



VIRGINIA BIRTH-RELATED  
NEUROLOGICAL INJURY  
COMPENSATION PROGRAM

February 26, 2007

Bruce F. Jamerson  
Clerk of the House of Delegates  
House of Delegates  
P.O. Box 406  
Richmond, VA 23218

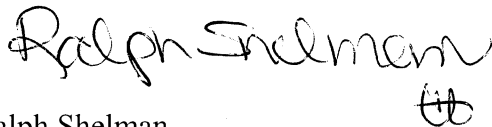
Dear Mr. Jamerson:

In compliance with Virginia statute 38.2-5015, paragraph B and 38.2-5016, paragraph F, please find enclosed a complete report regarding the investments of the Virginia Birth-Related Neurological Injury Compensation Fund and a copy of our most recent audit.

For the year 2006, the Program's reserves grew by approximately \$25 million to almost \$185 million. Unfortunately, the Program is still considered actuarially unsound. The Board of Director's is working hard to correct this situation. As you may know, a stakeholders group including medical professions, insurance companies, claimant families and others met several times last year to begin developing legislative solutions. That group will resume meeting in the next few weeks.

If you have any questions please feel free to contact our executive director, George Deebo, or myself.

Sincerely,



Ralph Shelman  
Board Chair  
Virginia Birth-Related Neurological Injury Compensation Program

Enc: Performance Report, 2005 Audit

*A lifetime of help*

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# Market Review & Fund Performance Analysis

## Virginia Birth-Related Neurological Injury Compensation Fund

For Period Ending  
December 31, 2006

Capital Advisory Group  
7100 Forest Avenue, Suite 301  
Richmond, VA 23226  
(804)648-3500



# Performance Report

## Capital Market Review



# Capital Market Review

Fourth Quarter 2006

## Room to Run

The U.S. economy fared very well in 2006, with a GDP growth rate of 3.3% for the year, just above trend and slightly ahead of 2005. Growth slowed over the course of the year, but the extent of the slowdown is now in question. Concerns are focused on the U.S. housing market.

*see page 11*

## I Feel Good!

With due credit to James Brown, it was hard not to feel good about returns for the U.S. equity market in the fourth quarter, as all major economic sectors rose. The broad benchmark **Russell 3000** (+7.1%) experienced its best quarterly result in two years, led by the small cap **Russell 2000** (+8.9%) and the **Russell MidCap** (+7.7%). Value stocks bested growth.

*see page 2*

## Great Expectations

The **Lehman Aggregate** advanced 1.24% in the fourth quarter. Asset-Backed Securities climbed 1.10%, 23 bps above Treasuries. Strong earnings and robust corporate balance sheets helped Investment Grade Corporate Credit outperform Treasuries by 61 bps, for a total gain of 1.36%.

*see page 4*

## A Turning Tide?

The **NAREIT Equity Index** rose 9.5% in the fourth quarter. The **FTSE EPRA/NAREIT Global Real Estate Index** advanced 14.0%. The private side of real estate was up 4.5%, as measured by the **NCREIF Property Index**, feeding off the strength of the Office sector.

*see page 9*

## Rally Gains Steam Overseas

The **MSCI EAFE Index** (+10.4%) rose sharply in the fourth quarter. Value (+11.3%) beat growth (+9.4%) yet again during the quarter,

while small cap (+11.7%) returned to its winning ways versus EAFE. The **MSCI Emerging Markets Index** (+17.6%) rocketed higher as investors flocked to China and Brazil, eager to buy into the secular growth stories in those markets.

*see page 6*

## International Yields Up; Dollar Falls

For the fourth quarter, international bonds, as measured by the **Citi Non-U.S. Government Bond Index**, lost 7 bps, in local terms. Due to a falling dollar, the unhedged version of the index advanced 2.09% for U.S. based investors. Emerging Markets, as represented by the **JPMorgan EMBI Global Diversified Index**, climbed 3.81%.

*see page 8*

## Private Equity Market

Preliminary estimates for 2006 fundraising totaled \$215.4 billion in commitments and 322 new funds. This exceeds the prior record of \$177.9 billion, set at the height of the 2000 bubble. The investment pace by funds into companies also set an all-time record. Additionally, exit activity increased in 2006.

*see page 10*

## Hedge Funds Soar on Upside Risk

The median manager in **Callan's Hedge Fund-of-Funds Database** rose 4.68% last quarter, net of fees. With more directional exposure, the asset-weighted **CSFB/Tremont Hedge Fund Index** jumped 5.78% in the fourth quarter. Among CSFB/Tremont's substrategies, **Emerging Markets** (+9.12%) led the way.

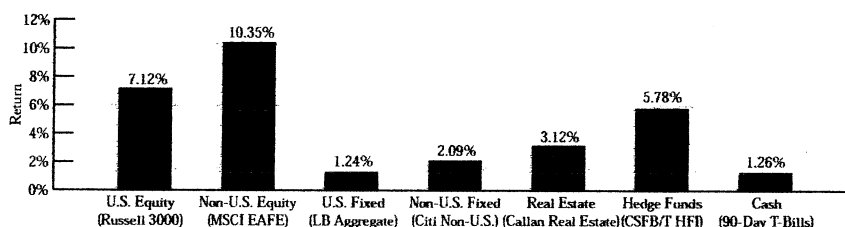
*see page 10*

## The Bulls Are Running Strong

For the fourth quarter, fund sponsors with more equity exposure came out on top. The median endowment/foundation (+5.80%) led their institutional counterparts with an average public equity allocation of 64%. The median Taft-Hartley plan (+5.25%) trailed its peers.

*see page 12*

Broad Market Returns - Fourth Quarter 2006



## I Feel Good!

With due credit to James Brown, it was hard not to feel good about returns for the U.S. equity market in the fourth quarter, as all major economic sectors rose. Much of the credit goes to the same forces that have been driving the market in the recent past. The Fed's policy on interest rates remained stable while job creation continued its strong growth. Non-farm payrolls added over 400,000 jobs during the quarter and 1.8 million jobs over the past 12 months. Equities also benefited from declining oil prices, which fell below \$60 per barrel for the first time in nine months.

The broad benchmark Russell 3000 (+7.1%) experienced its best quarterly result in two years, led by the small cap Russell 2000 (+8.9%) and the Russell MidCap (+7.7%). "Mega-cap" Russell Top 50 (+7.7%) also beat the broad market. The S&P 500 climbed 6.7%.

Value stocks bested growth again, aided by strong performances in traditional value sectors such as Financials (+7.1%), Energy (+11.7%), Utilities (+9.5%), Materials (+12.7%) and Industrials (+6.9%). Driving results for Financials were REITs (+10.6%), which continue to benefit from unabated investor demand. Investment Banks (+12.7%) were assisted by strong earnings results from Goldman Sachs (+18.1%) and Merrill Lynch (+19.4%).

Energy (+11.7%) bounced back despite falling energy prices and a warmer-than-expected start to winter. The large energy companies, Exxon (+14.7%), ConocoPhillips (+21.2%) and Chevron (+14.2%), were again the leaders. However, unlike the third quarter, the smaller subsectors were also in the black with Equipment & Services rising 9.4% and Drilling up 7.3%.

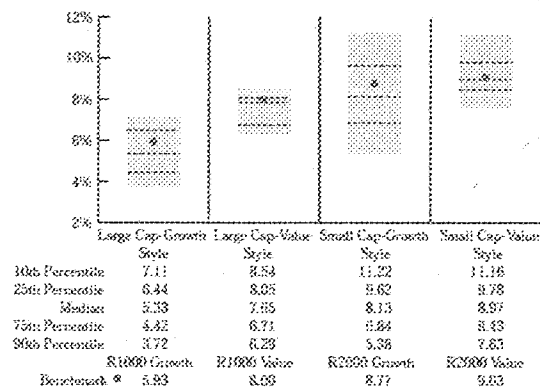
Strong job growth and consumer confidence helped Consumer Discretionaries (+10.6%) post its best quarter in two years. Casinos (+22.8%), Textiles (+15.1%) and Media (+13.4%) all had double-digit returns. Consumer Staples (+3.9%) lagged behind, but is the only sector to have positive returns for each quarter in 2006.

The good economic news also saw Industrials (+6.9%) move up, as Airlines (+15.8%) benefited from higher fares and lower fuel prices. Aerospace (+7.7%) advanced on the news that FedEx was canceling its Airbus 380 order and purchasing ten 777s from Boeing (+13.7%).

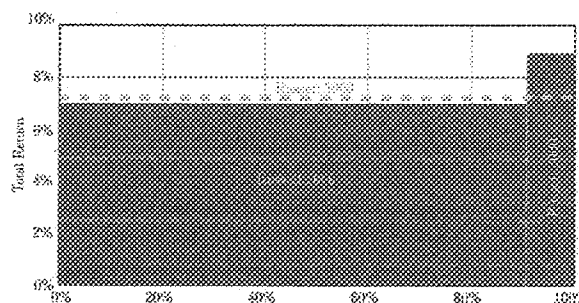
Technology (+6.4%) advanced, driven by the prospect that Microsoft's (+9.6%) new Vista operating system will create demand for hardware products from IBM (+19.0%), Hewlett-Packard (+12.5%), Dell (+9.9%) and Cisco (+18.9%). Telecom (+8.4%) stayed in the black, as AT&T (+10.9%) finalized its merger with BellSouth (+11.0%).

Based on the Russell style indices, value-oriented stocks again trumped growth-oriented stocks across all capitalization ranges. To compare value and growth, Russell divides the capitalization indices to create subsectors of growth- and value-oriented stocks. Among smaller stocks, the Russell 2000 Small Cap Value Index rose 9.0%, compared to 8.8% for its growth counterpart. In the large stock arena, the Russell 1000 Value Index (+7.0%) bested the Russell 1000 Growth Index (+5.9%).

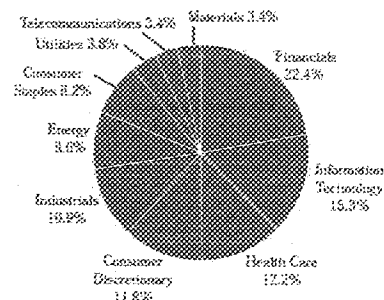
Callan Style Group Returns - Fourth Quarter 2006



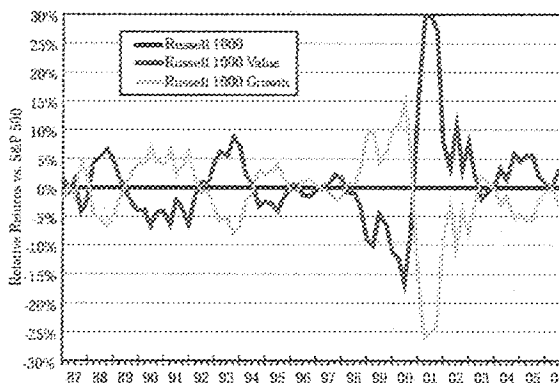
Capitalization Sector Performance  
Fourth Quarter 2006



Economic Sector Exposure (Russell 3000)  
Fourth Quarter 2006



Rolling One-Year Relative Returns vs. Russell 1000



**U.S. EQUITY**  
**Style Median and Index Returns\* for Periods ended December 31, 2006**

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
<i>Large Cap–Broad Style</i>	6.54	14.99	11.48	6.84	9.66	11.56
<i>Large Cap–Growth Style</i>	5.33	7.75	7.91	2.93	7.79	9.82
<i>Large Cap–Value Style</i>	7.65	19.28	13.94	9.22	10.39	12.51
<i>Aggressive Growth Style</i>	7.24	9.15	9.43	6.36	8.22	11.42
<i>Contrarian Style</i>	8.17	19.85	14.33	10.03	11.15	13.54
<i>Core Style</i>	6.47	15.90	11.69	7.03	9.66	11.56
<i>Yield Style</i>	7.39	20.70	13.92	10.25	10.54	12.40
Russell 3000	7.12	15.72	11.19	7.17	8.64	10.79
Russell 1000	6.95	15.46	10.98	6.82	8.64	10.80
S&P Composite 1500	6.77	15.34	10.85	6.79	8.83	10.89
S&P 500	6.70	15.79	10.44	6.19	8.42	10.64
NYSE	8.47	20.65	14.82	10.14	10.25	11.59
Dow Jones Industrials	7.39	19.04	8.42	6.81	8.93	12.00
<i>Mid Cap–Broad Style</i>	7.09	13.34	14.07	10.90	12.82	13.74
<i>Mid Cap–Growth Style</i>	6.80	9.57	11.75	7.54	11.49	12.27
<i>Mid Cap–Value Style</i>	7.99	16.97	16.56	14.72	13.74	15.46
Russell Midcap	7.67	15.26	16.00	12.88	12.14	13.35
S&P MidCap 400	6.99	10.31	13.09	10.89	13.47	13.62
<i>Small Cap–Broad Style</i>	8.34	14.60	14.10	12.37	12.44	13.13
<i>Small Cap–Growth Style</i>	8.13	12.43	9.87	7.22	9.14	11.49
<i>Small Cap–Value Style</i>	8.97	18.75	16.33	16.55	14.93	15.51
Russell 2000	8.90	18.37	13.56	11.39	9.44	11.47
S&P SmallCap 600	7.84	15.11	14.99	12.49	11.57	13.24
NASDAQ	7.15	10.38	7.15	4.99	6.95	10.60
Consumer Staples	3.85	15.13	9.61	7.50	8.08	8.94
Consumer Discretionary	10.61	16.39	8.27	5.90	8.44	9.39
Industrials	6.87	15.07	13.04	8.88	9.39	11.50
Energy	11.68	21.34	29.03	19.79	14.33	14.39
Materials	12.66	20.59	13.97	13.21	7.51	9.07
Information Technology	6.43	8.92	4.16	0.80	5.69	10.87
Utilities	9.50	21.73	20.10	10.15	9.00	9.75
Financials	7.07	19.72	13.16	11.23	12.91	15.87
Telecommunications	8.39	36.93	16.33	2.00	3.62	—
Health Care	1.96	6.78	6.40	2.58	9.31	—

**U.S. Equity Index Characteristics as of December 31, 2006**

	S&P 1500	S&P 500	S&P 400	S&P 600	Rus 3000	Rus 1000	Rus Midcap	Rus 2000
Cap Range	66–446,944	1,408–446,944	495–10,623	66–3,660	14–463,636	189–463,636	189–21,427	14–3,045
Number of Issues	1,500	500	400	600	2,958	987	784	1,971
% of S&P 1500	100%	88%	8%	4%	100%	91%	26%	9%
Wtd Avg Mkt Cap	\$89.2B	\$100.7B	\$3.8B	\$1.5B	\$83.4B	\$91.3B	\$8.3B	\$1.2B
Price/Book Ratio	2.8	2.8	2.4	2.4	2.8	2.8	2.7	2.4
P/E Ratio (forecasted)	15.1	14.9	16.2	17.3	15.7	15.4	17.8	20.9
Dividend Yield	1.7%	1.8%	1.3%	0.9%	1.7%	1.7%	1.4%	1.1%
5-Yr Earnings (forecasted)	12.2%	11.9%	13.8%	16.5%	12.5%	12.2%	13.6%	15.4%

\* Returns less than one year are not annualized.

## Great Expectations!

It was a tale of two halves for the U.S. fixed income markets in the fourth quarter of 2006, as the Lehman Aggregate returned a coupon-like +1.24%. Concerns over a hard landing led investors to anticipate an imminent cut in short-term interest rates and fueled a spirited October bond rally. However, stronger-than-expected data in mid-November led the market to push out its expected timeframe for a Fed interest rate cut, propelling a furious sell-off in the bond market to finish out the year. Away from the market's data dependent positioning, Ben Bernanke and the FOMC held the fed funds rate steady at 5.25% throughout the quarter.

The December sell-off left interest rates higher across all maturities of the yield curve. The yield curve itself flattened but remained inverted, signaling the bond market's expectation of an interest rate cut in the second half of next year. After all was said and done, the yield on the 10-year Treasury note finished only 7 bps higher at 4.70%. Stronger selling on the short end of the curve brought the yield on the 2-year Treasury up 13 bps to 4.81%, in line with that of the 30-year note.

Declining energy prices led inflation figures lower, real rates higher and Treasury Inflation Protected Securities down 1.29% in the quarter. The real yield of the 10-year Treasury increased 5 bps to 2.40% over the quarter.

Data detailing a resilient U.S. consumer and some stabilization in residential real estate prices led spread sectors to outperform Treasuries across the board in the fourth quarter. Five-year swap spreads, reflecting the market's appetite for risk, tightened by 9 bps. The Mortgage sector (+1.60%) led all Lehman Aggregate subsectors in the fourth quarter, as tightening swap spreads and contracting interest rate volatility contributed to a return of 59 bps over Treasuries of similar duration. Commercial Mortgage-Backed Securities—the best performing sector of the Lehman Aggregate in 2006—advanced 1.14% in the fourth quarter.

