VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

(Program of the Commonwealth of Virginia)

NEUROLOGICAL INJURY

VIRGINIA BIRTH-RELATED

COMPENSATION PROGRAM

SINCE 1987

Comprehensive Annual Financial Report

For Years Ended
December 31, 2008 and 2007

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NEUROLOGICAL INJURY

VIRGINIA BIRTH-RELATED

COMPENSATION PROGRAM

SINCE 1987

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Years Ended
December 31, 2008 and 2007

Presented By
The Department of Finance

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Neurological Injury
Virginia Birth-Related
Compensation Program
Since 1987

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

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NEUROLOGICAL INJURY

VIRGINIA BIRTH-RELATED

COMPENSATION PROGRAM

SINCE 1987

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

A lifetime of help

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Suite 365
Richmond, VA 23236
www.vabirthinjury.com

July 31, 2009

Board of Directors
7501 Boulders View Dr. Suite 210
Richmond, VA 23225

Dear Members of the Board:

The Comprehensive Annual Financial Report (CAFR) of the Virginia Birth-Related Neurological Compensation Program (the “Program”) for the year ended December 31, 2008, is submitted herewith. This CAFR has been prepared by the Program’s finance department in accordance with accounting principles generally accepted in the United States of America and conforms to the requirements of the Governmental Accounting Standards Board (GASB).

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 nine 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 Commission; the Program itself does not admit claimants. Financial Reports are filed annually with the Governor's office, the Virginia Senate and the Virginia House of Delegates. At least every other year, the State Corporation Commission is required to conduct an actuarial study of the Program.

Entry into the 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 CAFR 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, 653 participated in 2008, 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 2008, thirty-eight 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 Program provides benefits including handicapped accessible vans, handicapped accessible bedroom and bath additions to homes, rental assistance, and allowances for therapeutic toys, medical service dogs and experimental therapies.

The Program's operations and staff are efficient and administrative cost, as a percentage of total expenses (administrative plus claimant), remain low at 7.6%.

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.

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 transactions by an independent certified public accountant selected by the Board of Directors.

Acknowledgements

During 2008 the Program earned the following two distinctions regarding financial and investment management.

- Excellence in Financial Reporting, awarded by the Government Finance Officers Association.
- Letter of Conformance to practices in the Global Fiduciary Standard of Excellence.

The staff of the Finance Department accomplished the preparation of this CAFR for year ended December 31, 2008. We would like to express our appreciation to all members of the Finance Department who assisted and contributed to its preparation.

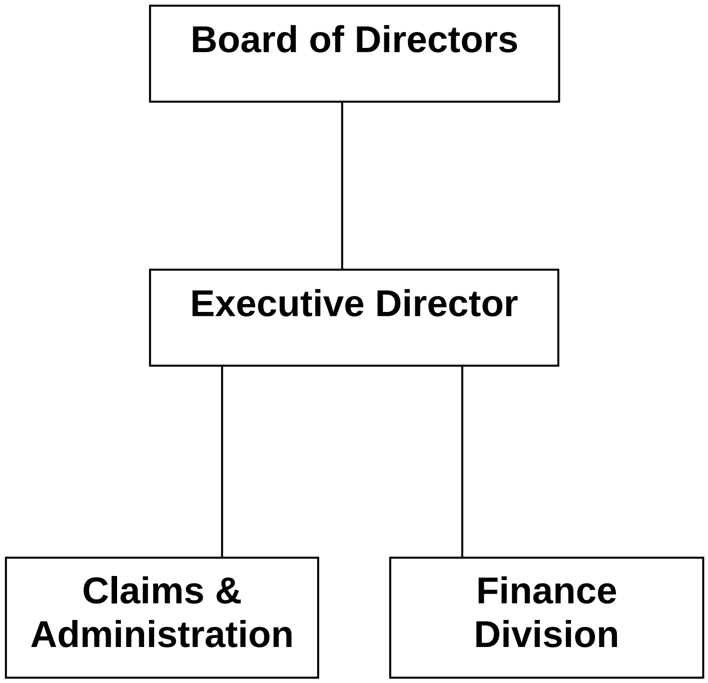
Respectfully submitted,

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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NEUROLOGICAL INJURY
VIRGINIA BIRTH-RELATED
COMPENSATION PROGRAM
SINCE 1987

FINANCIAL SECTION

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Neurological Injury
Virginia Birth-Related
Compensation Program
Since 1987

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, 2008 and 2007, 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, 2008 and 2007 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 July 31, 2009 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 an 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. The introductory section and statistical section, listed in the table of contents, which are also the responsibility of the management of the Program, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Program. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cherry, Bekaert + Holland, LLP

Richmond, Virginia
July 31, 2009

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRM

Management's Discussion & Analysis

This section of the Virginia Birth Related Neurological Injury Compensation Program (the "Program") Comprehensive Annual Financial Report (CAFR) represents our discussion and analysis of the Program's financial performance during the fiscal years ended December 31, 2008 and 2007. Please read it in conjunction with the Program's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- The 2008 revenue from fees and assessments increased by $1,225,000 or (6%). Fees assessed from participating physicians increased $135,000 or (5%), participating hospitals increased $658,000 or (23%), insurance companies increased $188,000 or (2%) and mandated physicians fees increased $244,000 or (7%). (An explanation of significant variances is included later in this report).

- The 2007 revenue from fees and assessments increased by $879,000 or (4%). Fees assessed from participating physicians increased $380,000 or (13%), participating hospitals decreased $211,000 or (7%), insurance companies increased $696,000 or (6%) and mandated physicians fees increased $14,000 or (.4%).

- The Program's total net assets decreased by $54.9 million from a deficit of $127.6 in 2007 to a deficit of $182.6 in 2008. The difference is primarily due to unrealized losses in investment income of $44 million, an increase in cash and cash equivalents of $6 million, and a reduction in the claims reserve of $21.8 million. (An explanation is included later in this report)

- In 2008, the Program provided $6,984,000 in nursing care, $255,000 in therapy, $651,000 for 16 handicapped accessible vans, $1,756,000 for housing benefits, $211,000 for durable medical equipment and technology, $68,000 for hospitals and physician visits, and $300,000 for claimant legal fees.

