4 years	22.3 years
Average life expectancy of claimant that attains the age of three	25.4 years	24.4 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	44 claimants	42 claimants

The total number of claimants (admitted claimants and not-yet-admitted claimants) is estimated to be 176 and 166 as of December 31, 2007 and December 31, 2006 respectively. The estimated claims reserve includes projected increases for future claims payments due to expected increase in number of claimants as a result of House Bill No. 2048 (this bill provided for certain extended benefits and the payment of certain administrative costs including attorneys fees), which became effective July 1, 2003.

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:

	2007	2006
Unpaid claims and claim adjustment expenses at beginning of year	$ 304,400,000	$ 271,200,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of current year	24,340,909	23,000,000
Increase (decrease) in provision for insured events of prior years	(6,159,132)	3,463,504
Total incurred claims and claim adjustment expenses	18,181,777	26,463,504
Interest	19,907,760	17,790,720
Total claims provision	38,089,537	44,254,224
Payments:		
Claims and claim adjustment expenses attributable to insured events of prior years	10,289,537	11,054,224
Total payments	10,289,537	11,054,224
Total unpaid claims and claim adjustment expenses at year end	$ 332,200,000	$ 304,400,000

The total undiscounted unpaid claims and claim adjustment expenses amount to $1,300.8 million and $1,115.1 million at December 31, 2007 and 2006, respectively, and represent unaudited estimates.

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 $81,088 and $79,736 for the years ending December 31, 2007 and 2006, respectively. These benefits are included as salary and benefits expense on the Program's supplementary schedule of general and administrative expenses.

Note 7 – Operating lease commitments

The Program leases its office space under an operating lease expiring on April 25, 2008. Rent expense under this lease amounted to $58,005 and $56,494 for fiscal years 2007 and 2006, respectively.

The future minimum obligation under this lease is $19,284.

The Program leases office equipment on a month-to-month basis. Rent expense for this equipment amounted to $1,971 and $2,387 at December 31, 2007 and 2006, respectively, and is included in other expenses on the supplemental schedule of general and administrative expenses.

The Program entered into a new lease for a new office space beginning April 25, 2008 and expires in April 2013. Future minimum obligations under this new lease are as follows:

2008	$ 40,573
2009	$ 62,685
2010	$ 64,566
2011	$ 66,504
2012	$ 68,496
2013	$ 22,833

Note 8 – Liquidity

The actuarial study performed for the year ended December 31, 2006 determined that the Program was not actuarially sound. However, the actuarial study did point out that the Program is not in any immediate danger of defaulting on the payment of benefits and that the Program has sufficient assets to continue to pay for claimants' benefits for the subsequent twenty years.

At the request of the Commonwealth of Virginia, management evaluated possible solutions for resolving the deficit over the long-term. The resulting legislation was submitted to the 2008 General Assembly for consideration.

Note 9 – 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.

Note 10 – Subsequent events

In response to a letter from Delegate Harvey Morgan, Chair of the House Commerce and Labor Committee, the Program met with stakeholders to develop a legislative plan for reducing the Program's actuarial deficit. The resulting legislation (H 1305) was passed during the 2008 General Assembly session. It contains changes that affect both the operational and financial aspects of the Program. The following are a list of the significant changes to the Program included in this legislation:

- The medical review panel shall include three physicians from the fields of obstetrics, pediatrics, pediatric neurology, neonatology, physical medicine and rehabilitation or other specialty appropriate to the case.
- The Workers Compensation Commission shall direct the Program to pay the medical school that provided the medical review $3,000 per claim reviewed.
- The Program may reimburse for nursing and attendant care provided by a relative or legal guardian.
- The Board will increase from seven members to nine including six citizen representatives including an investment professional, CPA, personal injury attorney, relative of a disabled child, a member with professional experience working with the disabled and a qualified at-large member.
- Participating physicians fees will increase as follows:

Year	Fee
2009	$5,600
2010	$5,900
2011	$6,000
2012	$6,100
2013	$6,200

- Participating Hospital fees will increase as follows:

Year	Fee per live birth	Maximum
2009	$52.50	$200,000
2010	$55.00	$200,000

- To employ the actuarial methodology used by the Florida Birth-Related Neurological Injury Compensation Association that accounts for individual participant costs.