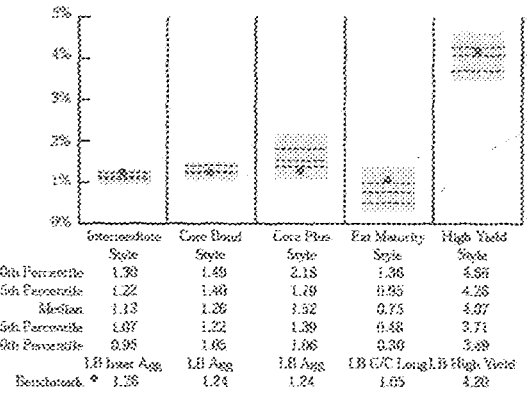
Asset-Backed Securities climbed 1.10%, 23 bps above Treasuries. Light issuance and a strong bid from central banks, seeking yield and diversification out of Treasuries, overshadowed a decline in sub-prime borrower fundamentals.

Strong earnings and robust corporate balance sheets helped Investment Grade Corporate Credit outperform Treasuries by 61 bps, for a total gain of 1.36%. Credit spreads over Treasuries grinded tighter, notwithstanding their multi-year lows. The option adjusted spread of Investment Grade Credit tightened 6 bps despite the announcement of several record-setting Leveraged Buyouts (LBOs) and the sector's lofty valuations.

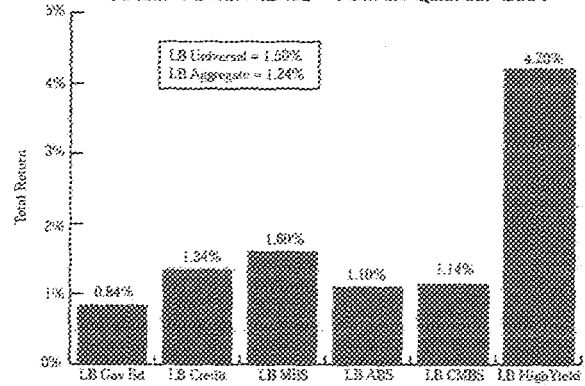
Record issuance in both the high yield and bank loan markets fueled a string of eye-popping LBO deals, which are typically unfriendly to holders of the target company's debt. To date, spread widening has been contained to credits named in takeover transactions rather than that of the broad credit sector.

Investors continued to thirst for yield in the fourth quarter, piling heavily into high yield bonds (+4.20%). Credit quality was of little concern as lower rated issues outperformed their higher quality peers. CCC-rated names outperformed BB-rated names +6.12% to +3.55%, respectively, in the quarter. The fraud-based default of beverage maker Le-Nature's did little to change the market's preference for yield over quality. Default rates remained at historic lows on an annual basis.

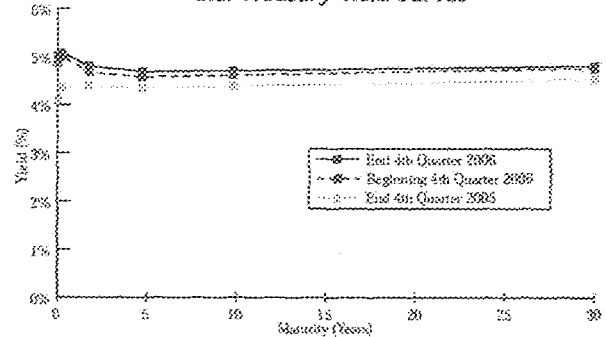
Caflan Style Group Returns - Fourth Quarter 2006



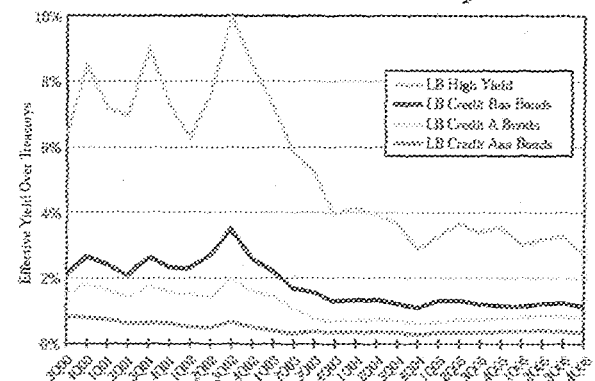
Sector Performance - Fourth Quarter 2006



U.S. Treasury Yield Curves



Effective Yield Over Treasuries



**U.S. FIXED INCOME**  
**Style Median and Index Returns\* for Periods ended December 31, 2006**

	<b>Last Quarter</b>	<b>Last Year</b>	<b>Last 3 Years</b>	<b>Last 5 Years</b>	<b>Last 10 Years</b>	<b>Last 15 Years</b>
<i>Core Bond Style</i>	1.26	4.54	3.98	5.40	6.48	6.72
<i>Core Bond Plus Style</i>	1.52	5.03	4.50	5.82	6.70	7.31
LB Aggregate	1.24	4.33	3.70	5.06	6.24	6.50
LB Govt/Credit	1.04	3.78	3.44	5.17	6.26	6.57
LB Govt	0.84	3.48	3.20	4.64	6.01	6.30
LB Credit	1.34	4.26	3.81	5.90	6.55	7.08
Citi Broad Investment Grade	1.25	4.33	3.79	5.10	6.26	6.55
<i>Extended Maturity Style</i>	0.75	3.11	5.51	7.39	7.87	8.49
LB Gov/Credit Long	1.05	2.71	5.51	7.38	7.72	8.08
LB Gov Long	0.57	2.06	5.51	7.11	7.70	8.05
LB Credit Long	1.59	3.47	5.50	7.73	7.56	8.00
<i>Intermediate Style</i>	1.13	4.44	3.22	4.67	5.97	6.21
LB Intermediate Aggregate	1.26	4.58	3.44	4.70	5.97	6.18
LB Gov/Credit Intermediate	1.03	4.08	2.90	4.53	5.81	6.05
LB Gov Intermediate	0.89	3.84	2.62	3.92	5.48	5.73
LB Credit Intermediate	1.27	4.49	3.32	5.37	6.25	6.73
<i>Defensive Style</i>	1.15	4.60	2.84	3.39	5.11	5.45
<i>Active Cash Style</i>	1.27	5.02	3.12	2.98	4.59	4.81
<i>Money Market Funds (net of fees)</i>	1.20	4.51	2.65	1.98	3.45	3.65
ML Treasury 1-3 Year	0.91	3.97	2.17	2.82	4.69	4.99
90-Day Treasury Bills	1.26	4.85	3.07	2.43	3.81	4.00
<i>High Yield Style</i>	4.07	10.46	8.33	9.77	7.18	9.63
LB High Yield	4.20	11.85	8.49	10.18	6.59	8.44
ML High Yield Master	4.17	11.66	8.34	9.85	6.86	8.79
<i>Mortgages Style</i>	1.56	5.34	4.32	5.15	6.50	6.71
LB MBS	1.60	5.22	4.17	4.85	6.16	6.35
LB ABS	1.10	4.70	3.26	4.45	5.95	6.20
LB CMBS	1.14	4.73	3.54	6.02	7.10	—
LB Muni	1.11	4.84	4.28	5.53	5.75	6.26
LB Muni 1-10 Year	0.73	3.74	2.77	4.25	4.85	—
LB Muni 3 Year	0.63	3.04	1.90	3.00	4.04	4.45

**U.S. Fixed Income Index Characteristics as of December 31, 2006**

<b>Lehman Brothers Indices</b>	<b>Yield to Worst</b>	<b>Modified Adj. Duration</b>	<b>Average Maturity</b>	<b>% of LB G/C</b>	<b>% of LB Aggregate</b>
LB Aggregate	5.34	4.46	6.96	100.00%	100.00%
LB Govt/Credit	5.16	5.07	7.69	100.00%	58.80%
Intermediate	5.08	3.60	4.41	79.96%	47.02%
Long-Term	5.50	10.93	20.76	20.04%	11.79%
LB Govt	4.89	4.50	6.36	60.76%	35.73%
LB Credit	5.59	5.93	9.75	39.24%	23.07%
LB Mortgage	5.63	3.46	6.00	—	35.05%
LB Asset-Backed	5.32	2.77	3.20	—	1.18%
LB Commercial Mortgage	5.36	4.83	5.97	—	4.96%
LB Corp High Yield	7.70	4.43	7.88	—	—

\* Returns less than one year are not annualized.



## Rally Gains Steam Overseas

The MSCI EAFE Index (+10.4%) rose sharply in the fourth quarter, building on the gains of the preceding quarter, as investors continued to focus on strong global growth prospects, solid earnings results and fervent merger and acquisition activity. The dollar reversed course (-3.3%) and declined sharply against European currencies (benefiting U.S.-based investors considerably), but managed to eke out a slight gain against the Japanese yen. Value (+11.3%) beat growth (+9.4%) yet again during the quarter, while small cap (+11.7%) returned to its winning ways versus the EAFE Index. The MSCI Emerging Markets Index (+17.6%) rocketed higher, as investors flocked to China and Brazil, eager to buy into the secular growth stories in those markets.

### Europe

The MSCI Europe Index returned 11.5% to U.S.-based investors in the fourth quarter, with dramatic weakness in the dollar contributing over 4.5% of that return. Continued strong economic growth led the European Central Bank to raise interest rates twice during the quarter, bolstering the euro's strength versus the dollar, as the interest rate gap between the U.S. and Europe narrowed considerably. The Bank of England raised interest rates by a quarter-point once again, leading to a 5% decline in the value of the dollar versus the pound sterling. In addition to the strength of European currencies, returns were boosted by local shares rallying on the back of vigorous merger and acquisition activity and strong results in the Telecommunications sector.

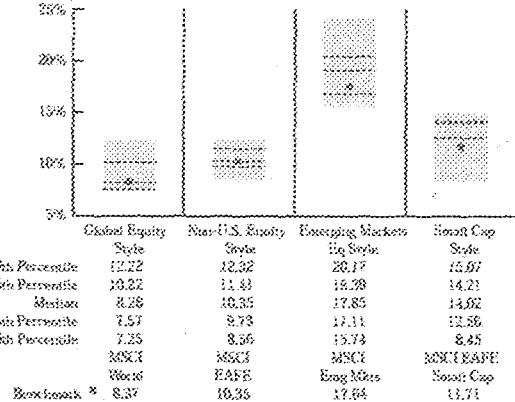
### Asia

The MSCI Pacific Basin Index climbed 7.9% in the most recent quarter, a solid return, yet a considerable disappointment relative to the other major regions. Japan (+5.0%) once again lagged the broader market and was, in fact, the worst performing country in EAFE. In contrast to the European currency, the Japanese yen actually weakened by 0.9% versus the U.S. dollar, as government data suggested that economic recovery was still on delicate footing. As a result, domestic shares in banking and retail suffered the weakest performance, while export-oriented stocks benefited from their defensive nature as well as their sensitivity to a declining yen. Elsewhere, Australia (+16.2%) and New Zealand (+21.8%) produced impressive returns in their local shares as well as their currencies, as investors remained enthusiastic about the growth outlook in those countries.

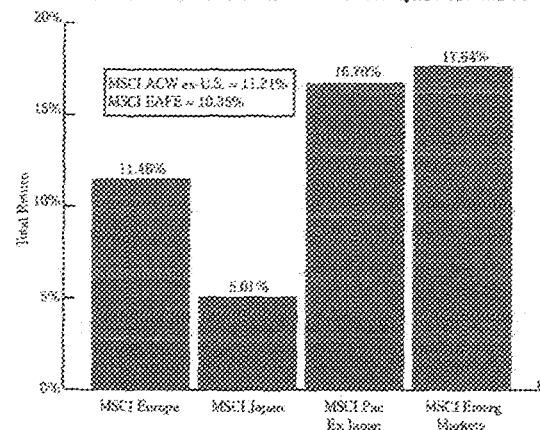
### Emerging Markets

Emerging markets rallied strongly in the last quarter of 2006, with the MSCI Emerging Markets Free Index advancing a whopping 17.6% to U.S. investors. China led the way with a return of +35.9%, reflecting positive global sentiment toward the world's fastest growing large economy. A string of successful initial public offerings buoyed investor enthusiasm. The more advanced emerging economies of Korea (+4.8%) and Taiwan (+12.9%) lagged, due mainly to slumping technology shares as investors focused instead on banks and raw materials. The best performing region was Latin America (+22.1%), thanks in part to an interest rate cut in Brazil (+24.6%).

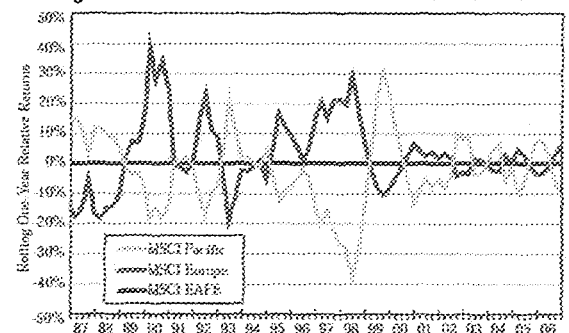
Callan Style Group Returns - Fourth Quarter 2006



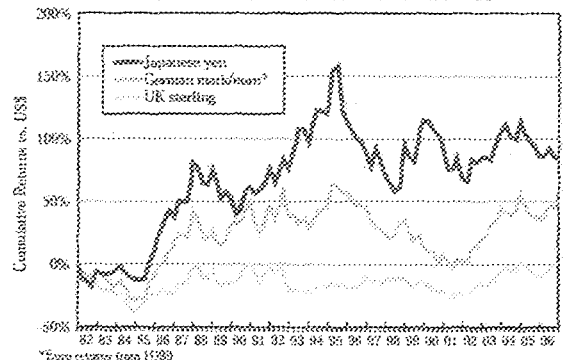
Sector Performance - Fourth Quarter 2006



Rolling One-Year Relative Returns vs. MSCI EAFE US\$



Major Currencies vs. US\$  
Cumulative Returns over Last 25 Years



**INTERNATIONAL EQUITY**  
**Style Median and Index Returns\* for Periods ended December 31, 2006**

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
<i>Global Style</i>	8.26	22.20	15.20	10.56	9.34	10.68
<i>Non-U.S. Style</i>	10.35	26.66	20.51	16.10	10.39	10.91
<i>Core Style</i>	10.28	26.66	20.19	16.07	10.48	10.52
MSCI EAFE–Unhedged	10.35	26.34	19.93	14.98	7.71	7.86
MSCI EAFE–Local	7.04	16.46	19.17	8.52	7.10	7.29
MSCI EAFE Growth–Unhedged	9.40	22.33	17.18	12.27	5.07	5.24
MSCI EAFE Value–Unhedged	11.29	30.38	22.64	17.65	10.18	10.39
MSCI World–Unhedged	8.37	20.07	14.68	9.97	7.64	8.69
MSCI World–Local	7.01	15.55	14.19	7.14	7.49	8.49
MSCI AC World ex-U.S.–Unhedged	11.21	27.16	21.81	16.87	8.59	8.55
MSCI AC World–Unhedged	9.16	21.53	16.14	11.31	8.20	9.19
<i>Pacific Basin Style</i>	8.77	14.56	18.46	16.37	4.47	6.73
<i>Japan Style</i>	4.70	4.14	16.30	14.64	6.71	4.72
<i>Pacific Rim Style</i>	16.23	33.96	24.46	21.03	6.01	10.30
MSCI Pacific–Unhedged	7.93	12.20	17.86	15.51	3.20	3.22
MSCI Pacific–Local	7.49	11.33	20.47	11.97	3.13	2.66
MSCI Japan–Unhedged	5.01	6.24	15.61	13.51	2.15	1.55
MSCI Japan–Local	5.98	7.26	19.77	11.36	2.42	1.24
<i>Europe Style</i>	11.78	33.36	21.36	15.04	12.46	13.24
MSCI Europe–Unhedged	11.46	33.72	20.93	14.87	10.47	11.36
MSCI Europe–Local	6.86	19.05	18.63	7.15	9.74	11.36
<i>Emerging Markets Style</i>	17.85	33.53	32.20	29.21	12.50	12.94
MSCI Emerging Markets–Unhedged	17.64	32.59	30.97	26.97	9.40	10.47
MSCI Emerging Markets–Local	14.65	28.88	26.79	22.67	12.84	23.23
<i>Small Cap Style</i>	14.02	29.86	28.91	24.55	14.42	11.65
MSCI EAFE Small Cap–Unhedged	11.71	19.31	25.34	23.97	—	—

Return Attribution for EAFE Countries Fourth Quarter 2006				
Country	Total	Local	Currency	Weighting
Australia	16.19%	10.01%	5.62%	5.57%
Austria	18.85%	14.17%	4.10%	0.62%
Belgium	10.13%	5.80%	4.10%	1.25%
Denmark	16.11%	11.49%	4.14%	0.82%
Finland	10.42%	6.07%	4.10%	1.43%
France	10.49%	6.14%	4.10%	10.10%
Germany	14.37%	9.87%	4.10%	7.44%
Greece	15.08%	10.55%	4.10%	0.64%
Hong Kong	14.54%	14.32%	0.19%	1.78%
Ireland	17.44%	12.82%	4.10%	0.89%
Italy	11.95%	7.54%	4.10%	3.88%
Japan	5.01%	5.98%	-0.91%	22.55%
Netherlands	7.14%	2.92%	4.10%	3.39%
New Zealand	21.79%	12.79%	8.00%	0.16%
Norway	26.12%	20.46%	4.69%	0.92%
Portugal	12.87%	8.43%	4.10%	0.35%
Singapore	23.30%	19.28%	3.40%	0.95%
Spain	14.27%	9.78%	4.10%	4.05%
Sweden	19.87%	11.93%	7.10%	2.61%
Switzerland	7.85%	4.99%	2.72%	6.88%
UK	10.28%	5.25%	4.78%	23.71%

\* Returns less than one year are not annualized.