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

- In 2008, an additional five claimants became eligible to receive the wage benefit for a total of thirteen eligible claimants. 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 $215,000 was paid to the ten eligible claimants requesting the benefit.

- The average cost per active claimant in 2008 and 2007 was approximately $110,000 and $94,000 respectively. (An explanation of the increase is included later in this report).

- As of December 31, 2008, there was a record high of 653 participating physicians, up 31 from 622 physicians in 2007. Participating hospitals increased by 7 from 31 in 2007 to 38 in 2008.

- Administrative expenses were (8%) and (9%) of the total expenses (administrative plus claimant) paid in 2008 and 2007 respectively. Administrative expenses were higher in 2007 primarily due to expenses related to the stakeholders meetings.

- The legislative plan developed by the stakeholders of the Program during 2007 to reduce the Program's actuarial deficit was passed during the 2008 General Assembly session. This 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 change in actuarial methodology and increased assessments becomes effective in 2009. The Program began to pay family members for providing care beginning July 1, 2008.

- At the close of 2008 the Program had a total of 142 admitted claimants, 31 of which are deceased. Eight claimants were admitted, three of which were deceased and three existing claimants became deceased. Six claimants were pending as of December 31, 2008. See chart below.

Total Active Claimants as of 12/31/2007 and 2008

	Total 12/31/2006	2007 Activity	Total 12/31/2007	2008 Activity	Total 12/31/2008
Admitted	119	15	134	8	142
Deceased	23	2	25	6	31
Active	96		109		111

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, 2008, 2007 and 2006
(In millions)

		2008	2007	2006
Current assets		$ 29.3	$ 20.6	$ 17.4
Noncurrent assets	*	166.1	206.5	179.0
Total assets		195.4	227.1	196.4
Current liabilities		13.3	12.0	13.8
Deferred revenue		22.7	21.5	20.5
Unpaid claims reserve				
Admitted claims		237.2	223.8	183.3
Incurred but not reported claims		104.8	97.4	108.1
Total unpaid claims reserve		342.0	321.2	291.4
Total liabilities		378.0	354.7	325.7
Unrestricted net assets (deficit)	*	(182.6)	(127.6)	(129.3)
Total net assets		$ (182.6)	$ (127.6)	$ (129.3)

*Capital assets and Capital assets net of related debt are immaterial and are not subdivided.

At December 31, 2008 and 2007, the total assets of the Program were $195.4 and $227.1 million, respectively; total liabilities were $378.0 and $354.7 million, respectively, while combined net assets were negative $182.6 and $127.6 million, respectively. The actuarial estimate of future claim payments of children born on or prior to December 31, 2008, plus their estimate of future claim administration expenses, exceeds the funds assets. This deficit is primarily due to a loss in investment value of $44.4 million in 2008 from a gain of $6.1 million in 2007. In addition, the portion of the unpaid claims reserve for claims incurred but not reported of $104.8 million in 2008 and $97.4 million in 2007 contributes to the deficit.

The increase in current assets from $20.6 million in 2007 to $29.3 million in 2008 is primarily due to a decision made by the Board of Directors to hold some funds in cash due to market conditions. The amount held in current assets (cash & cash equivalents) is in compliance with the Investment Policy Statement (IPS). The $38 million decrease in noncurrent assets from $206.5 million in 2007 to $166.1 million in 2008 consists primarily of $40.4 million in unrealized loss and $6.7 million in dividend and interest income.

Current assets exceed current liabilities by $16.0 million in 2008. 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, 2008 and 2007 were $354 and $332.2 million respectively. At December 31, 2006 the total unpaid claims reserve was $304.4 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 an annual actuarial study.

A summary of the claims provision is as follows:

	2008	2007	2006
Estimated future payments for claimants	$ 23.3	$ 24.5	$ 23.2
Increase (decrease) in provision for change in methodology and assumptions	(1.4)	0.2	8.1
Interest	21.1	19.3	17.9
Estimated Claim Payments	(21.2)	(16.2)	(16.0)
Net change in Claims Reserve	$ 21.8	$ 27.8	$ 33.2

The net change in claims reserve for the years ended December 31, 2008 and 2007 was $21.8 million and $27.8 million respectively. The increase or decrease in the provision for change in methodology and assumptions may be due to changes in factors such as mortality, nursing, changes in legislation, number of claimants and inflation.

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 §38.2-5009.1 - 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.

Accounts payable as of December 31, 2008 and 2007 were $1,132,732 and $919,907 respectively, showing an increase of $212,825. The increase was primarily due to timing; however the total still represents approximately one month's expenses. The majority of the accounts payable were nursing expense and other miscellaneous medical expenses that were paid in January and February 2009.

Claimant expenses increased $1,889,000 from $10,290,000 in 2007 to $12,179,000 in 2007. This increase was primarily due to the increase in the number of home renovation projects in 2008 as compared to 2007. 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 2008, there were 24 new projects with 5 projects carried over from the previous year for a total of 29 projects as compared to 2007 with 15 projects. In addition, nursing expense increased for several reasons including new claimants receiving their first full year of nursing, several existing claimants with conditions that required more nursing hours, and claimants that did not incur nursing expense previously that now employ family members as allowed by the legislation passed in the 2008 General Assembly. Payment of the wage benefit to claimants who have reached their 18th birthday also contributed to the increase in claimant expenses. The number of claimants receiving the wage benefit for 2008 and 2007 were 10 and 4 respectively.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRM

Management's Discussion & Analysis

Changes in Net Assets:

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

Table 2
Change in Net Assets
As of December 31, 2008, 2007 2006

	Year Ended December 31,		
	2008	2007	2006
Operating revenues			
Participating hospitals	$ 3.4	$ 2.7	$ 2.9
Participating doctors	3.3	3.2	2.9
Mandated physician fees	4.0	3.8	3.7
Insurance fees	12.8	12.6	12.0
Other	-	-	0.1
Total operating revenues	23.5	22.3	21.6
Operating expenses			
Provision for claims	33.5	38.0	44.3
General and administration	0.2	0.2	0.2
Total operating expenses	33.7	38.2	44.5
Operating loss	(10.2)	(15.9)	(22.9)
Nonoperating revenue (expense)			
Net investment income	(44.9)	17.5	18.6
Revaluation of real estate	0.1	0.1	0.1
Net nonoperating revenue	(44.8)	17.6	18.7
Change in net assets	(55.0)	1.7	(4.2)
Net assets at beginning of year (deficit)	(127.6)	(129.3)	(125.1)
Net assets at end of year (deficit)	$ (182.6)	$ (127.6)	$ (129.3)

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, 2008 and 2007, operating revenue was $23.5 million and $22.3 million and nonoperating revenue was a loss of $44.8 million and a gain of $17.6 million respectively.

Assessments for 2008 for participating and non-participating physicians were $5,400 and $290 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 $190,000. In 2008, liability insurers paid one quarter of one percent on the direct premiums written during the prior year.

The participating physicians assessments increased $135,000 or (5%) from $3.2 million in 2007 to $3.3 million in 2008. The number of physicians participating reached a record high of 653, thirty-one more than in 2007. From 2006 to 2007 the number of participating physicians increased by 45 from 577 and 622 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 2008, the General Assembly authorized increases in future year's assessments according to the following chart; however the increase in fees will have a minor effect of the deficit.

Year	Participating	Non-Participating	Hospital
2009	$5,600	$300	$52.50/live birth not to exceed $200,000
2010	$5,900	$300	$55/live birth not to exceed $200,000
2011	$6,000	$300	$55/live birth not to exceed $200,000
2012	$6,100	$300	$55/live birth not to exceed $200,000
2013	$6,200	$300	$55/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 in 2008 to a loss of $44.4 million from a gain of $17.5 in 2007. This is due to unprecedented negative changes in financial markets that resulted in the seizing up of the credit market. This undermined the ability of both corporations and consumers to fund debt requirements, which in turn caused the economy to spiral downward. The Board of Directors continues to work closely with the Investment advisor to mitigate any further losses.

EXPENSES

For the fiscal years ended December 31, 2008 and 2007, expenditures totaled $33.7 million and $38.2 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 7.7% and 9.5% of the total expenses (administrative plus claimant) paid in 2008 and 2007, respectively. Administrative expenses were higher in 2007 primarily due to expenses related to the stakeholders meetings. Management estimates that approximately 80% of the total administrative expenses are directly related to claims administration. Of the total administrative expenses of $940,630 in 2008, approximately $752,504 or 80% is related to claims and $188,000 is related to program administration. In 2007, 80% or $789,000 of a total $986,764 in administration expenses was related to claims and $197,353 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 $44.3 million in 2006 to $38.0 million in 2007 to $33.5 million in 2008. 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.

In 2008, the General Assembly authorized the Workers Compensation Commission to direct the Program to pay the medical school that provided the medical review $3,000 per claim reviewed. They also allow the Program to reimburse for nursing and attendant care provided by a relative or legal guardian.

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, 2008 and 2007 are $21.8 million and $27.8 million respectively. This increase 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, 142 admitted as of 2008. Of the 111 active claimants (142 admitted less 31 deceased), thirty one are 16 years or older, 15 have attained the age of 18, and only 85 claimants have been in the program three years or more as of 2008. 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 2008 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 at least 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, 2007 (even if those claimants are born after December 31, 2007), for at least the next 20 years.

The 2008 General Assembly Session passed legislation developed by the stakeholders of the Program to reduce the actuarial deficit. Several of the significant changes to the Program included in this legislation are; 1) payment of $3,000 to the medical school that provided the panel report, 2) reimbursement for nursing and attendant care provided by a relative or legal guardian, 3) increase to participating physicians and hospitals as described earlier in this report, 4) 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 actuarial methodology. According to the Program's actuary, the reduction may be about $44 million.

As previously mentioned in this report the Program's funds have experienced investment declines as a result of 2008's difficult economic conditions. However, the Program's conservative strategy and high allocation to bonds helped to preserve value relative to most other institutional fund results. The impact of the global financial crisis on the Program's investments was a loss of (21%) year to date and a loss of (.5%) from inception. The Program's investment performance results continue to rank above the median of the funds in the Callan institutional tax-exempt database for all periods measured. 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, 2008 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, 7501 Boulders View Dr. Suite 210, Richmond, VA 23225, 804-330-2471 or visit our website at http://www.vabirthinjury.com.

BASIC FINANCIAL STATEMENTS

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Virginia Birth-Related Neurological Injury Compensation Program

Since 1987

Virginia Birth-Related Neurological Injury Compensation Program

Statements of Net Assets

	December 31, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 24,836,064	$ 19,052,501
Short term investments	3,982,115	959,973
Accrued interest/dividends	503,082	588,736
Total current assets	29,321,261	20,601,210
Investments	160,788,227	201,321,840
Real estate held in trust	5,238,866	5,180,492
Property and equipment, net	11,074	10,504
Other assets	3,009	3,009
Total noncurrent assets	166,041,176	206,515,845
Total assets	195,362,437	227,117,055
Liabilities		
Current liabilities		
Accounts payable	1,132,732	919,907
Accrued liabilities	198,108	131,721
Current portion of unpaid claims reserve	12,000,000	11,000,000
Total current liabilities	13,330,840	12,051,628
Unearned revenue	22,635,061	21,501,116
Unpaid claims reserve		
Admitted claims, less current portion	237,200,000	223,800,000
Incurred but not reported claims	104,800,000	97,400,000
Total unpaid claims reserve	342,000,000	321,200,000
Total liabilities	377,965,901	354,752,744
Net assets		
Invested in capital assets, net of related debt	11,074	10,504
Unrestricted (deficit)	(182,614,538)	(127,646,193)
Total net assets	$ (182,603,464)	$ (127,635,689)