The increase in fees for the participating physicians and hospitals will have a minor effect on the deficit. The more significant reduction will come from the change in the actuarial methodology. According to the Program's actuary the reduction may be about $44 million.

REQUIRED SUPPLEMENTARY INFORMATION

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VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Supplementary Schedule of Claims Development Information
As of December 31, 2007
(In Thousands)

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1	Premiums and investment revenue:										
	Earned	$ 8,477	$ 4,931	$ 6,001	$ 9,378	$ 18,136	$ 26,131	$ 25,445	$ 26,032	$ 40,292	$ 39,964
2	Unallocated expenses	-	-	53	-	169	129	137	183	189	197
3	Estimated losses and expenses, end of birth year:										
	Incurred	4,676	6,880	7,336	12,871	13,661	14,000	20,733	21,652	23,000	24,341
4	Net paid (cumulative) as of:										
	End of birth year	-	-	-	-	-	-	-	-	-	-
	One year later	91	142	143	119	143	159	-	-	161	-
	Two years later	365	568	574	478	572	663	4	42	-	-
	Three years later	582	905	914	761	1,190	1,548	217	-	-	-
	Four years later	1,012	1,574	1,589	1,126	2,008	2,439	-	-	-	-
	Five years later	1,072	1,667	2,167	1,892	2,795	-	-	-	-	-
	Six years later	1,319	1,750	2,936	2,325	-	-	-	-	-	-
	Seven years later	1,875	2,124	3,574	-	-	-	-	-	-	-
	Eight years later	2,380	2,295	-	-	-	-	-	-	-	-
	Nine years later	2,880	-	-	-	-	-	-	-	-	-

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Supplementary Schedule of Claims Development Information
As of December 31, 2007
(In Thousands)

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
5	Reestimated ceded losses and expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6	Reestimated net incurred losses and expenses										
	End of birth year	4,676	6,880	7,336	12,871	13,661	14,000	20,733	21,652	23,000	24,341
	One year later	6,495	7,368	11,827	12,357	13,244	15,333	22,558	22,038	22,349	-
	Two years later	6,826	11,580	11,533	11,963	14,544	16,565	22,927	21,425	-	-
	Three years later	9,689	11,305	11,309	13,188	15,747	16,814	22,340	-	-	-
	Four years later	9,502	11,094	12,008	14,321	15,990	16,418	-	-	-	-
	Five years later	9,359	11,749	12,653	14,550	15,603	-	-	-	-	-
	Six years later	9,804	12,355	12,784	14,186	-	-	-	-	-	-
	Seven years later	10,215	12,477	12,576	-	-	-	-	-	-	-
	Eight years later	10,299	12,282	-	-	-	-	-	-	-	-
	Nine years later	10,166	-	-	-	-	-	-	-	-	-
7	Increase (decrease) in estimated net incurred losses and expenses from end of birth year	$ 5,490	$ 5,402	$ 5,240	$ 1,315	$ 1,942	$ 2,418	$ 1,607	$ (228)	$ (651)	$ -

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Notes to Required Supplementary Information
Years Ended December 31, 2007 and 2006

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.

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SUPPLEMENTARY INFORMATION

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VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Schedules of General and Administrative Expenses

		2007		2006
Advertising and brochures	$	1,533	$	4,260
Computer services		10,028		9,558
Depreciation and amortization		6,504		8,669
Office		7,714		9,460
Other		34,130		48,090
Postage and mailing		10,292		8,879
Professional fees		327,188		282,766
Rent		60,958		60,589
Salaries and benefits		518,682		502,315
Telephone		9,736		8,277
		986,767		942,863
Less claims administration (allocations)		789,413		754,290
Unallocated expenses	$	197,353	$	188,573

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STATISTICAL SECTION

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STATISTICAL SECTION

This section of the Program's CAFR presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the Authority's overall financial health. This information has not been audited by the independent auditor.