## International Yields Up; Dollar Falls

Disregarding the past year's central bank tightening and the U.S. consumers' housing woes, the global economy displayed remarkable resilience during the fourth quarter. Thanks to a drop in oil prices, headline inflation measures moderated. However, in most countries core inflation remained elevated. With that backdrop, global interest rates edged higher causing the **Citi Non-U.S. Government Bond Index** to lose 7 bps in local terms. Due to a falling dollar, the unhedged version of the index advanced 2.09% for U.S.-based investors.

Eurozone's solid GDP growth rate provided cover for two quarter-point interest rate hikes by the hawkish European Central Bank. Ten-year rates rose by almost 25 bps and the German 10-year bund yielded 3.95% at year's end. Playing a similar tune, the Bank of England increased short-term rates by 25 bps to 5.00% in the quarter. In lockstep with short rates, the yield on 10-year gilts increased 22 bps to 4.74%. The long end of the yield curve continued to be significantly inverted due to British pension funds' demand for long duration assets. The 30-year gilt yielded only 4.2% at the end of December.

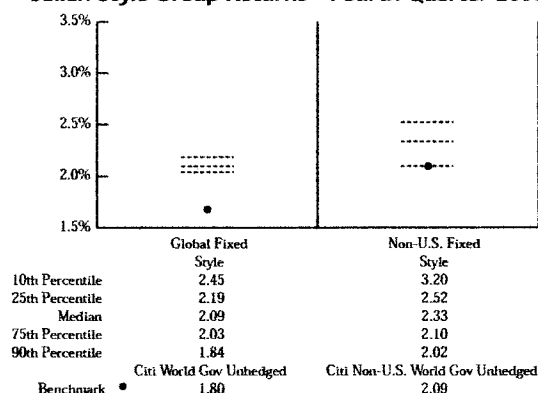
Return Attribution for Non-U.S. Govt Indices Fourth Quarter 2006				
Country	Total	Local	Currency**	Weighting
Australia	5.35%	-0.26%	5.62%	0.40%
Austria	3.55%	-0.53%	4.10%	1.82%
Belgium	3.61%	-0.47%	4.10%	3.27%
Canada	-3.69%	0.46%	-4.13%	2.24%
Denmark	3.96%	-0.16%	4.14%	0.88%
Finland	3.78%	-0.30%	4.10%	0.64%
France	3.63%	-0.45%	4.10%	10.36%
Germany	3.72%	-0.36%	4.10%	12.23%
Greece	3.88%	-0.21%	4.10%	2.48%
Ireland	3.45%	-0.62%	4.10%	0.41%
Italy	3.71%	-0.37%	4.10%	11.01%
Japan	-0.62%	0.29%	-0.91%	35.61%
Netherlands	3.72%	-0.36%	4.10%	2.78%
Norway	4.09%	-0.58%	4.69%	0.27%
Poland	10.90%	2.71%	7.98%	0.98%
Portugal	3.84%	-0.25%	4.10%	1.10%
Singapore	4.62%	1.19%	3.40%	0.35%
Spain	3.62%	-0.46%	4.10%	4.03%
Sweden	7.12%	0.03%	7.10%	0.96%
Switzerland	2.93%	0.20%	2.72%	0.95%
UK	4.45%	-0.31%	4.78%	7.23%

The dollar fell against both the euro and pound sterling, as interest rate differentials between the U.S. and Europe narrowed. The prospect of central bank reserve diversification also muted demand for the greenback. The euro appreciated more than 4% against the U.S. dollar, and posted an all-time high versus the yen. Similarly, the pound sterling gained 4.78% against the dollar. The Reserve Bank of Australia increased rates by 25 bps to 6.25% and the Australian dollar surged 5.62% against the U.S. dollar.

In Japan, yields were largely unchanged over the quarter. The Bank of Japan held short rates steady and 10-year JGBs were essentially unchanged at 1.69%. The yen depreciated 91 bps against the U.S. dollar. Like the yen, the Canadian dollar was one of the few major currencies to lose ground against the U.S. dollar. The Canadian dollar fell 4.13% due to a drop in the price of commodities—a major Canadian export. Canadian rates moved in sympathy with U.S. rates; 10-year Canadian rates gained 0.08% to end the quarter at 4.09%.

The market's relentless appetite for higher yielding assets did not abate, pushing the **JPMorgan EMBI Global Diversified Index** up 3.81% in the quarter. Appreciating emerging currencies propped up local currency returns. The local currency debt market, as measured by the **JPMorgan ELMI**, increased 6.68%. However, all was not quiet in the emerging debt market. Ecuadorian debt plummeted 17.7%, as the president-elect indicated an unwillingness to pay foreign debt holders.

Callan Style Group Returns - Fourth Quarter 2006



## INTERNATIONAL FIXED INCOME

### Style Median and Index Returns\* for Periods ended December 31, 2006

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
<i>Global Style</i>	2.09	6.12	3.50	8.97	5.77	6.88
Citi World Govt-Unhedged	1.80	6.11	2.93	8.41	5.24	6.34
Citi World Govt-Local	0.09	0.70	3.07	3.88	4.96	6.30
<i>Non-U.S. Style</i>	2.33	7.00	3.10	10.03	5.14	7.04
Citi Non-U.S. World Govt-Unhedged	2.09	6.95	2.88	9.50	4.70	6.35
Citi Non-U.S. World Govt-Local	-0.07	0.09	3.04	3.65	4.60	6.50
Citi Euro Govt Bond-Unhedged	3.69	11.32	5.79	13.82	—	—
Citi Euro Govt Bond-Local	-0.39	-0.42	4.17	5.18	—	—
JPM Emerg Mkts Bond Plus	4.11	10.49	11.37	15.25	11.02	13.03

\* Returns less than one year are not annualized.

\*\* Derived from MSCI EAFE data.

## A Turning Tide?

The incredible influx of capital flows has been part of any real estate-related conversation over the past year. The fourth quarter of 2006 proved to be no exception with the announcement of the biggest privatization in history. Blackstone Partners agreed to purchase Sam Zell's Equity Office Properties—the largest office REIT in the United States—for approximately \$10 billion in equity for a total of \$36 billion including debt. This purchase and similar activity have continually bolstered REIT performance by contracting supply and escalating prices. The NAREIT Equity Index rose 9.5% in the fourth quarter and 35.1% for the year. The top sectors for the quarter included Specialty (+14.5%), Health Care (+14.0%) and Office (+11.9%). Office also provided the highest return for the year (+45.2%), boosted by numerous large privatizations in the sector. Residential (+4.6%) came in last among all sectors during the quarter. Overall REITs showed strength during the fourth quarter, but there is uncertainty in the marketplace as to whether the current pricing is reasonable and sustainable.

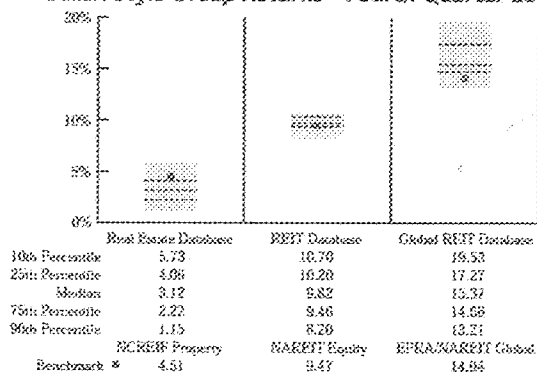
International real estate markets demonstrated fervor over the quarter due to an abundance of IPO activity and continued REIT legislative developments in the UK and Germany. The FTSE EPRA/NAREIT Global Real Estate Index advanced 14.0% during the fourth quarter.

The private side of real estate remained stable over the quarter and was up 4.5%, as measured by the NCREIF Property Index. Leading sectors were Hotel and Office, ascending 7.04% and 5.77%, respectively. Clearly the ever cyclical Office sector is en vogue, with record-breaking sales volume and mind-boggling sales prices in metropolitan markets such as New York and Washington, D.C., as demonstrated by the Eastern region's dominant performance (+5.67%). Despite the positive performance, transaction volume has declined over last year in many other sectors, such as Apartments (-37%), Retail (-18%) and Industrial (-15%). These declines may signal that there is a disconnect between high prices and shrinking yields. Favorable supply and demand levels have served as a buffer for any major disruptions, and many are wondering if they can continue to do so.

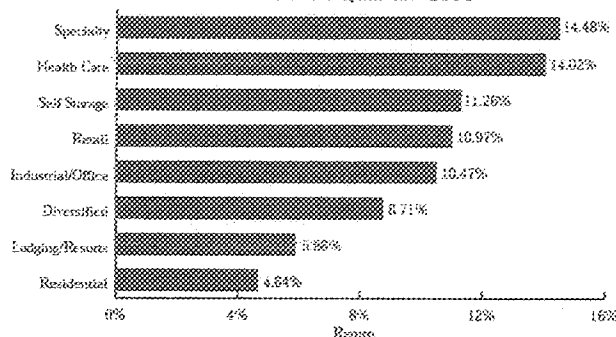
Sector	Overall Capitalization Rates	
	4th Quarter 2006	One Year Ago
Industrial	6.82%	7.29%
Apartment	5.97%	6.13%
CBD Office	6.94%	7.33%
Suburban Office	7.63%	8.02%
Strip Shopping Center	7.27%	7.42%

Source: *Kapriel Real Estate Investor Survey*®  
Rates based on unleveraged, all-cash transactions.

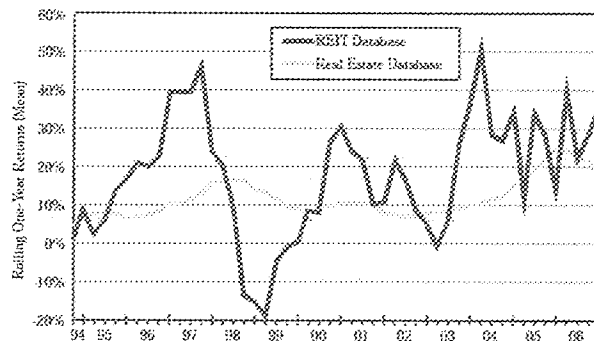
Callan Style Group Returns - Fourth Quarter 2006



NAREIT Equity Sector Performance  
Fourth Quarter 2006



Rolling One-Year Returns



## REAL ESTATE

Style Median and Index Returns\* for Periods ended December 31, 2006

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
<b>REIT INDEX</b>						
Real Estate Database (net of fees)	3.12	14.44	17.15	12.58	12.39	10.54
NCREIF Property	4.51	16.59	17.02	13.27	12.72	9.78
<b>REIT DATABASE</b>						
REIT Database	9.82	37.29	28.52	25.43	16.69	17.57
NAREIT Equity	9.47	35.06	25.85	23.19	14.48	15.36
<b>GLOBAL REIT INDEX</b>						
REIT Global Database	15.57	47.01	---	---	---	---
EPRA/NAREIT Global	14.04	42.35	31.34	26.79	12.76	13.33

\* Returns less than one year are not annualized.

## Private Equity Market

Preliminary estimates for 2006 fundraising totaled \$215.4 billion in commitments and 322 new funds. This exceeds the prior record of \$177.9 billion, set at the height of the 2000 bubble. The market share for venture capital commitments continues to decline, falling to 12% in 2006.

The pace of investments by funds into companies also set an all-time record. According to *Buyouts* newsletter, buyout-sponsored acquisitions in 2006 totaled 1,007 transactions, with 316 deals announcing values of \$315 billion. This is up from 852 deals in 2005, with 392 disclosing values of \$200 billion. Over half of the 2006 announced value (\$174 billion) was concentrated in just 23 transactions. The largest deal of the year—the \$33 billion going-private transaction by HCA—was closed in the fourth quarter by a consortium of three private equity investors: Bain, KKR and Merrill Lynch.

Exit activity increased in 2006. Thompson Financial reports that 66 buyout-backed companies went public, raising \$17.5 billion, compared with 67 buyout-backed IPOs totaling \$15.8 billion the prior year. Regarding venture-backed IPOs, 58 companies raised \$5.3 billion in 2006, up from 56 IPOs raising \$4.5 billion in 2005. Venture-backed merger activity totaled 335 deals, of which 146 announced values totaling \$16.6 billion, up slightly from the previous year.

Please see our upcoming issue of *Private Markets Trends* for more in-depth coverage.

Funds Closed January 1 through December 31, 2006			
Strategy	# of Funds	\$ Amt (mil)	%
Venture Capital	119	25,138	12%
Acquisition/Buyouts	125	146,033	68%
Subordinated Debt	25	20,375	9%
Distressed Debt	4	2,810	1%
Other	7	3,771	2%
Fund-of-funds	42	17,273	8%
<b>Totals</b>	<b>322</b>	<b>215,400</b>	<b>100%</b>

Source: *The Private Equity Analyst*

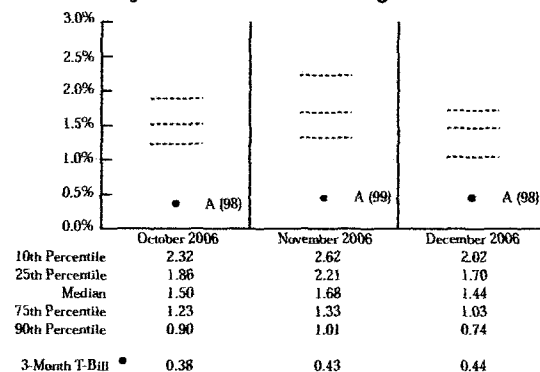
## Hedge Funds Soar on Upside Risk

Last quarter, a strong, resilient global economy defied skeptics again, giving investors nothing to fear but fear itself. Consequently, it seemed that every risk—short of being short—was rewarded last quarter. As the proxy for an unmanaged hedge fund universe of open and closed funds, the **CSFB/Tremont Hedge Fund Index** jumped 5.78% in the fourth quarter, trailing MSCI World Equity's 8.37% advance. For 2006, the **CSFB/Tremont Index** gained 13.86%.

Among CSFB/Tremont's substrategies, several sectors were particularly strong. *Emerging Markets* (+9.12%) vaulted ahead of other hedge fund strategies, with a powerful boost from MSCI Emerging Markets (+17.64%) and JPM EMBI+ (+4.11%). Aided by strong equity markets last quarter, the *Long-Short Equity* manager climbed 7.04%. Amid the M&A feeding frenzy, *Merger Arb* accrued a handsome 3.35% profit.

Representing well-diversified hedge fund programs, the median manager in **Callan's Hedge Fund-of-Funds Database** rose 4.68% last quarter, net of fees. Repeating the prior quarter's performance finish, the FoF manager with more directional equity or credit exposure generally beat the absolute return-oriented manager. In the fourth quarter, the median *Long-Short Equity* FoF (+5.43%) beat the *Absolute Return* FoF (+3.85%) and *Core Diversified* FoF (+4.62%).