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,	
	2008	2007
Operating revenues		
Participating hospitals	$ 3,373,339	$ 2,715,783
Participating doctors	3,358,073	3,223,346
Mandated physician fees	3,992,183	3,747,915
Insurance fees	12,830,024	12,641,617
Other	71	21,296
Total operating revenues	23,553,690	22,349,957
Operating expenses		
Provision for claims	33,458,390	38,009,839
General and administration	188,126	197,353
Total operating expenses	33,646,516	38,207,192
Operating loss	(10,092,826)	(15,857,235)
Nonoperating revenue (expense)		
Net investment income (loss) and other losses	(44,933,183)	17,466,990
Revaluation of real estate	58,374	70,371
Loss on sale of assets	(140)	(3,321)
Net nonoperating revenue (expense)	(44,874,949)	17,534,040
Change in net assets	(54,967,775)	1,676,805
Net assets at beginning of year	(127,635,689)	(129,312,494)
Net assets at end of year	$ (182,603,464)	$ (127,635,689)

See notes to financial statements.

Virginia Birth-Related Neurological Injury Compensation Program

Statements of Cash Flows

	Year Ended December 31, 2008	2007
Cash flows from operating activities		
Receipts from hospitals	$ 4,197,941	$ 3,170,333
Receipts from participating doctors	3,568,693	3,368,651
Mandated physician fee receipts	4,303,813	3,785,111
Receipts from insurance companies	12,617,117	13,005,426
Other receipts	71	21,296
Payments on behalf of claimants	(11,213,209)	(9,296,242)
Payments to suppliers of goods and services	(334,766)	(461,581)
Payments to employees	(535,178)	(518,682)
Net cash provided by operating activities	12,604,482	13,074,312
Cash flows used in capital and related financing activities		
Purchase of capital assets	(5,008)	(4,027)
Cash flows from investing activities		
Purchase of investment securities	(200,794,579)	(72,974,679)
Proceeds from sale and maturity of investment securities	187,727,612	53,191,495
Earnings on investment securities	6,251,056	8,957,350
Net cash provided by (used in) investing activities	(6,815,911)	(10,825,834)
Net increase in cash and cash equivalents	5,783,563	2,244,451
Cash and cash equivalents		
Beginning of year	19,052,501	16,808,050
End of year	$ 24,836,064	$ 19,052,501
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (10,092,826)	$ (15,857,235)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	4,299	6,504
Other non-operating losses	(520,148)	(79,698)
Increase (decrease) in:		
Accounts payable	212,825	203,881
Accrued liabilities	66,387	-
Deferred revenue	1,133,945	1,000,860
Claims reserve	21,800,000	27,800,000
Net cash provided by operating activities	$ 12,604,482	$ 13,074,312
Noncash investing activities		
Net appreciation (decline) in fair value of investment securities	$ (44,427,227)	$ 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. The Program distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and collecting fees in connection with the Program's principal ongoing operations.

In accordance with 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.

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

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, 2008 and 2007, 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

Note 1 – Summary of significant accounting policies (continued)

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.

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.

Note 2 – Deposits and investments

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

	2008	2007
Cash and deposits:		
Cash on hand	$ 75	$ 123
Deposits with financial institutions - demand deposits	2,628,058	7,991,369
Investments:		
Deposits with financial institutions - money market accounts	22,207,931	11,061,009
Mutual funds:		
Large cap index	17,307,506	22,452,850
Bond index	44,501,292	51,760,006
INTECH Risk Managed Large Cap	7,882,140	11,812,029
Artisan Funds Inc. (Int'l Growth)	10,526,410	14,922,012
Harbor Funds (Int'l Value)	11,073,838	15,651,869
SSGA Funds (Emerging Markets)	3,732,368	7,364,008
Western Asset Core Plus (Bond Fund)	13,783,314	17,125,228
Investment Managers:		
Rainier Investment Management (Large Cap Growth)	8,754,759	15,348,754
Great Lakes Advisors (Large Cap Value)	4,330,667	7,718,758
Alliance Bernstein (Large Cap Value)	5,286,233	8,956,969
Eagle Asset Management (Small Cap Growth)	3,524,253	5,406,126
TAMRO Capital Partners (Small Cap Value)	3,082,610	4,423,922
Atlantic Asset Management (Core Fixed Income)	15,871,875	9,693,176
Richmond Capital Management (Core Fixed Income)	15,113,077	9,646,106
	$ 189,606,406	$ 221,334,314

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.

Note 2 – Deposits and investments (continued)

Credit risk: The Program's Investment Policy states that no more than 20% of the market value of the fixed income portfolio shall be rated less than single "A" quality. The Program's rated debt investments at December 31, 2008 are as follows:

		Rating	Market value 2008	Market value 2007
Money Market Accounts				
Rated money market accounts	(2)	Aaa/AAAm	$ 21,817,577	$ 10,704,901
Unrated money market accounts		N/A	390,354	356,108
Mutual fund				
Bond index	(2)	AA1/AA2	44,501,292	51,760,006
Western Asset Core Plus	(1)	AA+	13,783,314	17,125,228
Investment Managers:				
Atlantic Asset Management	(2)	Aa1/AA+	15,871,875	9,693,176
Richmond Capital Management	(1)	AA+	15,113,077	9,646,106
Total			$ 111,477,489	$ 99,285,525

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

Interest rate risk: As of year-end 2008 and 2007, the underlying investments of the above bond index mutual fund have a stated average weighted maturity of 5.5 years. The Western Asset Core Plus bond fund has a stated average weighted maturity of 7.1 years. The investments of Atlantic Asset Management and Richmond Capital Management have an average weighted maturity of 6.4 years and 5.7 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.