Financial Trends

These schedules contain trend information to help the reader understand how the Program's financial performance and well-being changed over time.

Table 1	Net Deficit by Component
Table 2	Changes in Net Deficit
Table 3	Average Cost per Active Claimant
Table 4	Schedule of General and Administrative Expenses

Revenue Capacity

These schedules contain information to help the reader assess the Program's significant operating revenues.

Table 5	Rates and Assessments

Economic and Demographic Information

These schedules offer economic and demographic indicators to help the reader understand the environment within which the Program's financial activities take place.

Table 6	Physicians, Hospitals, and Insurance Companies
Table 7	Total population, births, and claims

Operating Information

These schedules contain operating and claimant data to help the reader understand how the information in the Program's financial report relates to the services the Program provides and the activities it performs.

Table 8	Number of Admitted, Deceased, and Active Claimants
Table 9	Number of Employees by Identifiable Activities

Sources: Unless otherwise noted, the information in this section is derived from the Program's comprehensive annual financial reports for the relevant years. The County implemented the new reporting model, GASB 34, in the year ending December 31, 2002.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Net Deficit by Component
For the Last Six Fiscal Years

Table 1

Year Ended June 30,	Invested in capital assets, net of related debt	Unrestricted (deficit)	Total Net Deficit
2002	$ 35,224	$ (81,918,097)	$ (81,882,873)
2003	26,632	(76,529,331)	(76,502,699)
2004	26,887	(99,184,336)	(99,157,449)
2005	19,755	(125,181,112)	(125,161,357)
2006	16,302	(129,328,796)	(129,312,494)
2007	10,504	(127,646,193)	(127,635,689)

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Changes in Net Deficit
For the Last Six Fiscal Years

Table 2

	2007	2006	2005	2004	2003	2002
Operating revenues						
Participating hospitals	$ 2,715,783	$ 2,926,900	$ 2,753,450	$ 2,730,909	$ 2,357,975	$ 2,256,000
Participating doctors	3,223,346	2,843,793	2,342,449	2,211,184	1,860,843	1,554,790
Mandated physician fees	3,747,915	3,734,266	3,444,676	3,436,378	3,148,690	3,252,200
Insurance fees	12,641,617	11,945,795	11,314,150	9,948,858	8,993,616	8,042,558
Other	21,296	136,676	-	100	124,914	-
Total operating revenues	22,349,957	21,587,430	19,854,725	18,327,429	16,486,038	15,105,548
Operating expenses						
Provision for claims	38,089,537	44,254,224	51,853,223	47,963,625	20,621,718	19,600,653
General and administration	197,353	188,573	183,164	136,569	129,397	168,682
Total operating expenses	38,286,890	44,442,797	52,036,387	48,100,194	20,751,115	19,769,335
Operating loss	(15,936,933)	(22,855,367)	(32,181,662)	(29,772,765)	(4,265,077)	(4,663,787)
Nonoperating revenue (expense)						
Net investment income	17,546,688	18,601,829	6,088,153	7,195,687	9,645,251	3,051,090
Gain (loss) on sale of real estate	-	-	-	149,016	-	(20,506)
Revaluation of real estate	70,371	117,141	89,730	(226,082)	-	917,892
Loss on sale of assets	(3,321)	(14,740)	(129)	(606)	-	-
Net nonoperating revenue	17,613,738	18,704,230	6,177,754	7,118,015	9,645,251	3,948,476
Change in net deficit	1,676,805	(4,151,137)	(26,003,908)	(22,654,750)	5,380,174	(715,311)
Net deficit at beginning of year	(129,312,494)	(125,161,357)	(99,157,449)	(76,502,699)	(81,882,873)	(81,167,562)
Net deficit at end of year	$ (127,635,689)	$ (129,312,494)	$ (125,161,357)	$ (99,157,449)	$ (76,502,699)	$ (81,882,873)