Monthly Net Returns: CAI Hedge FoF Database



## ALTERNATIVE INVESTMENTS

Style Median and Index Returns\* for Periods ended December 31, 2006

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
<i>Convertibles Database</i>	4.31	10.71	7.03	6.90	9.56	11.28
ML Convertible, All Qualities	5.01	12.83	7.70	7.75	8.54	—
<i>Hedge Fund-of-Funds Database</i>	4.68	10.02	8.00	7.45	10.47	10.99
<i>Market Neutral Equity Style</i>	0.78	6.89	4.74	4.55	5.34	6.00
CSFB/Tremont Equity Market Neutral	2.26	11.15	7.90	7.64	10.54	—
CSFB/Tremont Long/Short Equity	7.04	14.38	11.86	10.07	12.78	—
CSFB/Tremont Event-Driven	6.01	15.73	13.01	11.65	11.21	—
CSFB/Tremont Convertible Arb	3.26	14.30	4.34	5.93	9.32	—
CSFB/Tremont Fixed Income Arb	2.65	8.66	5.33	5.93	5.60	—
90-Day T-Bills	1.26	4.85	3.07	2.43	3.81	4.00
WP/VE Post-Venture Cap	10.52	4.05	9.03	5.30	4.06	8.00
GS Commodity	-4.44	-15.03	7.75	14.81	6.36	7.30
MLM Managed Futures	0.78	0.40	2.54	1.97	5.28	6.30
Dow Jones-AIG Commodity	4.10	-2.71	7.17	13.34	3.16	4.25

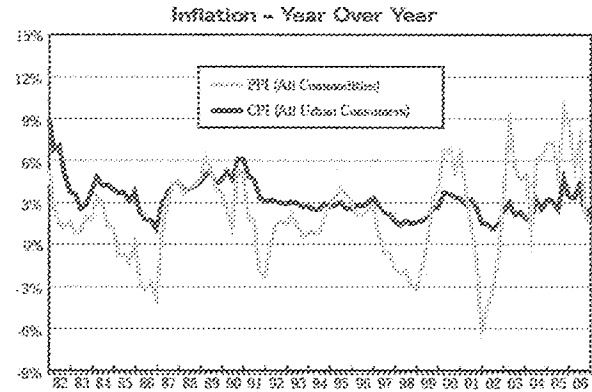
\* Returns less than one year are not annualized.

## Room to Run

The U.S. economy fared very well in 2006, with a GDP growth rate of 3.3% for the year, just above trend and slightly ahead of 2005. Growth slowed over the course of the year, cycling down from the robust 5.6% in the first quarter to 2.6% and 2.0% in the second and third quarters, but the extent of the slowdown is now in question. Stronger fourth quarter economic data on employment, trade, incomes, inflation and production, a plunge in oil prices, and a sudden burst in consumer confidence all suggest that we may yet have room to run in the current economic expansion. Second and third quarter growth rates were revised upward as the year progressed and the fourth quarter GDP growth came in at an estimated 3.0%, much higher than anticipated. Growth in the euro zone and Japan looks much more solid than a year ago, China and India continue to expand rapidly, and the global economy is seeing steady, synchronized growth for the first time in years.

Concerns are focused on the U.S. housing market. The housing market bubble is fizzling fast, perhaps faster than expected, with home prices sliding, inventories of unsold homes ballooning, and starts falling sharply (December 2006 starts were down 18% from December 2005). The contraction in housing impacts the economy in multiple sectors, including construction activity, finance, insurance and real estate services, and wholesale and retail trade, as well as indirectly through consumer spending and confidence. Initial estimates suggest that in the third and fourth quarters of 2006 the direct effect on construction alone chopped over 1% off GDP growth. Median home prices have fallen sharply in some of the more overheated markets on the coasts. The real eye-catching statistic, provided by the National Association of Realtors, is the decline of the median price for existing homes at the national level by 1.0% in the third quarter, and another expected drop of 3.9% in the fourth quarter. A decline in the nominal price of existing homes at the national level is virtually unprecedented.

Consumer confidence shot up in the fourth quarter, buoyed by decent job growth, improving real wages, and the sharp drop in oil prices. A confident consumer is clearly good news for housing and retail. The economy created 167,000 new jobs in December on top of 154,000 in November, totaling 1.8 million jobs over the course of the year, for a growth rate of 1.4%, comparable to the 1.5% reported in 2005. Growth in real wages (adjusted for inflation) turned positive in 2006 for the first time since 2003. Oil prices fell to \$55 by the end of the year after cresting to over \$70 at the peak of the recent cycle, and the effect is akin to a tax cut for consumers. A confident consumer, supported by a growing economy and stable (or declining) mortgage



rates could spell the end of the decline in the housing market as soon as the first half of 2007.

Corporations enjoyed another year of strong profit growth, the fifth year in a row, and profits continue to set records as measured by their share of GDP. Capacity is being stretched, as illustrated by a factory utilization rate above 80% (the magical line that typically triggers investment), and unfilled orders for non-defense capital goods have been climbing steadily through 2005 and 2006. As a result, capital spending has seen strong growth, led by equipment and software, which has averaged 8% to 10% growth over the past three years. Taking the lead in the second half of 2006 was non-residential construction, including investment in office, health care, and manufacturing structures, as well as mining and petroleum facilities.

Inflation surged at times during the past two years, surpassing 4% in the fall of 2005 and again in the spring of 2006, but by the end of 2006 consumer price inflation, brought down by the drop in oil prices, fell back to 2.5%, down from the 3.4% recorded at year-end 2005. The "core" inflation measure that matters to the Fed (excluding the volatile energy and food prices) rose toward 3% during 2006 but then finished the year back at 2.6%. This level of core inflation is clearly above the Fed's articulated comfort zone of 2% to 2.2%, but appears to be subsiding. The stronger economy combined with the lessening threat from inflation means the Fed is unlikely to lower or raise rates in the first half of 2007. Oil prices remain a wild card for future inflation. Warm December weather in the U.S. and benevolent supply conditions helped push down oil prices; but a significant supply disruption could easily send prices back over \$70, re-igniting inflationary pressures.

### U.S. ECONOMY Recent Quarterly Indicators

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06
CPI-All Urban Consumers (year-over-year)	3.2%	2.5%	4.7%	3.4%	3.4%	4.3%	2.1%	2.5%
PPI-All Commodities (year-over-year)	7.3%	4.8%	9.8%	8.5%	5.5%	7.5%	1.9%	1.7%
Employment Cost-Total Compensation Growth	3.8%	2.5%	2.9%	2.8%	2.4%	3.2%	3.6%	3.1%
Non-firm Business-Productivity Growth	3.6%	2.3%	4.4%	-0.1%	4.3%	1.2%	0.2%	1.2%
GDP Growth	3.4%	3.3%	4.2%	1.8%	5.6%	2.6%	2.0%	3.0%*
Manufacturing Capacity Utilization (level%)	78.1	78.7	78.6	79.6	80.1	80.6	80.9	80.2
Consumer Sentiment Index (1966=1,000)	0.941	0.902	0.875	0.824	0.839	0.838	0.840	0.925

\* Estimated

## The Bulls Are Running Strong

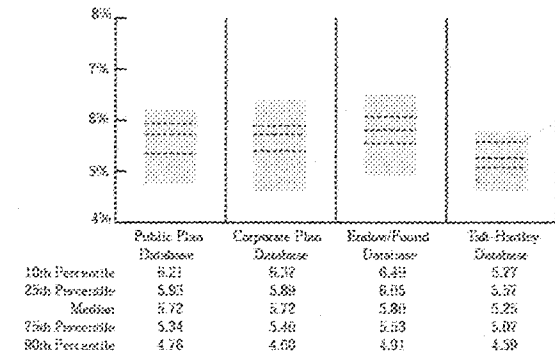
Corporate profits, strong M&A activity and the Fed's decision to hold short-term interest rates steady at 5.25% propelled the world's stock markets to new heights in the fourth quarter. Equity markets outpaced their bond counterparts, both at home (Russell 3000: +7.12% versus Lehman Brothers Aggregate: +1.24%) and abroad (MSCI EAFE: +10.35% versus Citigroup Non-U.S. World Government Bond: +2.09%). As a result, those fund sponsors with greater equity exposure surpassed their more conservatively invested peers.

Callan estimates the recent total returns of the institutional investor community by using the median manager returns from the latest quarter and ending asset allocations from the prior quarter.

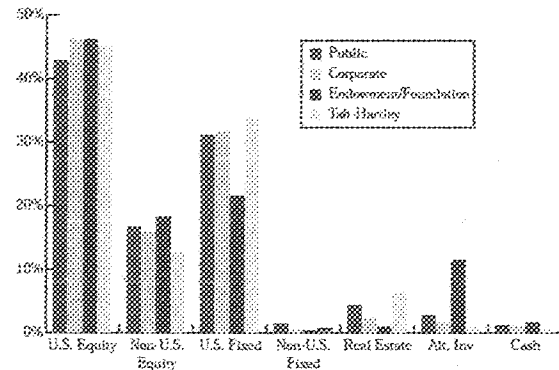
The adjacent graph—illustrating the range of returns for public, corporate and Taft-Hartley pension plans, as well as endowments/foundations—shows solid gains across the board. The table below compares the returns of four types of institutional fund sponsors to several benchmarks over longer time periods. Choices in asset allocation explain much of the difference in performance. For the fourth quarter, fund sponsors with more aggressive asset allocations came out on top. The median endowment/foundation (+5.80%) led its institutional counterparts, with an average public equity allocation of 64%. With slightly lower public equity allocations, corporate and public plans were not far behind, each rising 5.72% in the median case. Weighed down by greater bond allocations, the median Taft-Hartley plan (+5.25%) trailed its peers in the fourth quarter.

Callan's balanced manager groups generally maintain well-diversified portfolios and attempt to add value by underweighting or overweighting asset classes, as well as through stock selection. In the recent quarter, global balanced managers beat their static 60% equity and 40% fixed income benchmark while domestic balanced managers lagged their target.

Callan Style Group Returns - Fourth Quarter 2006



Average Asset Allocation as of September 30, 2006



### DIVERSIFIED ACCOUNT DATABASE

Style Median and Index Returns\* for Periods ended December 31, 2006

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
<b>DIVERSIFIED</b>						
Public Database	5.72	13.88	11.01	8.87	8.77	9.54
Corporate Database	5.72	13.53	10.74	8.57	8.53	9.99
Endowment/Foundation Database	5.80	13.95	11.20	8.90	9.33	10.15
Taft-Hartley Database	5.25	12.33	9.62	7.89	8.37	9.38
<b>DIVERSIFIED</b>						
Asset Allocator Style	4.99	11.28	9.89	8.71	8.91	10.19
Domestic Balanced Database	4.69	11.49	8.74	7.80	8.38	9.39
Global Balanced Database	5.98	12.70	11.74	11.22	9.62	10.99
60% Russell 3000 + 40% LB Aggregate	4.77	11.11	8.22	6.69	8.17	9.41
60% MSCI World + 40% LB Global Agg	5.84	14.63	10.22	9.50	7.27	8.10

\* Returns less than one year are not annualized.

The *Capital Market Review* is published quarterly for members of the institutional investment community, both domestic and international. The *Capital Market Review* focuses primarily on the latest quarterly performance of market indices and Callan style groups for each of the major asset classes used by institutional investors. *Capital Market Review* contributors are as follows:

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# Performance Report

## Callan Market Overview

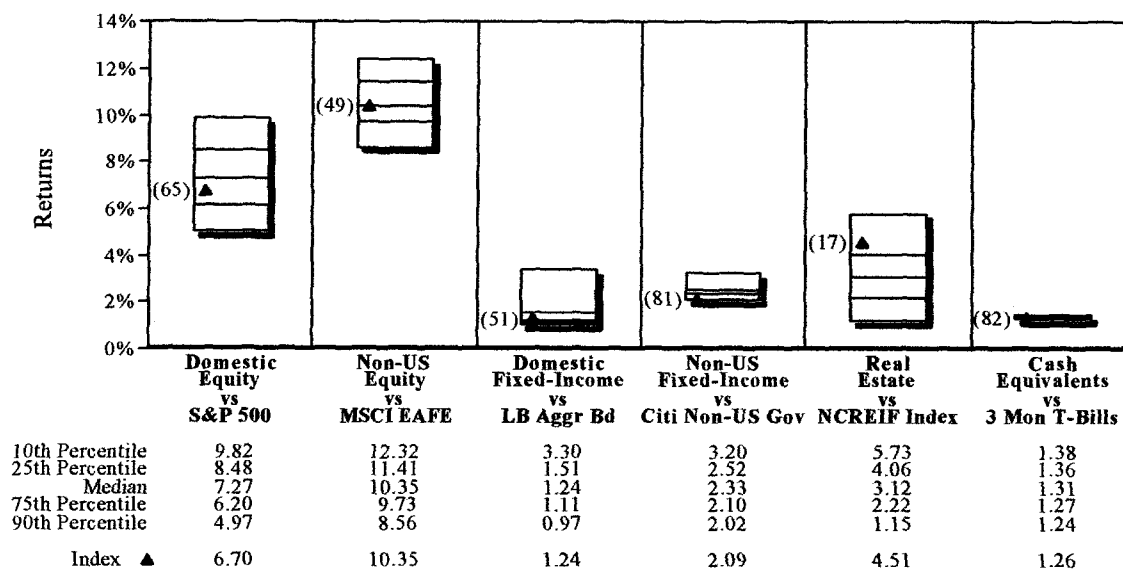


## MARKET OVERVIEW ACTIVE MANAGEMENT VS INDEX RETURNS

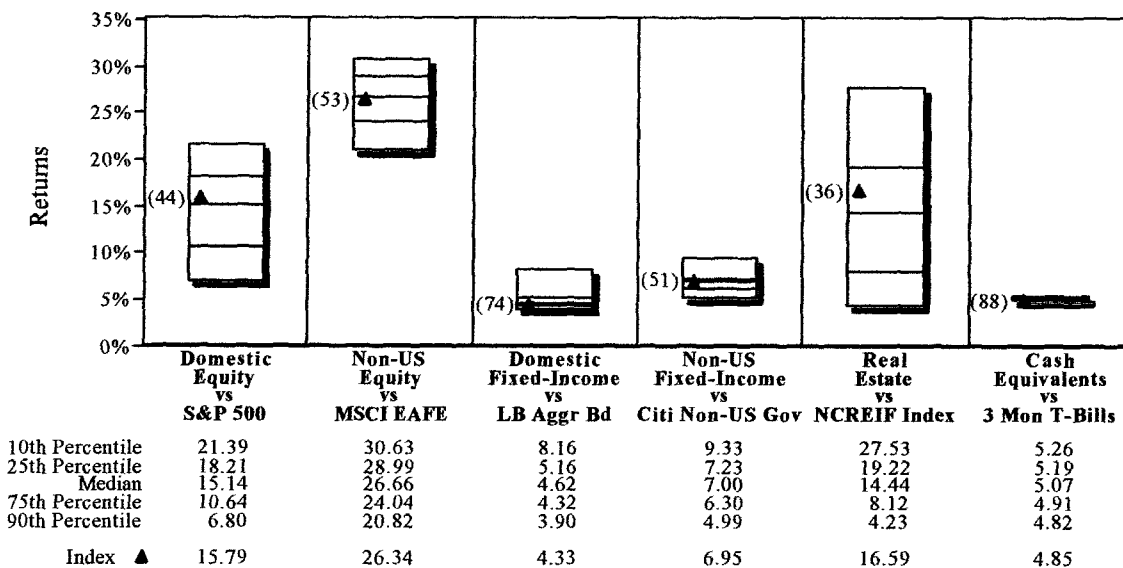
### Market Overview

The charts below illustrate the range of returns across managers in Callan's Separate Account database over the most recent one quarter and one year time periods. The database is broken down by asset class to illustrate the difference in returns across those asset classes. An appropriate index is also shown for each asset class for comparison purposes. As an example, the first bar in the upper chart illustrates the range of returns for domestic equity managers over the last quarter. The triangle represents the S&P 500 return. The number next to the triangle represents the ranking of the S&P 500 in the domestic equity manager database.

### Range of Separate Account Manager Returns by Asset Class One Quarter Ended December 31, 2006



### Range of Separate Account Manager Returns by Asset Class One Year Ended December 31, 2006



## DOMESTIC EQUITY Active Management Overview

### Active vs the Index

The domestic equity market remained robust in the fourth quarter of 2006. Factors that contributed to the market rally that began in the summer continued to support stocks at year-end. Moderate inflation, in part due to lower energy prices, led the Fed to leave the federal funds rate unchanged at 5.25%. The year was characterized by volatility in market leadership that created an environment challenging for active funds following long-term investment strategies. All three Large Cap styles underperformed their indexes for the quarter. For one year ended December 31, 2006, the median Large Cap Core fund returned 15.90% while the S&P 500 returned 15.79%. Small Cap funds outperformed the S&P 600 for the quarter with a median fund return of 8.34% compared to the index's 7.84%. However, Small Cap funds fell short of the Russell 2000's quarterly return of 8.90%. For the year, Small Cap's return of 14.60% lagged both the S&P 600 and the Russell 2000, which had returns of 15.11% and 18.37%, respectively.