Note 2 – Deposits and investments (continued)

Foreign currency risk: The Program manages its risk associated with foreign currency fluctuations with the asset allocations outlined in its Investment Policy Statement that limit 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, 2008 and 2007 are as follows:

	Fund description	Market Value 2008	Market Value 2007
Mutual funds:			
Artisan Funds Inc. (Int'l Growth)	(1)	$ 10,526,410	$ 14,922,012
Harbor Funds (Int'l Value)	(2)	11,073,838	15,651,869
SSGA Funds (Emerging Markets)	(3)	3,732,368	7,364,008
		$ 25,332,616	$ 37,937,889

1) There are no restrictions on the size of the companies in which the Artisan Fund may invest. The Fund primarily invests 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 and less developed markets. The Fund typically holds securities representing at least 18 countries. The maximum investment in any one country is 30% of the Funds net assets at the time of purchase. The maximum investment in any single industry is 25% of the Fund's net assets at the time of the purchase, and no more than 5% of the net assets may be invested in a single issuer.

2) Harbor Fund invests no less than 65% of its total assets in common and preferred stocks of foreign companies, including those located in emerging market countries. Companies in the Fund's portfolio generally have market capitalization in excess of 1$ billion at the time of purchase. Before selecting a country for investment, the Subadvisor analyzes the stability of a country's currency and it's political, social, and economic culture. The Fund will invest in a minimum of ten countries throughout the world and focuses of companies located in Europe, the Pacific Basin, and emerging industrialized countries whose economies and political regimes appear stable.

3) SSGA Fund will typically invest at least 80% of it's assets in equity securities, equity swaps, structured equity notes, equity linked notes and depositary receipts 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 maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance. In addition, it is the Program's practice, although not a formal policy, that the investment accounts be held in the Program's name

Note 2 – Deposits and investments (continued)

The Program's return on investments for years ending December 31, 2008 and 2007 is summarized as follows:

	2008	2007
Interest income	$ 1,126,248	$ 1,146,900
Dividend income	5,598,092	8,405,573
Realized gain (loss) on investments	(6,151,211)	2,448,245
Net appreciation in fair value of investments	(44,427,227)	6,058,034
Investment fees	(499,647)	(449,389)
Fiduciary fees	(59,290)	(62,675)
Net investment income	$ (44,413,035)	$ 17,546,688

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 2008 and 2007 include realized 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 of a claimant subject to certain restrictions. The home is held in a trust and remains the property of the Program, subject to use by the claimant's family during the term of the trust and subject to conditions imposed by the trust agreement. The trust expires upon the death or institutionalization of the claimant, and stipulates that during occupancy the family is responsible for the payment of utilities, general maintenance of the home, and certain other similar obligations.

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 $5,238,866 at December 31, 2008 and $5,180,492 at December 31, 2007.

Note 4 – Capital assets

Capital assets at December 31, 2008 and 2007, and the related changes for the years then ended were as follows:

	January 1, 2008	Increases	Decreases	December 31, 2008
Computer equipment	$ 46,018	$ 1,923	$ (9,706)	$ 38,235
Office equipment	31,610	3,085	(609)	34,086
Automobiles	17,237	-	-	17,237
	94,865	5,008	(10,315)	89,558
Less accumulated depreciation	(84,361)	(4,298)	10,175	(78,484)
Capital assets, net	$ 10,504	$ 710	$ (140)	$ 11,074

	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

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 2008 and 2007). 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, 2008 and 2007 (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:

	2008	2007
Rate of claims inflation (varies based on category of expense)	1.15% - 5.84%	.76% - 5.36%
Investment earnings / discount rate	6.57%	6.54%
Mortality:		
Average life expectancy of claimant at birth	24.5 years	23.4 years
Average life expectancy of claimant that attains the age of three	26.6 years	25.4 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	41 claimants	44 claimants

The total number of claimants (admitted claimants and not-yet-admitted claimants) is estimated to be 191 and 180 as of December 31, 2008 and December 31, 2007 respectively.

Note 5 – Estimated liability for unpaid claims (continued)

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

	2008	2007
Unpaid claims and claim adjustment expenses at beginning of year	$ 332,200,000	$ 304,400,000
Incurred claims and claim adjustment expenses:		
Estimated future payments for claimants	23,300,000	24,500,000
Increase (decrease) in provision for change in methodology and assumptions	(1,400,000)	200,000
Total estimated claims and claim adjustment expenses	21,900,000	24,700,000
Interest	21,100,000	19,300,000
Total additions to claims payments	43,000,000	44,000,000
Estimated claim payments	(21,200,000)	(16,200,000)
Unpaid claims reserves at end of year	$ 354,000,000	$ 332,200,000

The total undiscounted unpaid claims and claim adjustment expenses amount to $2,081 million and $1,300.8 million at December 31, 2008 and 2007, respectively, and represent unaudited estimates.

Note 6 – Employee benefits

The Program pays each employee an amount equal to 27% of his or her salary in lieu of a benefits package. This additional salary is to be used by the employee to acquire certain benefits, if they so choose, and is subject to income and payroll taxes. Additional benefits paid by the Program to their employees amounted to $99,015 and $81,088 for the years ending December 31, 2008 and 2007, 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

On April 25, 2008 the Program's lease for office space expired. The rent expense under this lease from January to April 2008 amounted to $19,461 and in 2007 amounted to $58,005.

The Program entered into a new lease for new office space beginning April 25, 2008 and expires in April 2013. The rent expense from April 25, 2008 through December 2008 amounted to $40,527.

Future minimum obligations under this new lease are as follows:

2009	$ 64,171
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, 2007 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.

The 2008 General Assembly Session passed legislation developed by the stakeholders of the Program to reduce the actuarial deficit. Several of the significant changes to the Program included in this legislation are; 1) payment of $3,000 to the medical school that provided the panel report, 2) reimbursement for nursing and attendant care provided by a relative or legal guardian, 3) increase to participating physicians and hospitals 4) 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 actuarial methodology. According to the Program's actuary the reduction may be about $44 million.