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Analysis of Average Cost per Active Claimant
For the Last Seven Fiscal Years

Table 3

Year:	2007	2006	2005	2004	2003	2002
Claims Paid	10,289,537	11,054,224	9,453,223	6,863,625	6,021,718	5,700,653
Number of Active Claimants	109	96	91	82	74	67
Average expense per claimant	**94,399.42**	**115,148.17**	**103,881.57**	**83,702.74**	**81,374.57**	**85,084.37**
Percent Increase or Decrease from prior year	**-18.0%**	**10.8%**	**24.1%**	**2.9%**	**-4.4%**	**-17.2%**

Breakdown of Claims Expenses into Major Categories

Category	2007	2006	2005	2004	2003	2002
Nursing	6,448,647	6,186,118	5,541,310	4,372,664	2,896,420	2,603,363
Physician/Hospital	96,123	81,115	63,976	142,664	239,531	495,169
Therapy	254,876	231,712	197,991	111,324	121,300	124,756
Incidentals	151,903	179,888	181,039	128,642	122,361	80,536
Prescription	127,809	115,265	104,329	76,789	114,313	127,646
Housing	756,673	1,445,145	937,368	327,912	825,924	819,457
Van	581,525	863,555	734,953	315,917	546,992	189,613
Medical Equipment	188,897	319,405	162,970	219,142	95,923	121,214
Legal fees - Claimant	283,809	470,204	350,667	315,917	51,986	243,167
Legal fees - Attorney General	150,000	187,500	225,000	-	-	-
Auto/Health Insurance	150,940	120,678	104,718	97,893	73,595	10,913
Mileage reimbursement	49,276	72,480	32,342	27,822	32,315	8,589
Wage Benefit Payment	97,163	-	-	-	-	-
Claimant Related Administrative	789,413	754,290	732,654	600,000	562,500	495,000
Other	162,483	26,870	83,906	126,939	338,558	381,230
Total Claims Expense	10,289,537	11,054,224	9,453,223	6,863,625	6,021,718	5,700,653
Percent Increase or Decrease from prior year	**-6.9%**	**16.9%**	**37.7%**	**14.0%**	**5.6%**	**-7.5%**

Percentage of Expense per Total Claims Expense

Category	2007	2006	2005	2004	2003	2002
Nursing	62.67%	55.96%	58.62%	63.71%	48.10%	45.67%
Physician/Hospital	0.93%	0.73%	0.68%	2.08%	3.98%	8.69%
Therapy	2.48%	2.10%	2.09%	1.62%	2.01%	2.19%
Incidentals	1.48%	1.63%	1.92%	1.87%	2.03%	1.41%
Prescription	1.24%	1.04%	1.10%	1.12%	1.90%	2.24%
Housing	7.35%	13.07%	9.92%	4.78%	13.72%	14.37%
Van	5.65%	7.81%	7.77%	4.60%	9.08%	3.33%
Medical Equipment	1.84%	2.89%	1.72%	3.19%	1.59%	2.13%
Legal	2.76%	4.25%	3.71%	4.60%	0.86%	4.27%
Legal fees - Attorney General	1.46%	1.70%	2.38%	0.00%	0.00%	0.00%
Auto/Health Insurance	1.47%	1.09%	1.11%	1.43%	1.22%	0.19%
Mileage reimbursement	0.48%	0.66%	0.34%	0.41%	0.54%	0.15%
Wage Benefit Payment	0.94%	0.00%	0.00%	0.00%	0.00%	0.00%
Claimant Related Administrative	7.67%	6.82%	7.75%	8.74%	9.34%	8.68%
Other	1.58%	0.24%	0.89%	1.85%	5.62%	6.69%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Change in Unpaid Claims Reserve	27,800,000	33,200,000	42,400,000	41,100,000	14,600,000	13,900,000
Claim Payments (from above)	10,289,537	11,054,224	9,453,223	6,863,625	6,021,718	5,700,653
Non-claims Related Administrative	197,353	188,573	183,164	136,569	129,397	168,682
Total Operating Expense	38,286,890	44,442,797	52,036,387	48,100,194	20,751,115	19,769,335