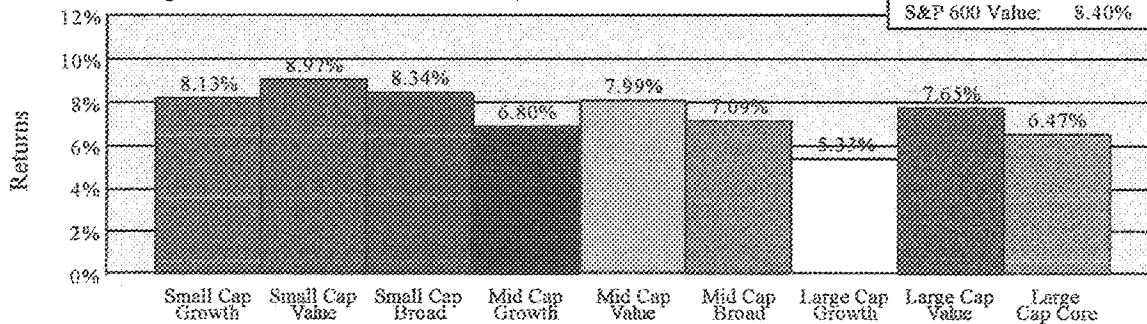
### Large Cap vs Small Cap

In the previous two quarters, indications of an end to Small Cap leadership emerged as Large Cap stocks outperformed Small Cap stocks. However, Small Cap stocks rebounded in the fourth quarter of 2006 beating Large Cap and Mid Cap stock funds across all styles. Russell 2000 sectors that lagged earlier in the year helped drive performance in the fourth quarter. The median Small Cap Broad fund returned 8.34% for the fourth quarter compared to the median Large Cap Broad fund which gained only 6.54%.

### Growth vs Value

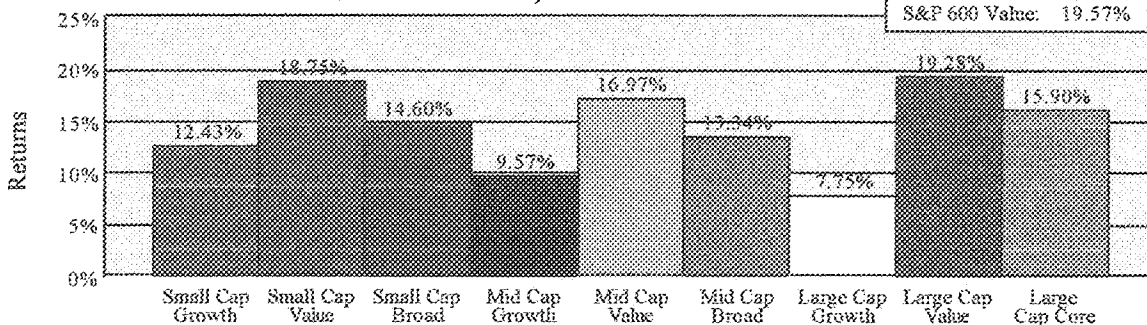
For the quarter and year ended December 31, 2006, Value stocks again beat Growth stocks. For the year, Value stocks outperformed Growth stocks across all market capitalizations and the spread between Value and Growth increased along with capitalization size. Growth funds usually have larger allocations in the technology and healthcare sectors, and while these sectors fared well, they underperformed integrated oils, utilities and consumer staples by nearly 50%. The outperformance of these "value sectors" help to explain Value funds' outperformance of Growth funds for the year. The median Large Cap Value fund returned 19.28% for one year ended December 31, 2006. The median Large Cap Growth fund returned 7.75% for the same time period.

**Separate Account Style Group Median Returns  
for Quarter Ended December 31, 2006**



S&P 500:	6.70%
S&P 500 Growth:	5.65%
S&P 500 Value:	7.72%
S&P Mid Cap:	6.99%
S&P 600:	7.84%
S&P 600 Growth:	7.26%
S&P 600 Value:	8.40%

**Separate Account Style Group Median Returns  
for One Year Ended December 31, 2006**



S&P 500:	15.79%
S&P 500 Growth:	11.01%
S&P 500 Value:	20.81%
S&P Mid Cap:	10.31%
S&P 600:	15.11%
S&P 600 Growth:	10.54%
S&P 600 Value:	19.57%

## DOMESTIC FIXED-INCOME Active Management Overview

### Active vs the Index

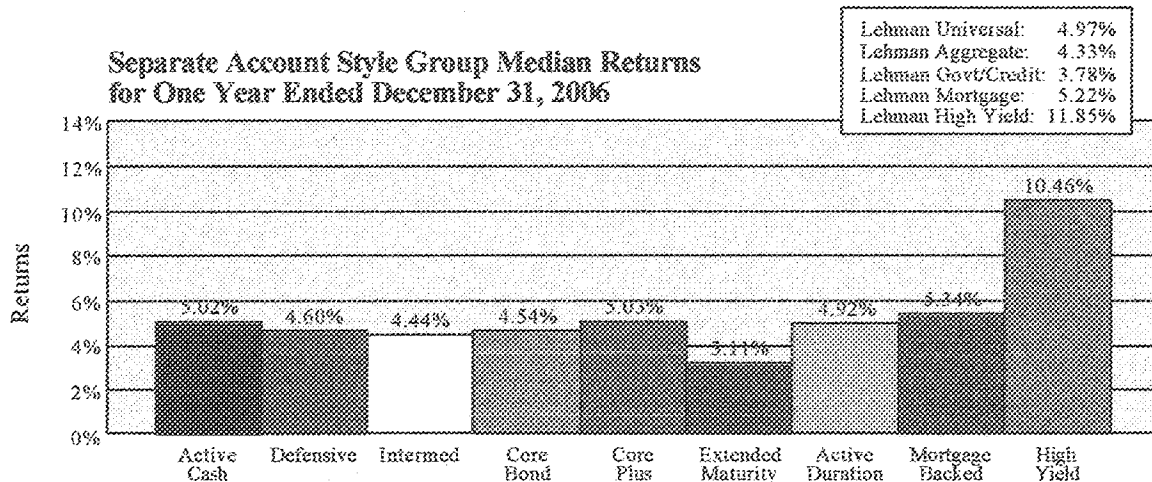
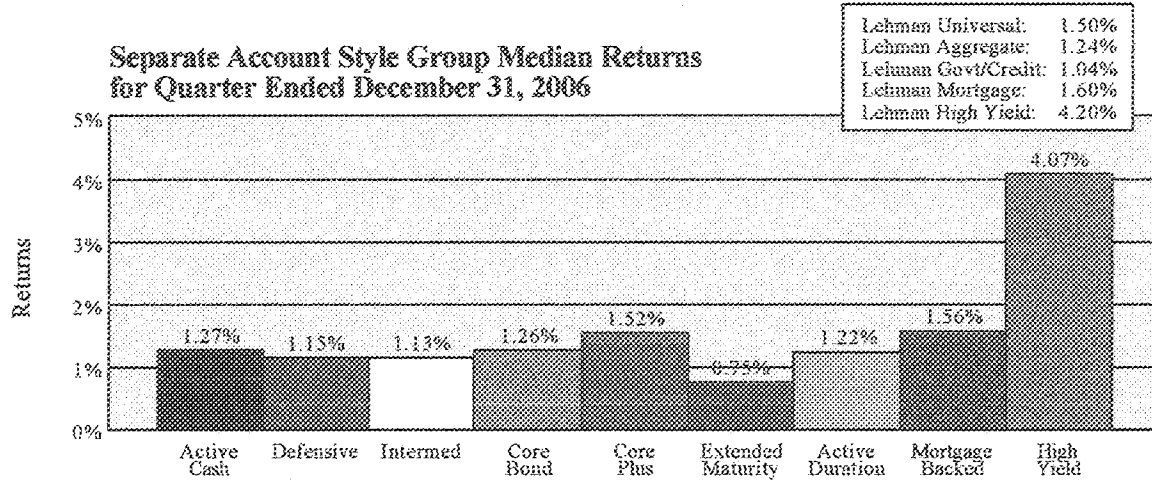
In the fourth quarter of 2006, the fourth consecutive meeting of the Fed left the Federal Funds rate unchanged at 5.25%. This led to positive gains across the asset class. The Lehman Aggregate returned 1.24% for the quarter while the median Core Bond fund produced an additional 2 basis points, with a quarterly return of 1.26%. For the year ended December 31, 2006, the median Core Bond fund returned 4.54%, an increase of 64 basis points over last quarter's return of 3.90%. The one-year return for Core Bonds jumped ahead of the Lehman Aggregate return of 4.33% by 21 basis points.

### Short vs Long Duration

The Fed Funds rate should continue to hold steady until economic data gives a clear sign of change between growth and inflationary risks to the economy. The resulting inverted yield curve, often signaling the beginning of a recession, could also be taken as a sign of the market's confidence in Fed policy as well as optimism in other areas of the bond market. With shorter-term yields remaining higher than longer-term, Active Cash funds were favored over Extended Maturity funds with returns of 1.27% and 0.75%, respectively. For the quarter ended December 31, 2006, Defensive funds inched ahead of Intermediate funds by 2 basis points, posting a median return of 1.15% versus 1.13%.

### Mortgages and High Yield

Despite the current housing sector slowdown, Mortgage Backed securities still managed a positive return of 1.56% for the quarter ended December 31, 2006 and 5.34% for the year. High Yield produced the highest returns, driven primarily by low default rates and the expectation of continued positive corporate earnings. Although, trailing the Lehman High Yield by 13 basis points for the quarter and 139 basis points for the year, High Yield still posted the strongest performance with returns of 4.07% and 10.46%, respectively.



## INTERNATIONAL EQUITY Active Management Overview

### Active vs. the Index

The quarter ended December 31, 2006 was outstanding for international equity funds as investors' confidence continued to soar. All style group median returns were more than double the impressive figures posted last quarter. The biggest increase was generated by the Europe group, which returned 11.78%. For both the quarter and year ended December 31, 2006, Emerging Markets trumped all other international equity style groups, with the median fund returning 17.84% and 33.90%, respectively. The median Emerging Market fund also added value over the MSCI Emerging Markets Index: 20 basis points for the quarter and 131 basis points for the twelve months ended December 31, 2006.

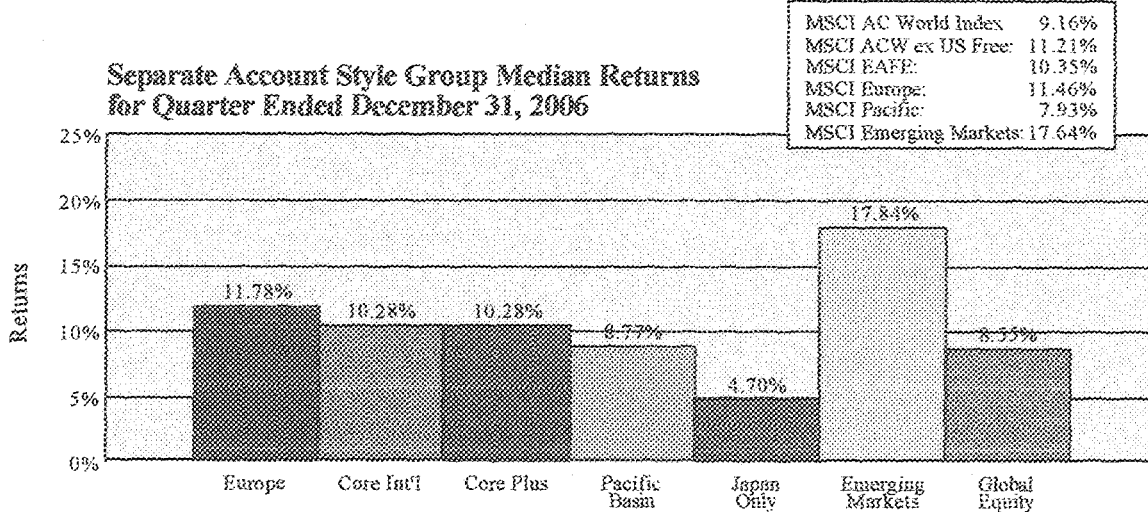
### Europe

The European economy continued to experience healthy economic growth as compared to the U.S., despite the fact that the dollar gained some strength. The median European fund posted a very strong return of 11.78% for fourth quarter 2006, rounding out a very solid year with an annual return of 33.36%, only lagging behind the Emerging Market group. The only damper on the positive news was the under-performance of the MSCI Europe index by 36 basis points for the year.

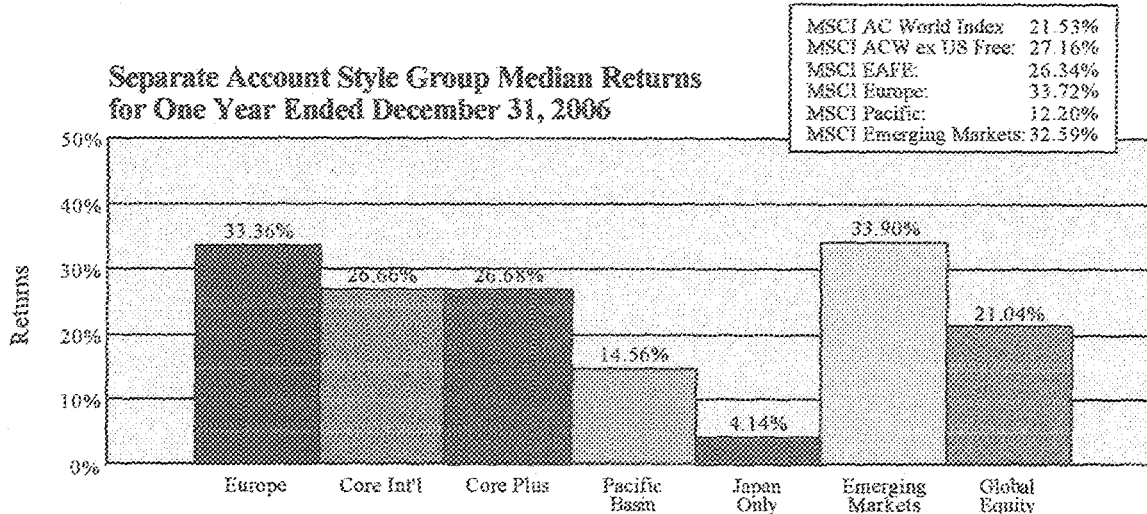
### Pacific

Japan's growth appeared weaker as the yen continued to fall against the dollar. However, for the quarter ended December 31, 2006, Japan generated a positive return of 4.70%, but continued to be the worst performer for the quarter and for the year ended December 31, 2006. In stark contrast to the stellar performances throughout International equity, the median Japan Only fund posted an annual return of 4.14% for 2006. This weak performance was confined to Japan as the median Pacific Basin manager posted healthy quarterly and annual returns of 8.77% and 14.56%, respectively.

**Separate Account Style Group Median Returns  
for Quarter Ended December 31, 2006**



**Separate Account Style Group Median Returns  
for One Year Ended December 31, 2006**





# Performance Report

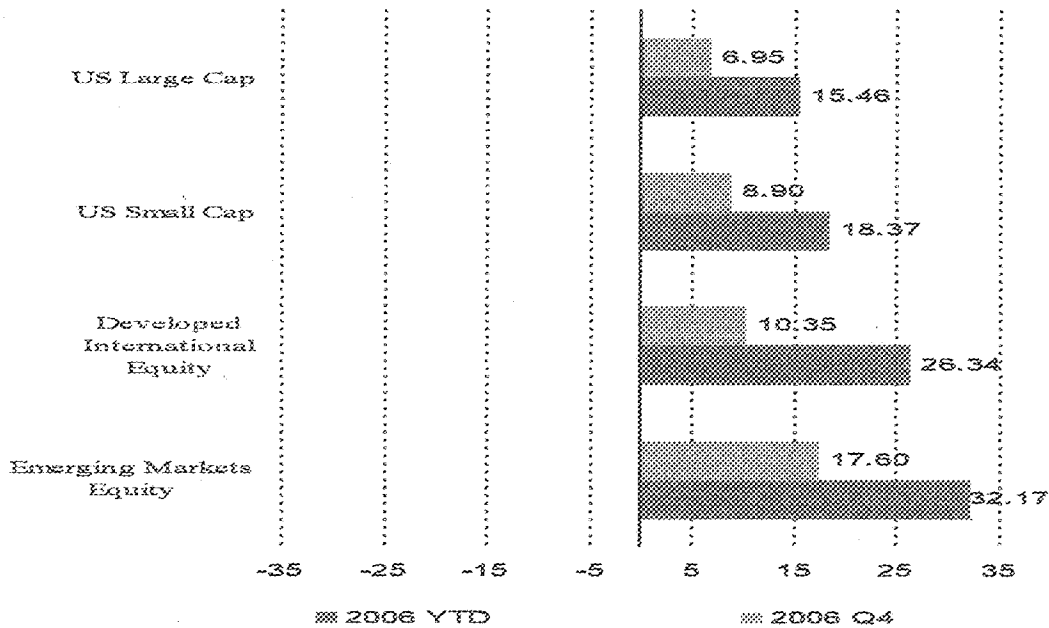
## Performance Report Summary

## MARKET PERFORMANCE HIGHLIGHTS

*Strong corporate profit growth*, slowing but positive GDP growth, and moderate inflation led to another strong global equity market for the 4th Quarter. 2006 equity market returns were the best since 2003 and surprised many market participants with the surge over the last half of the year.