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.

REQUIRED SUPPLEMENTARY INFORMATION

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Virginia Birth-Related Neurological Injury Compensation Program

Supplementary Schedule of Claims Development Information
As of December 31, 2008
(In Thousands)

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1	Premiums and investment revenue:										
	Earned	$ 4,931	$ 6,001	$ 9,378	$ 18,136	$ 26,131	$ 25,445	$ 26,032	$ 40,292	39,964	(20,801)
2	Unallocated expenses	-	53	-	169	129	137	183	189	197	188
3	Estimated losses and expenses, end of birth year:										
	Incurred	6,880	7,336	12,871	13,661	14,000	20,733	21,652	23,000	24,500	23,300
4	Net paid (cumulative) as of:										
	End of birth year	-	-	-	-	-	-	-	-	-	-
	One year later	142	143	119	143	159	-	-	161	124	-
	Two years later	568	574	478	572	663	4	42	345	-	-
	Three years later	905	914	761	1,190	1,548	217	90	-	-	-
	Four years later	1,574	1,589	1,126	2,008	2,439	575	-	-	-	-
	Five years later	1,667	2,167	1,892	2,795	3,349	-	-	-	-	-
	Six years later	1,750	2,936	2,325	3,881	-	-	-	-	-	-
	Seven years later	2,124	3,574	2,902	-	-	-	-	-	-	-
	Eight years later	2,295	4,273	-	-	-	-	-	-	-	-
	Nine years later	2,549	-	-	-	-	-	-	-	-	-

Virginia Birth-Related Neurological Injury Compensation Program

Supplementary Schedule of Claims Development Information
As of December 31, 2008
(In Thousands)

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
5	Reestimated ceded losses and expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6	Reestimated net incurred losses and expenses										
	End of birth year	6,880	7,336	12,871	13,661	14,000	20,733	21,652	23,000	24,500	23,300
	One year later	7,368	11,827	12,357	13,244	15,333	22,558	22,038	23,021	24,358	-
	Two years later	11,580	11,533	11,963	14,544	16,565	22,927	22,058	22,888	-	-
	Three years later	11,305	11,309	13,188	15,747	16,814	22,946	21,932	-	-	-
	Four years later	11,094	12,008	14,321	15,990	16,827	22,826	-	-	-	-
	Five years later	11,749	12,653	14,550	16,002	16,746	-	-	-	-	-
	Six years later	12,355	12,784	14,562	15,923	-	-	-	-	-	-
	Seven years later	12,477	12,790	14,488	-	-	-	-	-	-	-
	Eight years later	12,484	12,748	-	-	-	-	-	-	-	-
	Nine years later	12,444	-	-	-	-	-	-	-	-	-
7	Increase (decrease) in estimated net incurred losses and expenses from end of birth year	$ 5,564	$ 5,412	$ 1,617	$ 2,262	$ 2,746	$ 2,093	$ 280 #	$ (112)	$ (142) #	$ -

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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

Virginia Birth-Related Neurological Injury Compensation Program

Since 1987

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Virginia Birth-Related Neurological Injury Compensation Program

Since 1987

Virginia Birth-Related Neurological Injury Compensation Program

Schedules of General and Administrative Expenses

	2008	2007
Advertising and brochures	$ 3,841	$ 1,533
Computer services	10,672	10,028
Depreciation and amortization	4,299	6,504
Office	11,623	7,714
Other	22,974	34,130
Postage and mailing	11,100	10,292
Professional fees	234,935	327,188
Rent	62,844	60,957
Salaries and benefits	568,263	518,682
Telephone	10,079	9,736
	940,630	986,764
Less claims administration (allocations)	752,504	789,411
Unallocated expenses	$ 188,126	$ 197,353

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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 Fund Net Assets
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	Demographic Statistics

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 Program implemented the new reporting model, GASB 34, in the year ending December 31, 2002.

Virginia Birth-Related Neurological Injury Compensation Program

Net Deficit by Componet
For the Last Seven Fiscal Years
Table 1

Year Ended December 31,	Invested in capital assets, net of related debt	Unrestricted (deficit)	Total Net Deficit
2002	$ 35,224	$ (81,918,097)	$ (81,882,873)
2003	26,632	(76,529,331)	(76,502,699)
2004	26,887	(99,184,336)	(99,157,449)
2005	19,755	(125,181,112)	(125,161,357)
2006	16,302	(129,328,796)	(129,312,494)
2007	10,504	(127,646,193)	(127,635,689)
2008	11,074	(182,614,538)	(182,603,464)

Virginia Birth-Related Neurological Injury Compensation Program

Schedule of Revenues, Expenses, and Changes in Fund Net Assets
For the Last Seven Fiscal Years
Table 2