Notes:

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

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Schedules of General and Administrative Expenses
For the Last Six Fiscal Years

Table 4

	2007	2006	2005	2004	2003	2002
Advertising and brochures	$ 1,533	$ 4,260	$ 5,249	$ 11,980	$ 35,350	$ 54,139
Computer services	10,028	9,558	13,226	12,758	16,159	13,123
Depreciation and amortization	6,504	8,669	10,528	11,536	10,993	10,458
Office	7,714	9,460	7,771	6,785	7,256	8,455
Other	34,130	48,090	55,111	34,541	39,457	46,376
Postage and mailing	10,292	8,879	9,909	12,790	13,254	10,348
Professional fees	327,188	282,766	286,744	174,480	158,413	119,515
Rent	60,958	60,589	59,143	53,498	52,216	48,397
Salaries and benefits	518,682	502,315	458,511	352,770	345,988	334,745
Telephone	9,736	8,277	9,625	11,709	12,811	16,124
	986,767	942,863	915,818	682,847	691,897	661,680
Less claims administration (allocations)	789,413	754,290	732,654	546,278	562,500	495,000
Unallocated expenses	$ 197,353	$ 188,573	$ 183,164	$ 136,569	$ 129,397	$ 166,680

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Rates and Assessments
For the Last Ten Fiscal Years

Table 5

	2007	2006	2005	2004	2003	2002
Fee per:						
Participating Physician	$ 5,300	$ 5,200	$ 5,100	$ 5,000	$ 5,000	$ 5,000
Non Participating Physician	280	270	260	250	250	250
Hospitals	$50/live birth not to exceed $180,000	$50/live birth not to exceed $170,000	$50/live birth not to exceed $160,000	$50/live birth not to exceed $150,000	$50/live birth not to exceed $150,000	$50/live birth not to exceed $150,000
Insurance Companies						
Estimated Net Direct Premiums Written	5,056,646,800	4,778,318,000	4,525,660,000	3,979,543,200	3,597,446,400	3,217,023,200

Notes:
Insurance Companies pay one quarter of one percent of net direct premiums written, however, only the liability portion of the premium is assessable as determined by the Workers Compensation Commission.

Legislation states (38.2-5020 E) that if required to maintain the Fund on an actuarially sound basis, liability insurers shall pay an assessment to the Fund. During the years 1998 through 2001 the fund was considered actuarially sound by the State Corporation Commission and insurance carriers were not required to pay. In 2002 the Fund was determined to be actuarially unsound and the liability insurers were required to pay.

Legislation states (38.2-5020 G) that if the State Corporation Commission determines the Fund is actuarially sound it will suspend the assessment on non participating physicians. The assessment will be reinstated if it is determined that the assessment is required to maintain actuarial soundness. During the years 1998 through 2001 the fund was considered actuarially sound and non participating physicians were not required to pay. The assessment was reinstated in 2002 due to the Fund being determined not actuarially sound.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Number of Physicians, Hospitals, and Insurance Companies
For the Last Ten Fiscal Years

Table 6

	2007	2006	2005	2004	2003	2002
Participating						
Doctors	622	577	536	508	410	358
Residents	77	155	147	456	174	131
Total participating physicians	699	732	683	964	584	489
Mandatory						
Total mandatory physicians	13,817	13,597	13,219	13,445	12,200	12,413
Delinquent						
Total delinquent physicians	1,184	621	737	648	978	1,502
Exempt						
E1	1,852	1,733	1,723	1,701	405	1,282
E2	2,739	3,145	2,252	2,742	1,614	2,482
E3	1,443	1,596	1,458	1,544	480	1,528
E4	179	168	167	170	55	170
E5	3,661	4,189	3,982	4,085	1,144	3,812
E6	800	546	442	15	48	1,284
Total exempt physicians	10,674	11,377	10,024	10,257	3,746	10,558
Total physicians	26,374	26,327	24,663	25,314	17,508	24,962
Hospitals	31	33	32	33	29	23
Insurance companies	506	495	496	484	497	466