- International equity markets continued to outperform the U.S. as the dollar weakened and local foreign markets improved as well. Once again, international emerging markets led all other major segments.
  
- A slowing economy, tempered inflation fears, and expectations of an easing of Fed policy in 2007 provided the underpinnings for advances in the U.S. bond market. High yield and international emerging markets bonds outperformed the investment grade sectors of the U.S. and developed foreign bond markets, as spread relationships continued to tighten.
  
- Most hedge fund sectors achieved double digit returns after two mediocre years. Record deal volume fueled profits in merger arbitrage and strong gains in emerging markets led the equity long/short sector. Real estate posted another impressive year, as the domestic REIT index grew over 35%.

### Major Equity Market Indices

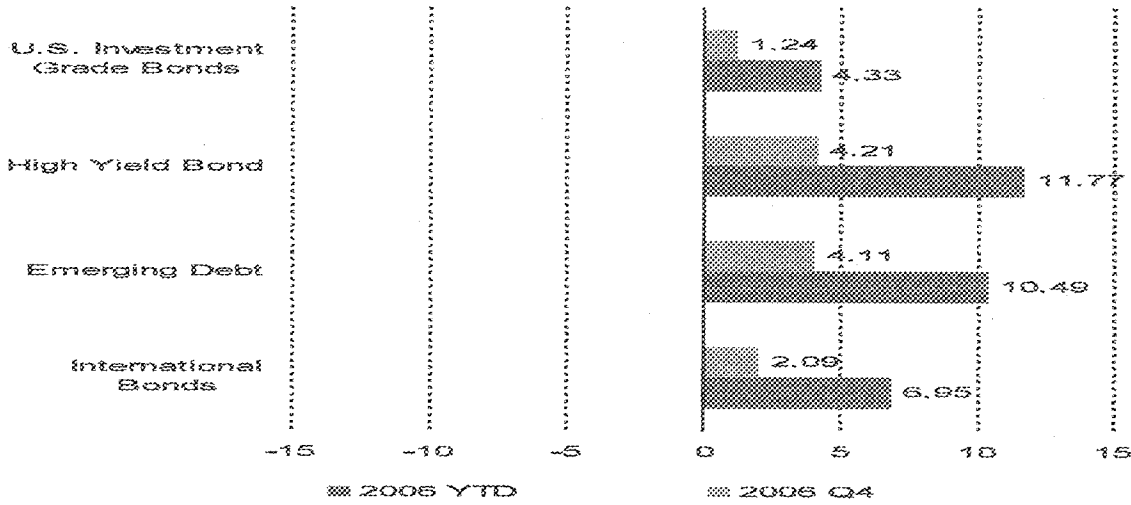


Source: Callan Associates, Inc

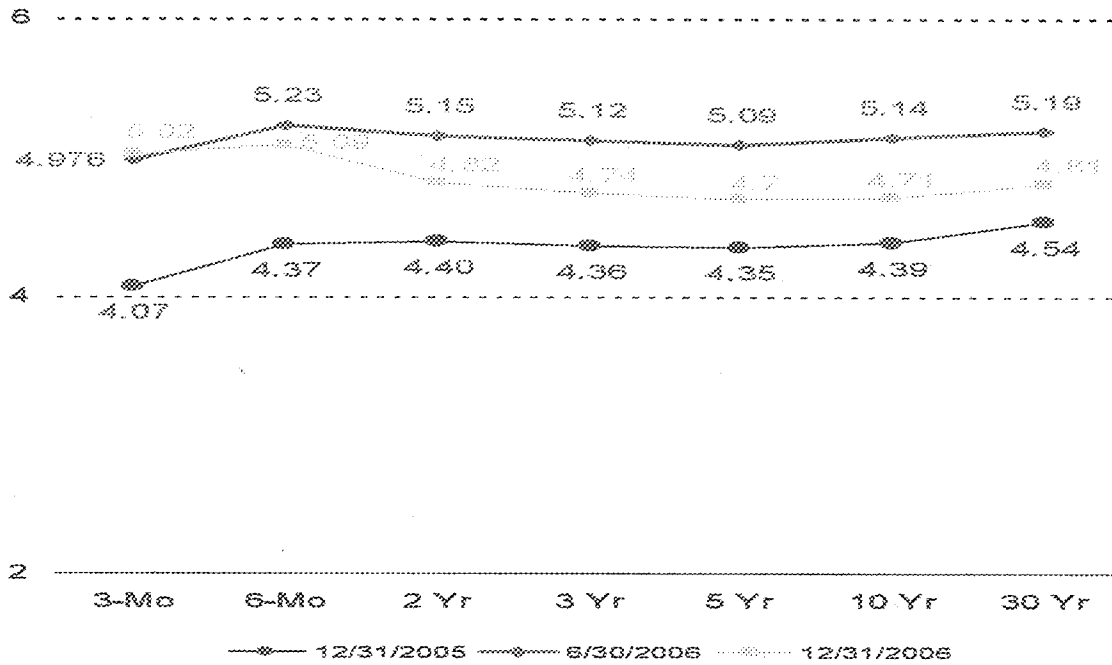
US Large Cap = Russell 1000, US Small Cap = Russell 2000, Dev. Int'l Equity = MSCI EAFE, Emerging Mkts Equity = MSCI EM net

# MARKET PERFORMANCE HIGHLIGHTS

## Major Bond Market Indices



## Yield Curve



Source: Callan Associates, PIMCO

U.S. Investment Grade Bonds = Lehman US Aggregate Index, High Yield Benchmark = Merrill Lynch Master II US High Yield Bonds, Emerging Debt = JPM Emerging Markets Bond Index+, International Bonds = Citigroup Non US Unhedged

Virginia Birth-Related Neurological Injury Compensation Fund

# MARKET VALUE STATEMENT

## Asset Distribution Across Investment Managers

	December 31, 2006		September 30, 2006	
	Market Value	Percent	Market Value	Percent
<b>Domestic Equity</b>	<b>\$ 66,709,589.79</b>	<b>35.9%</b>	<b>\$ 60,476,094.29</b>	<b>36.9%</b>
INTECH Large Cap Growth	\$ 8,882,874.16	4.8%	\$ 8,087,211.46	4.9%
Rainier Large Cap Growth	\$ 8,651,839.85	4.7%	\$ 7,644,623.62	4.7%
Vanguard Large Cap Index	\$ 21,600,256.21	11.6%	\$ 20,216,766.39	12.3%
AllianceBernstein Diversified Value	\$ 9,410,670.58	5.1%	\$ 8,656,396.09	5.3%
Great Lakes Large Cap Value	\$ 8,785,223.83	4.7%	\$ 8,276,426.54	5.0%
Eagle Asset Mgmt	\$ 4,686,004.67	2.5%	\$ 3,774,380.19	2.3%
TAMRO Capital Partners	\$ 4,692,720.49	2.5%	\$ 3,820,290.00	2.3%
<b>International Equity</b>	<b>\$ 25,311,789.13</b>	<b>13.6%</b>	<b>\$ 22,562,672.41</b>	<b>13.8%</b>
Artisan International Fund	\$ 12,462,918.06	6.7%	\$ 11,274,828.48	6.9%
Harbor International Fund	\$ 12,848,871.07	6.9%	\$ 11,287,843.93	6.9%
<b>Emerging Markets</b>	<b>\$ 5,224,308.42</b>	<b>2.8%</b>	<b>\$ 4,425,443.18</b>	<b>2.7%</b>
SSgA Emerging Markets Fund	\$ 5,224,308.42	2.8%	\$ 4,425,443.18	2.7%
<b>Domestic Fixed Income</b>	<b>\$ 79,309,144.65</b>	<b>42.6%</b>	<b>\$ 72,208,696.87</b>	<b>44.0%</b>
Vanguard Total Bond Index	\$ 43,823,971.71	23.6%	\$ 58,222,042.92	35.5%
Western Asset Mgmt	\$ 16,725,544.11	9.0%	\$ 13,986,653.95	8.5%
Richmond Capital Management	\$ 9,380,847.77	5.0%	\$ -	0.0%
Atlantic Asset Management	\$ 9,378,781.06	5.0%	\$ -	0.0%
<b>Cash Equivalents</b>	<b>\$ 9,436,363.26</b>	<b>5.1%</b>	<b>\$ 4,354,073.17</b>	<b>2.7%</b>
STI Classic Instl Cash Management	\$ 9,436,363.26	5.1%	\$ 4,354,073.17	2.7%
<b>Total Fund</b>	<b>\$ 185,991,195.25</b>	<b>100.0%</b>	<b>\$ 164,026,979.92</b>	<b>100.0%</b>

### Managers/Funds Added

- Atlantic Asset Management (Bonds)
10/03/2006
- Richmond Capital Management (Bonds)
10/03/2006



## PERFORMANCE SUMMARY

### Total Fund Returns for Periods Ended December 31, 2006

	Last Quarter	Last Year
<b>VBIF Total Fund</b>	5.51	11.74
<b>VBIF Index Target</b>	4.88	11.72
<b>VBIF Style Target</b>	4.77	10.64

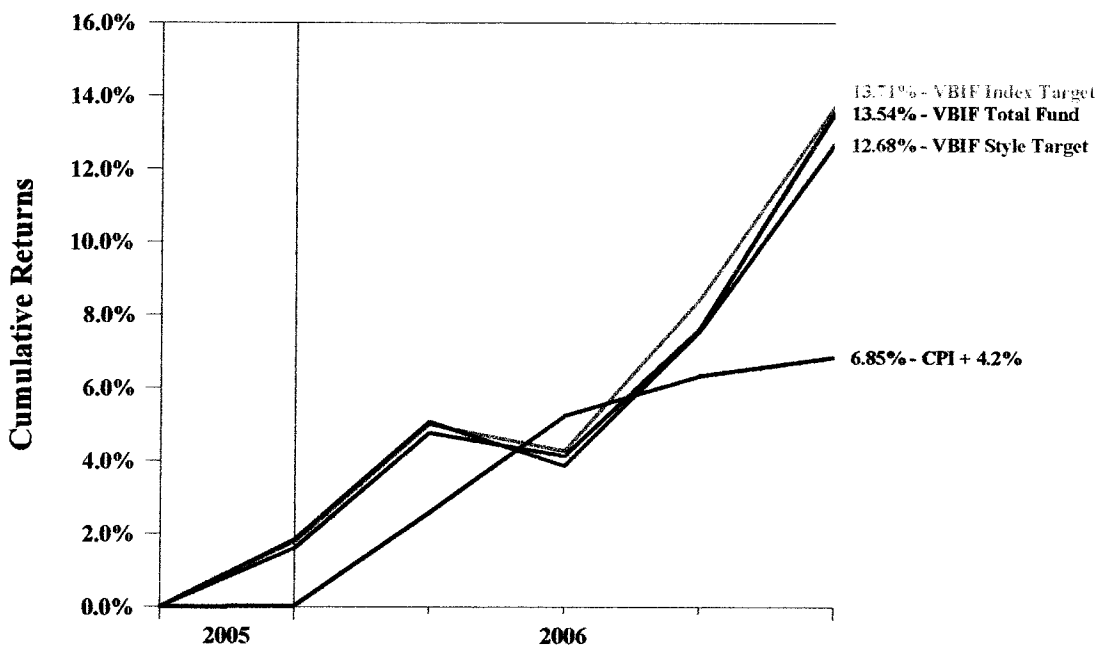
### Factors Helping Performance

- Strong global stock market returns
- Slight overweight to stocks versus bonds
- Solid absolute and relative performance by most managers
- Allocations to international and emerging markets stocks

### Factors Hindering Performance

- Moderate underperformance by U.S. large cap managers (Intech and Great Lakes)
- Low return environment for bonds

**Cumulative Return: Actual vs Targets**



**Style Target** = 30% CAI MF: Lg Cap Broad Style; 5% CAI MF: Sm Cap Broad Style; 12% CAI MF: Intl Core Equity Style; 3% CAI MF: Emerging Markets Style; 45% CAI MF: Core Bond Style; 5% CAI: Cash Management

**Index Target** = 30% MSCI U.S. Prime Market 750; 5% MSCI U.S. Small Cap 1750; 12% MSCI EAFE; 3% MSCI Emerging Markets; 45% LB Aggregate; 5% 90-day T-Bill

## FUND PERFORMANCE HIGHLIGHTS

### Returns for Periods Ended December 31, 2006

	<u>Last Quarter</u>	<u>Last Year</u>
<b><u>Domestic Equity</u></b>		
<i>INTECH Large Cap Growth</i>	3.7%	--
<i>Rainier Large Cap Growth</i>	6.8%	--
<i>Vanguard Large Cap Index</i>	6.8%	15.6%
<i>Bernstein Divers. Value</i>	8.9%	--
<i>Great Lakes Large Value</i>	6.3%	--
<i>MSCI:US Prime Mkt 750</i>	6.9%	15.7%
<i>Eagle Asset Management</i>	8.3%	--
<i>TAMRO Capital Partners</i>	12.4%	--
<i>MSCI:US Small Cap 1750</i>	8.6%	15.8%
<b><u>International Equity</u></b>		
<i>Artisan International</i>	10.5%	--
<i>Harbor International</i>	13.8%	--
<i>MSCI:EAFE US\$</i>	10.4%	26.3%
<i>SSgA Emerging Markets</i>	18.0%	--
<i>MSCI:Emer Markets</i>	17.6%	32.6%
<b><u>Domestic Fixed Income</u></b>		
<i>Western Asset Core Plus</i>	2.0%	--
<i>Vanguard Tot Bd;Inst</i>	1.4%	4.4%
<i>LB:Aggr Bd</i>	1.2%	4.3%
<i><b>VBIF Total Fund</b></i>	<b>5.5%</b>	<b>11.7%</b>
<i>VBIF Style Target</i>	4.8%	10.6%
<i>VBIF Index Target</i>	4.9%	11.7%

## QUARTERLY OUTLOOK SUMMARY – January 17, 2007

A number of economic, political and psychological factors influence emerging trends in the domestic stock and bond markets. The following chart summarizes our reading of the primary factors that are presently driving expectations for the next six to twelve months.

INFLUENCING FACTOR	PRESENT CONDITION	IMPACT ON BONDS	IMPACT ON STOCKS
<b>Economic Fundamentals</b>			
Inflation/Trend	Moderate/Stabilizing	Neutral	Neutral
Fed Policy/Liquidity	Neutral	Neutral	Neutral
Fiscal Environment	Stimulative	Neutral	Positive
Consumer Spending	Moderating	Positive	Negative
Capital Spending	Stable	Neutral	Neutral
GDP Growth Forecast	2%-3% ↓	Positive	Positive
Recent/Long-Term Dollar Trend	Stable/Down	Neutral	Neutral
<b>Interest Rate Conditions</b>			
Short-Term Rates	Stable	Neutral	Neutral
Long-Term Rates	Stable	Positive	Positive
Yield Curve	Flat	Neutral	Neutral
<b>Stock Market Fundamentals</b>			
Earnings Growth	Positive	Neutral	Positive
Earnings Expectations	Moderating	Neutral	Neutral
Valuation Level	Fair	Neutral	Positive
<b>Current Issues</b>			
Consumer Confidence	Stable	Neutral	Neutral
Employment Trend	Stable	Neutral	Positive
Geopolitical Risks	Intense	Positive	Negative

**Conclusion:**

Global stock markets continued to surge during the fourth quarter, ending the year with the strongest annual performance since the current recovery began in 2003. Our analysis of the economic fundamentals continues to support a high probability of a “soft landing” scenario that would be generally positive for the equities markets in the New Year. Investment grade bonds appear to be reasonably priced, given a stabilizing inflation outlook and the end to Fed tightening, but lower rated “spread” securities such as high yield bonds continue to be over valued.