	2008	2007	2006	2005	2004	2003	2002
Operating revenues							
Participating hospitals	$ 3,373,339	$ 2,715,783	$ 2,926,900	$ 2,753,450	$ 2,730,909	$ 2,357,975	$ 2,256,000
Participating doctors	3,358,073	3,223,346	2,843,793	2,342,449	2,211,184	1,860,843	1,554,790
Mandated physician fees	3,992,183	3,747,915	3,734,266	3,444,676	3,436,378	3,148,690	3,252,200
Insurance fees	12,830,024	12,641,617	11,945,795	11,314,150	9,948,858	8,993,616	8,042,558
Other	71	21,296	136,676	-	100	124,914	-
Total operating revenues	23,553,690	22,349,957	21,587,430	19,854,725	18,327,429	16,486,038	15,105,548
Operating expenses							
Provision for claims	33,458,390	38,009,839	44,254,224	51,853,223	47,963,625	20,621,718	19,600,653
General and administration	188,126	197,353	188,573	183,164	136,569	129,397	168,682
Total operating expenses	33,646,516	38,207,192	44,442,797	52,036,387	48,100,194	20,751,115	19,769,335
Operating loss	(10,092,826)	(15,857,235)	(22,855,367)	(32,181,662)	(29,772,765)	(4,265,077)	(4,663,787)
Nonoperating revenue (expense)							
Net investment income	(44,933,183)	17,466,990	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	58,374	70,371	117,141	89,730	(226,082)	-	917,892
Loss on sale of assets	(140)	(3,321)	(14,740)	(129)	(606)	-	-
Net nonoperating revenue (expense)	(44,874,949)	17,534,040	18,704,230	6,177,754	7,118,015	9,645,251	3,948,476
Change in net assets	(54,967,775)	1,676,805	(4,151,137)	(26,003,908)	(22,654,750)	5,380,174	(715,311)
Net assets at beginning of year	(127,635,689)	(129,312,494)	(125,161,357)	(99,157,449)	(76,502,699)	(81,882,873)	(81,167,562)
Net assets at end of year	$ (182,603,464)	$ (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:	2008	2007	2006	2005	2004	2003	2002
Claims Expense	11,658,390	10,209,839	11,054,224	9,453,223	6,863,625	6,021,718	5,700,653
Number of Active Claimants	111	109	96	91	82	74	67
Average expense per claimant	**105,031**	**93,668**	**115,148**	**103,882**	**83,703**	**81,375**	**85,084**
Percent Increase or Decrease from prior year	**12.1%**	**-18.7%**	**10.8%**	**24.1%**	**2.9%**	**-4.4%**	**-17.2%**

Breakdown of Claims Expenses into Major Catagories

Category	2008	2007	2006	2005	2004	2003	2002
Nursing	6,983,584	6,448,647	6,186,118	5,541,310	4,372,664	2,896,420	2,603,363
Physician/Hospital	68,119	96,123	81,115	63,976	142,664	239,531	495,169
Therapy	254,923	254,876	231,712	197,991	111,324	121,300	124,756
Incidentals	193,317	151,903	179,888	181,039	128,642	122,361	80,536
Prescription	135,239	127,809	115,265	104,329	76,789	114,313	127,646
Housing	1,360,826	756,673	1,445,145	937,368	327,912	825,924	819,457
Van	526,513	501,827	863,555	734,953	315,917	546,992	189,613
Medical Equipment	211,562	188,897	319,405	162,970	219,142	95,923	121,214
Legal fees - Claimant	299,892	283,809	470,204	350,667	315,917	51,986	243,167
Legal fees - Attorney General	150,000	150,000	187,500	225,000	-	-	-
Auto/Health Insurance	143,283	150,940	120,678	104,718	97,893	73,595	10,913
Mileage reimbursement	73,978	49,276	72,480	32,342	27,822	32,315	8,589
Wage Benefit Payment	245,052	97,163	-	-	-	-	-
WCC Ordered Award	200,000	-	-	-	-	-	-
Claimant Related Administrative	752,504	789,413	754,290	732,654	600,000	562,500	495,000
Other	59,598	162,483	26,870	83,906	126,939	338,558	381,230
Total Claims Expense	11,658,390	10,209,839	11,054,224	9,453,223	6,863,625	6,021,718	5,700,653
Percent Increase or Decrease from prior year	**14.2%**	**-7.6%**	**16.9%**	**37.7%**	**14.0%**	**5.6%**	**-7.5%**

Percentage of Expense per Total Claims Expense

Category	2008	2007	2006	2005	2004	2003	2002
Nursing	59.90%	63.16%	55.96%	58.62%	63.71%	48.10%	45.67%
Physician/Hospital	0.58%	0.94%	0.73%	0.68%	2.08%	3.98%	8.69%
Therapy	2.19%	2.50%	2.10%	2.09%	1.62%	2.01%	2.19%
Incidentals	1.66%	1.49%	1.63%	1.92%	1.87%	2.03%	1.41%
Prescription	1.16%	1.25%	1.04%	1.10%	1.12%	1.90%	2.24%
Housing	11.67%	7.41%	13.07%	9.92%	4.78%	13.72%	14.37%
Van	4.52%	4.92%	7.81%	7.77%	4.60%	9.08%	3.33%
Medical Equipment	1.81%	1.85%	2.89%	1.72%	3.19%	1.59%	2.13%
Legal	2.57%	2.78%	4.25%	3.71%	4.60%	0.86%	4.27%
Legal fees - Attorney General	1.29%	1.47%	1.70%	2.38%	0.00%	0.00%	0.00%
Auto/Health Insurance	1.23%	1.48%	1.09%	1.11%	1.43%	1.22%	0.19%
Mileage reimbursement	0.63%	0.48%	0.66%	0.34%	0.41%	0.54%	0.15%
Wage Benefit Payment	2.10%	0.95%	0.00%	0.00%	0.00%	0.00%	0.00%
WCC Ordered Award	1.72%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Claimant Related Administrative	6.45%	7.73%	6.82%	7.75%	8.74%	9.34%	8.68%
Other	0.51%	1.59%	0.24%	0.89%	1.85%	5.62%	6.69%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

	2008	2007	2006	2005	2004	2003	2002
Change in Claims Provision	21,800,000	27,800,000	33,200,000	42,400,000	41,100,000	14,600,000	13,900,000
Non-claims Related Administrative	188,126	197,353	188,573	183,164	136,569	129,397	168,682
Total Operating Expense	33,646,516	38,207,192	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

Schedule of General and Administrative Expenses
For the Last Seven Fiscal Years
Table 4