Notes:

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

1. Employed by the Commonwealth of Virginia or federal government and income form professional fees from a source other than the Commonwealth of Virginia or federal government is less than 10% of annual salary.
2. Enrolled in a full-time graduate medical education program accredited by the American Council for Graduate Medical Education.
3. Retired from active medical practice.
4. Engaged in active clinical practice that was limited to the provision of services, voluntary and without compensation, to any patient of any clinic organized in whole or in part for the delivery of health care services without charge.
5. Not practicing medicine in Virginia (either not currently practicing or practicing in another state).
6. The above E6 exemption numbers are due to undeliverable addresses returned by the Post Office.

Physicians that are delinquent as of year end are turned over to the State Corporation Commission, Division of Insurance.

Legislation states (38.2-5020 E) that if required to maintain the Fund on an actuarially sound basis, liability insurers shall pay an assessment to the Fund. During the years 1998 through 2001 the fund was considered actuarially sound by the State Corporation Commission and insurance carriers were not required to pay. In 2002 the Fund was determined to be actuarially unsound and the liability insurers were required to pay.

Legislation states (38.2-5020 G) that if the State Corporation Commission determines the Fund is actuarially sound it will suspend the assessment on non participating physicians. The assessment will be reinstated if it is determined that the assessment is required to maintain actuarial soundness. During the years 1998 through 2001 the fund was considered actuarially sound and non participating physicians were not required to pay. The assessment was reinstated in 2002 due to the Fund being determined not actuarially sound.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Demographic Statistics
For the Last Ten Years

Table 7

	2007	2006	2005	2004	2003	2002
Population - Commonwealth of VA*	N/A	7,642,884	7,567,465	7,460,066	7,386,336	7,293,848
Number of Births *	N/A	106,474	104,488	103,830	100,561	99,235
Number of Petitions filed**	15	10	16	17	11	12
Number of Claimants Awarded**	15	8	14	10	11	8

Notes:
*Statistics provided by the Virginia Center for Health Statistics.

**Statistics provided by Program management.

About 85% of births are covered by either participating hospitals or physicians.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Number of Admitted, Deceased, and Active Claimants
For the Last Six Years

Table 8

	Total Year End 2001	2002 Activity	Total Year End 2002	2003 Activity	Total Year End 2003	2004 Activity	Total Year End 2004	2005 Activity	Total Year End 2005	2006 Activity	Total Year End 2006	2007 Activity	Total Year End 2007
Admitted	68	8	76	11	87	10	97	14	111	8	119	15	134
Deceased *	8	0	8	2	10	1	11	2	13	3	16	1	17
Deceased on award**	0	1	1	2	3	1	4	3	7	0	7	1	8
Total deceased	8		9		13		15		20		23		25
Active	60		67		74		82		91		96		109

*Number of children in the Program that became deceased subsequent to their award.

**Number of children that were deceased at the time of award to the Program.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Number of Employees by Identifiable Activities
For the Last Ten Years

Table 9

Activity	2007	2006	2005	2004	2003	2002
Executive Director	1	1	1	1	1	1
Finance Division	2	2	2	2	2	2
Claims & Administration	6	5	5	5	4	4

COMPLIANCE SECTION

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CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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, 2007 and 2006, and have issued our report thereon dated April 14, 2008. 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 Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described below.

Finding:
The Code of Virginia contains various requirements designed to safeguard state and local funds. Collections must be secured in accordance with the Virginia Security for Public Deposits Act (the "Act") (Section 2.2-4400 et. seq. of the Code of Virginia). The Act requires governmental entity's to use bank and financial institutions that meet specific collateralization requirements.

As of December 31, 2007 the Program's deposit accounts were not identified as public deposits at the financial institution in which they were held, even though the financial institution is a qualified depository under the Act.

Response:
On April 9, 2008 the Program made arrangements with their financial institution to ensure all deposit accounts are identified as public deposits under the Act.

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 14, 2008