*Denotes changes from the preceding Markets Outlook Summary.*

## IMPORTANT DISCLOSURE

In reviewing this information, you should remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific asset class, investment, investment strategy, or product made reference to directly or indirectly in this piece, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this piece serves as the receipt of, or as a substitute for, personalized investment advice from Capital Advisory Group. A copy of our current written disclosure statement discussing our advisory services and fees remains available for your review upon request.

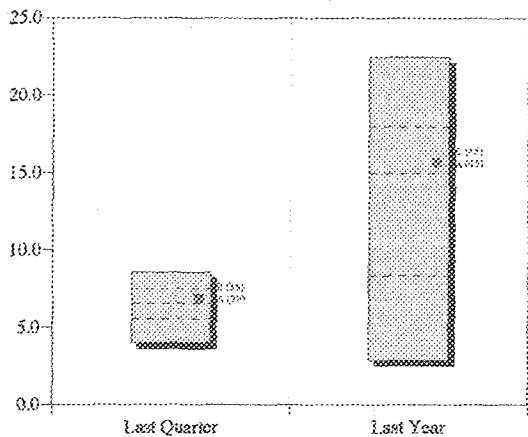


# Performance Report

## Manager Report

# Vanguard Large Cap Index Fund

Returns  
for Periods Ended December 31, 2006  
Group: CAI Large Capitalization Style

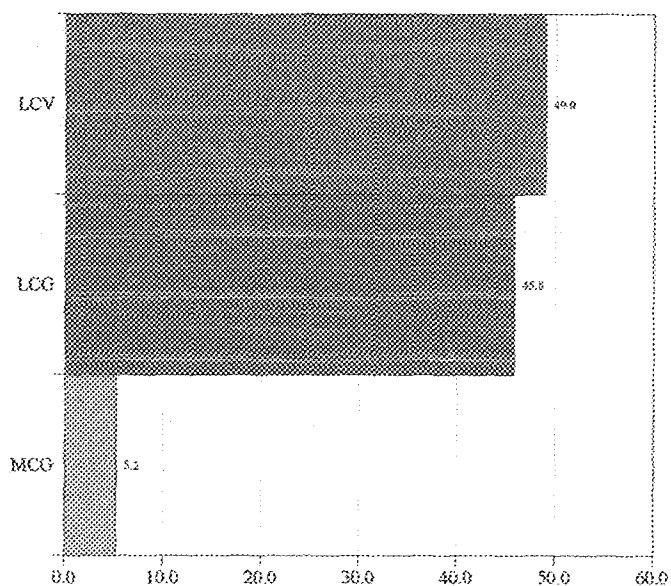


10th Percentile	8.10	20.99
25th Percentile	7.51	18.00
Median	6.54	14.89
75th Percentile	7.36	8.55
90th Percentile	4.02	-6.87
Vanguard Large Cap Index	6.87	13.61
MSCI US Prime Mkt 750	6.87	13.60

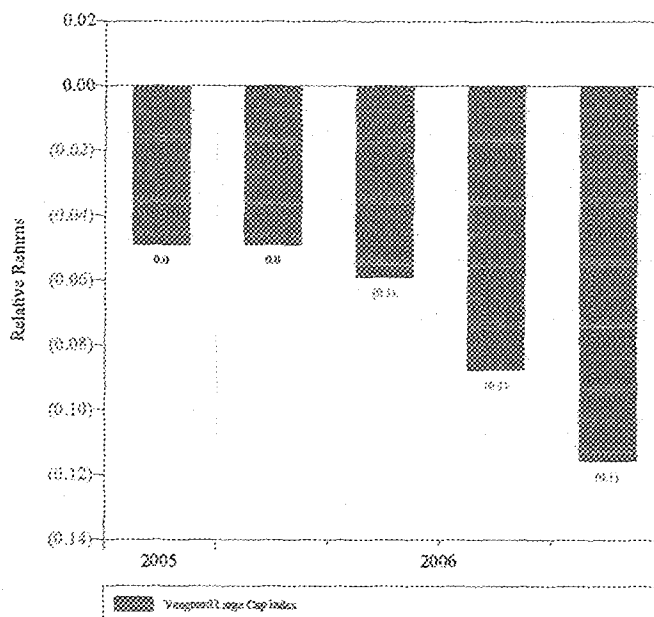
Cumulative Returns  
Since Inception of Vanguard Large Cap Index  
Ended December 31, 2006



Domestic Equity Style Chart  
for Year Ended December 31, 2006  
Portfolio: Vanguard Large Cap Index

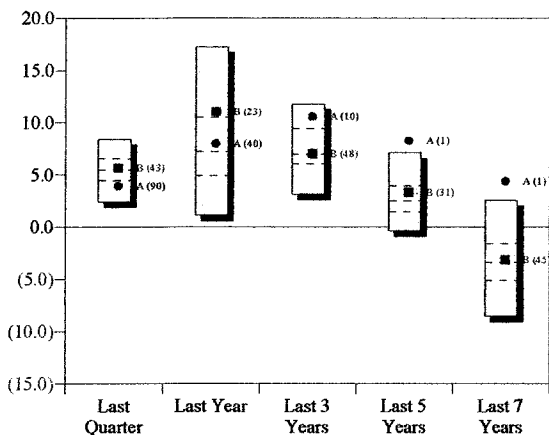


Cumulative Relative Returns Relative To MSCI US Prime Mkt 750  
for 1 1/4 Years Ended December 31, 2006



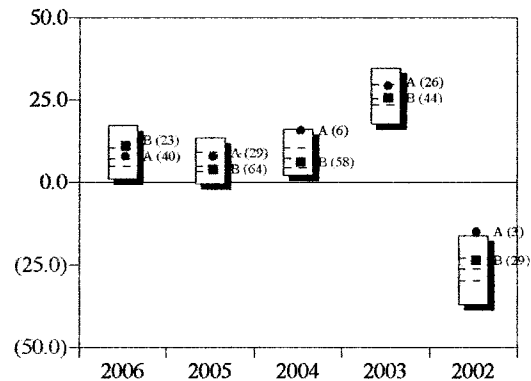
# INTECH Large Cap Growth (Composite)

**Returns  
for Periods Ended December 31, 2006  
Group: CAI MF - Large Cap Growth Style**



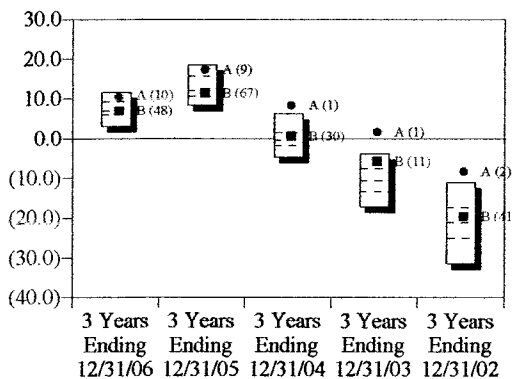
	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years
10th Percentile	7.62	14.57	10.57	6.57	(0.66)
25th Percentile	6.55	10.50	9.40	3.93	(1.58)
Median	5.48	7.22	6.97	2.54	(3.36)
75th Percentile	4.44	4.92	6.06	1.44	(5.12)
90th Percentile	3.92	1.86	3.77	0.37	(7.60)
INTECH:Lg Cap Growth	● A 3.92	● A 7.97	● A 10.54	● A 8.27	● A 4.37
S&P:500 Growth	■ B 5.65	■ B 11.01	■ B 7.01	■ B 3.31	■ B (3.14)

**Returns  
for Calendar Years  
5 Years Ended December 31, 2006  
Group: CAI MF - Large Cap Growth Style**



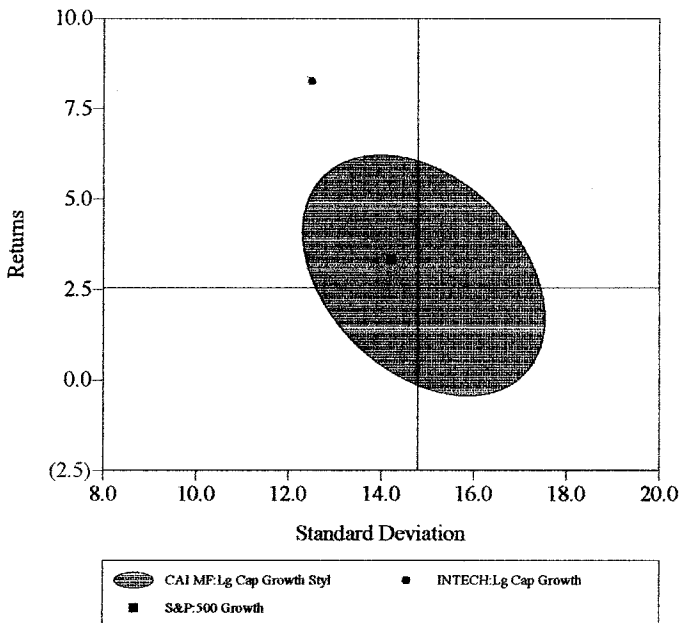
	2006	2005	2004	2003	2002
10th Percentile	14.57	11.37	14.51	31.96	(20.70)
25th Percentile	10.50	9.10	10.45	29.80	(22.94)
Median	7.22	4.94	7.35	25.28	(26.16)
75th Percentile	4.92	3.30	4.43	23.65	(29.72)
90th Percentile	1.86	0.91	3.15	20.51	(32.59)
INTECH:Lg Cap Growth	● A 7.97	● A 8.01	● A 15.83	● A 29.38	● A (14.89)
S&P:500 Growth	■ B 11.01	■ B 4.00	■ B 6.13	■ B 25.66	■ B (23.59)

**Returns  
for 12 Quarter Rolling Periods  
5 Years Ended December 31, 2006  
Group: CAI MF - Large Cap Growth Style**



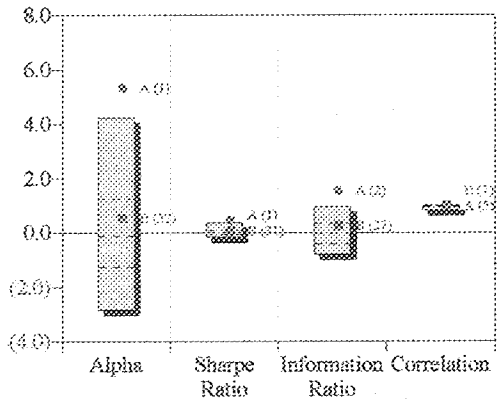
	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03	3 Years Ending 12/31/02
10th Percentile	10.57	17.14	4.78	(5.45)	(15.25)
25th Percentile	9.40	15.68	1.62	(7.57)	(17.40)
Median	6.97	12.24	(0.37)	(10.60)	(21.09)
75th Percentile	6.06	10.69	(1.80)	(13.31)	(25.03)
90th Percentile	3.77	9.02	(3.88)	(15.87)	(29.53)
INTECH:Lg Cap Growth	● A 10.54	● A 17.41	● A 8.45	● A 1.67	● A (8.26)
S&P:500 Growth	■ B 7.01	■ B 11.52	■ B 0.63	■ B (5.72)	■ B (19.61)

**Scatter Chart  
for 5 Years Ended December 31, 2006**



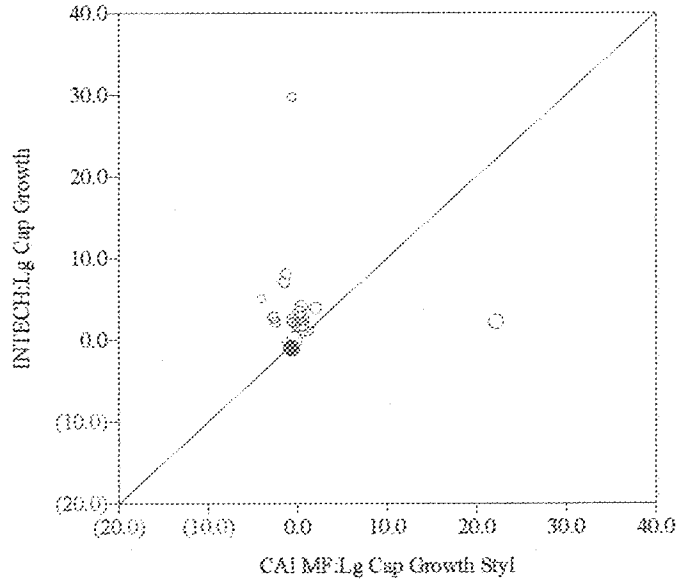
# INTECH Large Cap Growth (Composite)

Statistics relative to Russell 1000 Growth  
for 5 Years Ended December 31, 2006  
Group: CAI MF - Large Cap Growth Style

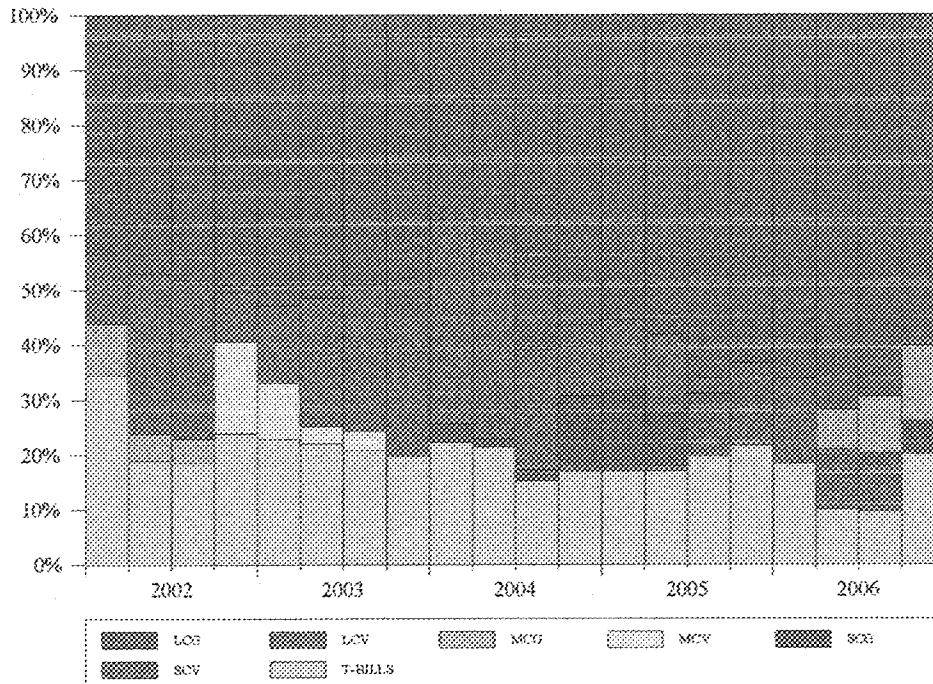


	Alpha	Sharpe Ratio	Information Ratio	Correlation
10th Percentile	3.74	0.32	0.77	0.99
25th Percentile	1.25	0.10	0.34	0.98
Median	(0.13)	0.01	(0.03)	0.97
75th Percentile	(1.26)	(0.07)	(0.42)	0.95
90th Percentile	(2.24)	(0.14)	(0.66)	0.91
INTECH Lg Cap Growth	* A 5.32	0.47	1.56	0.97
S&P:500 Growth	* B 0.53	0.06	0.23	0.99

Rolling 4 Quarter Information Ratio Comparison Chart  
for 5 Years Ended December 31, 2006  
Benchmark: S&P:500 Growth



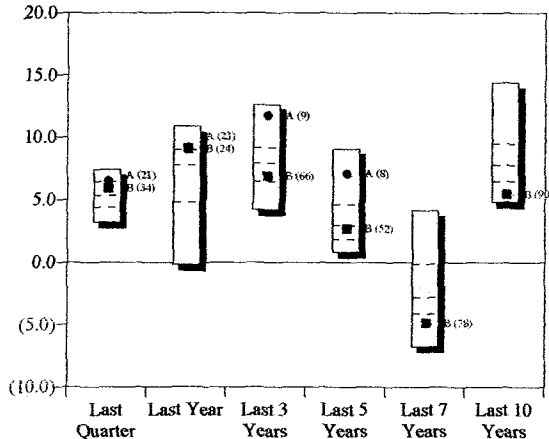
Rolling 12 Quarter Domestic Equity Style Chart  
for 5 Years Ended December 31, 2006  
Portfolio: INTECH Lg Cap Growth





# Rainier Large Cap Growth (Composite)

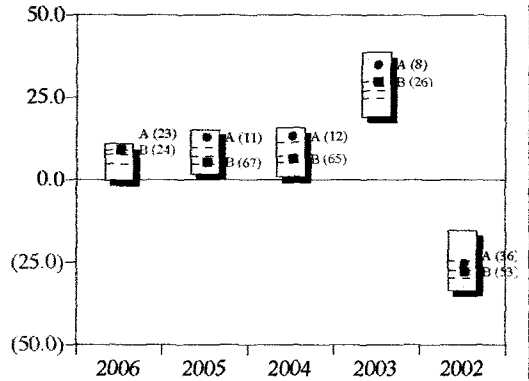
**Returns**  
for Periods Ended December 31, 2006  
Group: CAI Large Cap Growth Style