	2008	2007	2006	2005	2004	2003	2002
Advertising and brochures	$ 3,841	$ 1,533	$ 4,260	$ 5,249	$ 11,980	$ 35,350	$ 54,139
Computer services	10,672	10,028	9,558	13,226	12,758	16,159	13,123
Depreciation and amortization	4,299	6,504	8,669	10,528	11,536	10,993	10,458
Office	11,623	7,714	9,460	7,771	6,785	7,256	8,455
Other	22,974	34,130	48,090	55,111	34,541	39,457	46,376
Postage and mailing	11,100	10,292	8,879	9,909	12,790	13,254	10,348
Professional fees	234,935	327,188	282,766	286,744	174,480	158,413	119,515
Rent	62,844	60,957	60,589	59,143	53,498	52,216	48,397
Salaries and benefits	568,263	518,682	502,315	458,511	352,770	345,988	334,745
Telephone	10,079	9,736	8,277	9,625	11,709	12,811	16,124
	940,630	986,764	942,863	915,818	682,847	691,897	661,680
Less claims administration (allocations)	752,504	789,411	754,290	732,654	546,278	562,500	495,000
Unallocated expenses	$ 188,126	$ 197,353	$ 188,573	$ 183,164	$ 136,569	$ 129,397	$ 166,680

Virginia Birth-Related Neurological Injury Compensation Program

Rates and Assesments
For the Last Seven Fiscal Years
Table 5

	2008	2007	2006	2005	2004	2003	2002
Participating Physicians	$ 5,400	$ 5,300	$ 5,200	$ 5,100	$ 5,000	$ 5,000	$ 5,000
Non Participating Physicians	290	280	270	260	250	250	250
Hospitals	$50/live birth not to exceed $190,000	$50/live birth not to exceed $180,000	$50/live birth not to exceed $170,000	$50/live birth not to exceed $160,000	$50/live birth not to exceed $150,000	$50/live birth not to exceed $150,000	$50/live birth not to exceed $150,000
Insurance Companies							
Estimated Net Direct Premiums subject to assessment.	5,132,009,600	5,056,646,800	4,778,318,000	4,525,660,000	3,979,543,200	3,597,446,400	3,217,023,200

Notes:

Insurance Companies pay one quarter of one percent of net direct premiums written, however, only the liability portion of the premium is assessable as determined by 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 Seven Fiscal Years
Table 6

	2008	2007	2006	2005	2004	2003	2002
Participating							
Doctors	653	622	577	536	508	410	358
Residents	88	77	155	147	456	174	131
Total Participating Physicians	741	699	732	683	964	584	489
Mandatory							
Total Mandatory physicians	13,797	13,817	13,597	13,219	13,445	12,200	12,413
Delinquent							
Total Delinquent physicians	1,893	1,184	621	737	648	978	1,502
Exempt							
E1	1,903	1,852	1,733	1,723	1,701	405	1,282
E2	2,777	2,739	3,145	2,252	2,742	1,614	2,482
E3	1,547	1,443	1,596	1,458	1,544	480	1,528
E4	204	179	168	167	170	55	170
E5	3,789	3,661	4,189	3,982	4,085	1,144	3,812
E6	531	800	546	442	15	48	1,284
Total exempt physicians	10,751	10,674	11,377	10,024	10,257	3,746	10,558
Total physicians	**27,182**	**26,374**	**26,327**	**24,663**	**25,314**	**17,508**	**24,962**
Hospitals	38	31	33	32	33	29	23
Insurance Companies	503	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 Seven Years
Table 7

	2008	2007	2006	2005	2004	2003	2002
Population*	N/A	7,712,091	7,642,884	7,567,465	7,460,066	73,863,360	7,293,848
Number of Births *	N/A	108,417	106,474	104,488	103,830	100,561	99,235
Number of Petitions filed**	10	15	10	16	17	11	12
Number of Claimants Awarded**	8	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 Seven 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	2008 Activity	Total Year End 2008
Admitted	68	8	76	11	87	10	97	14	111	8	119	15	134	8	142
Deceased *	8	0	8	2	10	1	11	2	13	3	16	1	17	3	20
Deceased on award**	0	1	1	2	3	1	4	3	7	0	7	1	8	3	11
Total deceased	8		9		13		15		20		23		25		31
Active	60		67		74		82		91		96		109		111

Notes:
*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 Seven Years
Table 9

Activity	2008	2007	2006	2005	2004	2003	2002
Executive Director	1	1	1	1	1	1	1
Finance Division	3	2	2	2	2	2	2
Claims & Administration	6	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, 2008 and 2007, and have issued our report thereon dated July 31, 2009. 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.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 Program's financial statements that is more than inconsequential will not be prevented or detected by the Program's internal control. We consider the following control deficiency to be a significant deficiency:

Vendor Setup:

When reviewing the process for setting up vendors in the accounting system, we noted that vendors are entered based on the strength of an approved invoice. While having invoice approval is important, we recommend that the Program obtain further information about each vendor including but not limited to the following:

- Ensure the vendor has a proper tax identification number
- Review the contact information and verify the accuracy of the information submitted
- Inquire with all employees regarding a conflict of interest with the vendor and document this inquiry with a signature from each employee.

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 Program's internal controls. The following significant deficiencies are considered to be material weaknesses:

Verify Receipt of Goods or Services:

The Program has many different claimant related expenditures that are necessary under the enacted legislation. During our current year audit, we identified several instances where the Program did not have the proper controls in place to ensure that goods purchased or services rendered were actually received. We recommend that the program enhance the internal controls over the expenditure process by receiving an independent verification that the goods or services were received by the claimant through a documented follow up call or other means. Further, we recommend that the Program send an annual statement of goods received and/or services rendered to each claimant in order to confirm all goods or services have been received by the claimant.

Review of Construction Agreements:

The Program currently requires that prior to the start of a construction project on behalf of a claimant that a construction agreement is entered into between the Program and the claimant. We found that for many of the projects that took place during the current year such agreements could not be found. Further, in certain instances where contracts were executed, we found instances where project expenditures exceeded the awarded amount in the executed construction agreement. We recommend that the Program require a construction agreement for all projects and to prepare an expenditure tracking tool by project in order to ensure the expenditures do not exceed the amount awarded in the executed construction agreement. In addition, we recommend that funds not be disbursed until all documentation required by the construction agreement is obtained and an independent project manager has signed off of the invoice certifying that the work was performed within the approved specifications.

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.

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 or other matters that are required to be reported under *Government Auditing Standards.*

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
July 31, 2009