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile	7.11	10.34	11.66	6.34	1.01	10.84
25th Percentile	6.44	9.00	9.16	4.62	(0.15)	9.51
Median	5.33	7.75	7.91	2.93	(2.87)	7.79
75th Percentile	4.42	4.80	6.44	1.81	(4.15)	6.51
90th Percentile	3.72	1.90	4.95	1.28	(3.73)	5.48

Rainier: Large Cap Growth	● A	6.51	9.15	11.74	7.07	—
Russell 1000 Growth	■ B	5.93	9.07	6.87	2.69	(4.87)

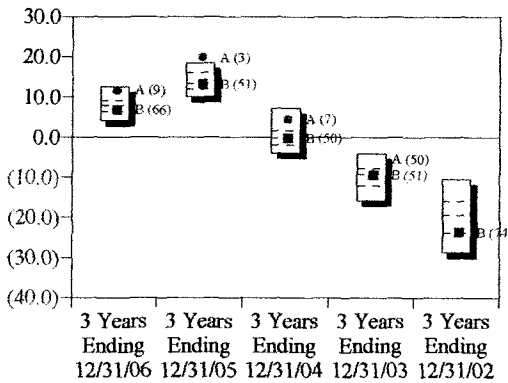
**Returns**  
for Calendar Years  
5 Years Ended December 31, 2006  
Group: CAI Large Cap Growth Style



	2006	2005	2004	2003	2002
10th Percentile	10.34	13.37	13.76	33.21	(22.50)
25th Percentile	9.00	9.86	11.21	29.92	(24.52)
Median	7.75	7.02	7.18	27.19	(27.46)
75th Percentile	4.80	4.78	5.28	24.68	(29.78)
90th Percentile	1.90	3.77	3.31	21.95	(32.16)

Rainier: Large Cap Growth	● A	9.15	12.87	13.25	35.01
Russell 1000 Growth	■ B	9.07	5.26	6.30	29.75

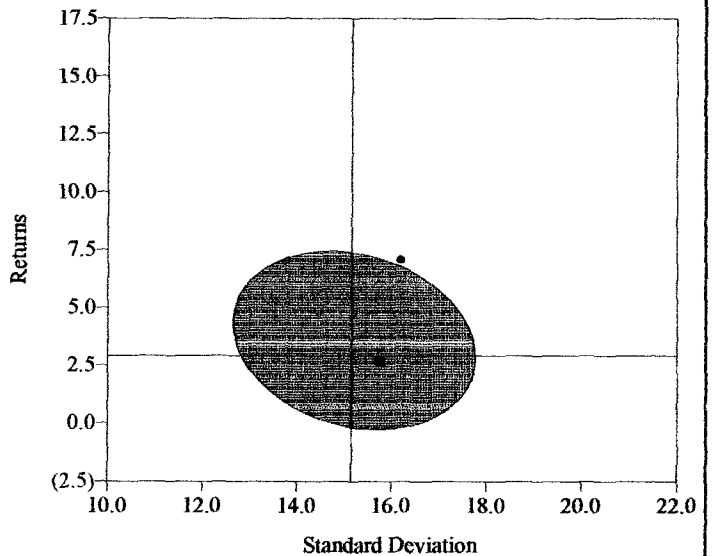
**Returns**  
for 12 Quarter Rolling Periods  
5 Years Ended December 31, 2006  
Group: CAI Large Cap Growth Style



	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03	3 Years Ending 12/31/02
10th Percentile	11.66	18.20	3.06	(6.40)	(11.87)
25th Percentile	9.16	16.07	1.62	(7.80)	(15.95)
Median	7.91	13.41	(0.17)	(9.24)	(19.39)
75th Percentile	6.44	12.09	(1.87)	(12.05)	(23.80)
90th Percentile	4.95	10.55	(2.64)	(14.67)	(26.53)

Rainier: Large Cap Growth	● A	11.74	19.95	4.53	(9.26)
Russell 1000 Growth	■ B	6.87	13.23	(0.18)	(9.36)

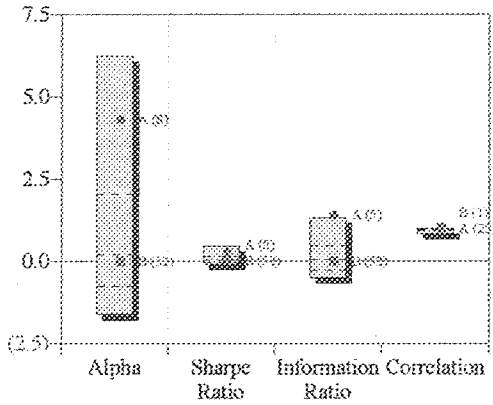
**Scatter Chart**  
for 5 Years Ended December 31, 2006



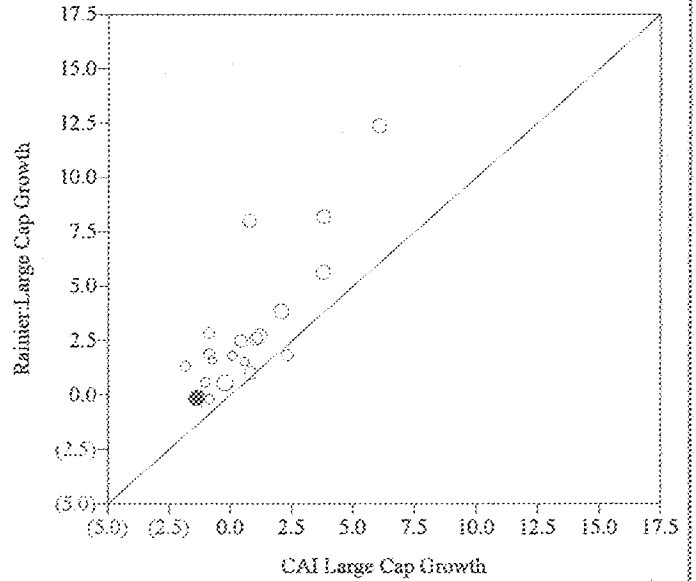
CAI Large Cap Growth	●	Rainier: Large Cap Growth
Russell 1000 Growth	■	

# Rainier Large Cap Growth (Composite)

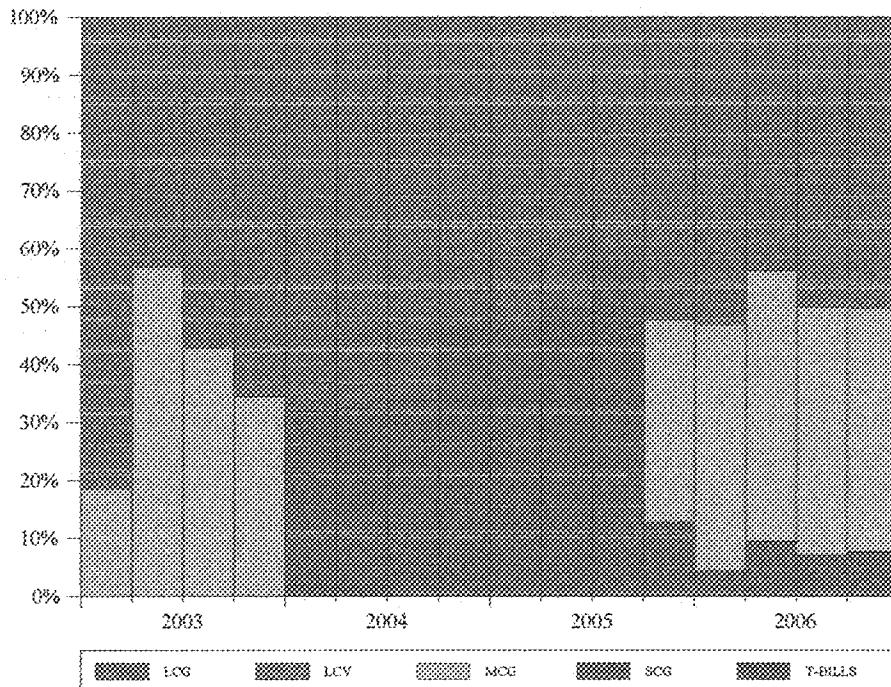
Statistics relative to Russell 1000 Growth for 5 Years Ended December 31, 2006  
Group: CAI Large Cap Growth Style



Rolling 4 Quarter Information Ratio Comparison Chart for 5 Years Ended December 31, 2006  
Benchmark: Russell 1000 Growth

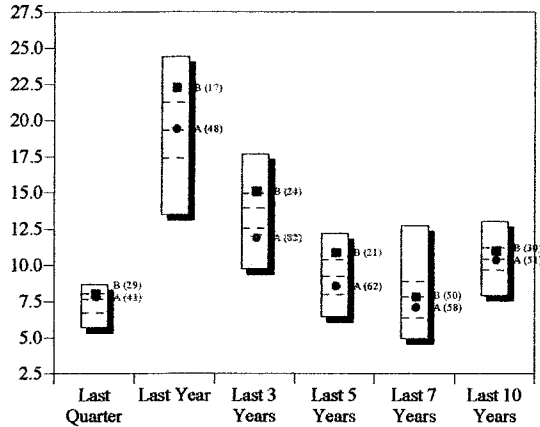


Rolling 12 Quarter Domestic Equity Style Chart Since Inception of Rainier:Large Cap Growth Ended December 31, 2006



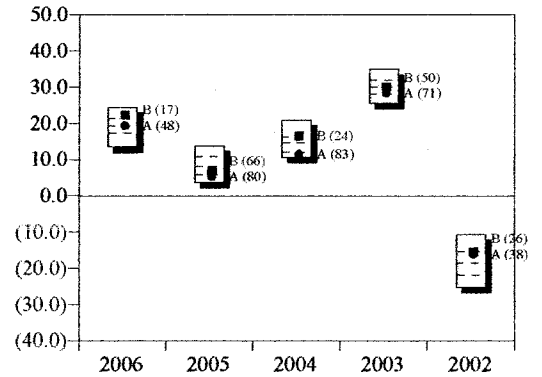
# AllianceBernstein Diversified Value (Composite)

**Returns  
for Periods Ended December 31, 2006  
Group: CAI Large Cap Value Style**



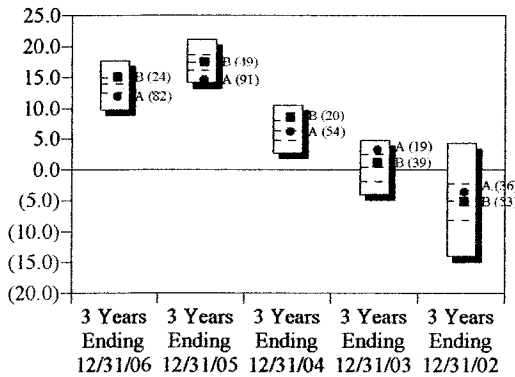
10th Percentile	8.54	23.42	16.15	11.28	10.23	12.33
25th Percentile	8.05	21.27	14.93	10.36	8.85	11.21
Median	7.65	19.28	13.94	9.22	7.81	10.39
75th Percentile	6.71	17.39	12.52	7.98	6.35	9.66
90th Percentile	6.29	14.72	10.80	6.85	5.44	8.47
AllBer:Diversified Value	● A 7.78	● A 19.39	● A 11.90	● A 8.55	● A 7.07	● A 10.36
Russell 1000 Value	■ B 8.00	■ B 22.25	■ B 15.09	■ B 10.86	■ B 7.80	■ B 11.00

**Returns  
for Calendar Years  
5 Years Ended December 31, 2006  
Group: CAI Large Cap Value Style**



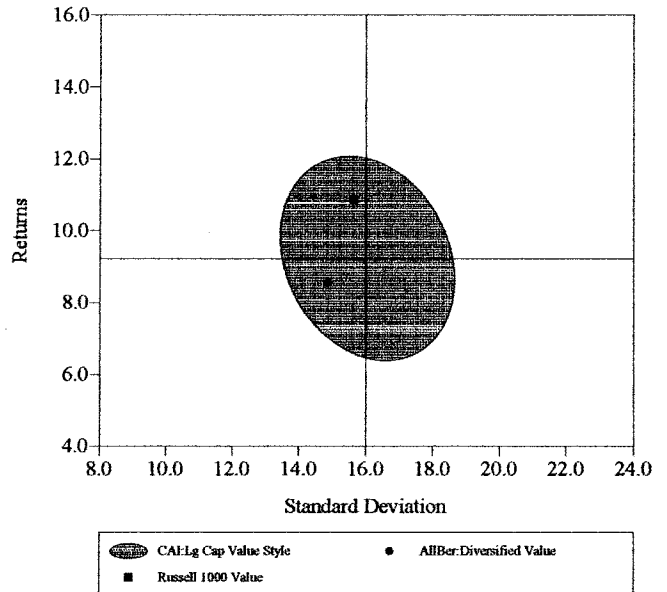
10th Percentile	23.42	13.30	19.14	34.46	(12.77)
25th Percentile	21.27	10.80	16.30	31.88	(15.47)
Median	19.28	8.24	14.68	30.06	(18.49)
75th Percentile	17.39	5.76	12.05	28.18	(21.93)
90th Percentile	14.72	4.14	11.04	26.33	(24.35)
AllBer:Diversified Value	● A 19.39	● A 5.27	● A 11.49	● A 28.31	● A (16.18)
Russell 1000 Value	■ B 22.25	■ B 7.05	■ B 16.49	■ B 30.03	■ B (15.52)

**Returns  
for 12 Quarter Rolling Periods  
5 Years Ended December 31, 2006  
Group: CAI Large Cap Value Style**



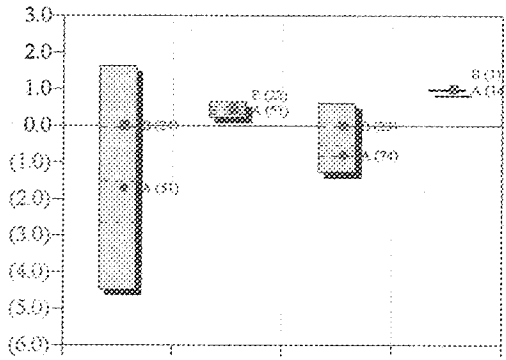
10th Percentile	16.15	19.93	9.61	4.09	1.42
25th Percentile	14.93	18.65	8.00	2.53	(2.20)
Median	13.94	17.48	6.31	0.46	(5.03)
75th Percentile	12.52	16.16	4.80	(1.93)	(8.14)
90th Percentile	10.80	14.68	3.33	(2.94)	(10.73)
AllBer:Diversified Value	● A 11.90	● A 14.62	● A 6.24	● A 3.27	● A (3.54)
Russell 1000 Value	■ B 15.09	■ B 17.49	■ B 8.57	■ B 1.22	■ B (5.14)

**Scatter Chart  
for 5 Years Ended December 31, 2006**



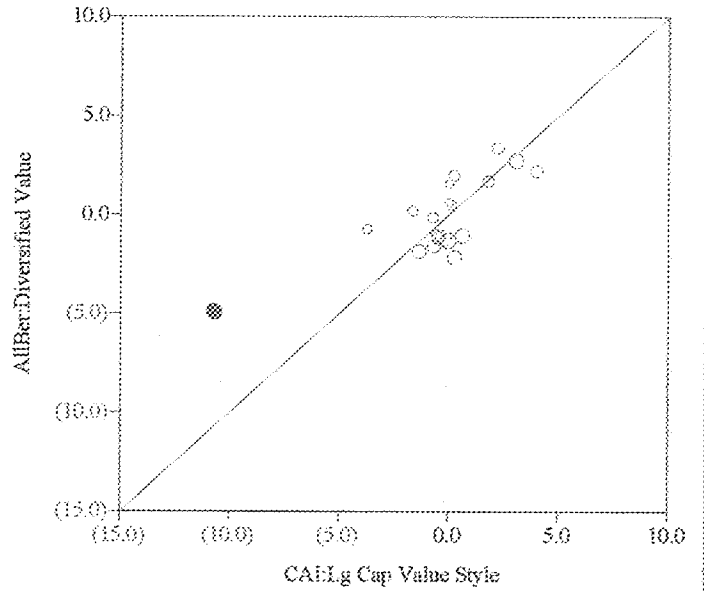
# AllianceBernstein Diversified Value (Composite)

Statistics relative to Russell 1000 Value for 5 Years Ended December 31, 2006  
Group: CAI Large Cap Value Style

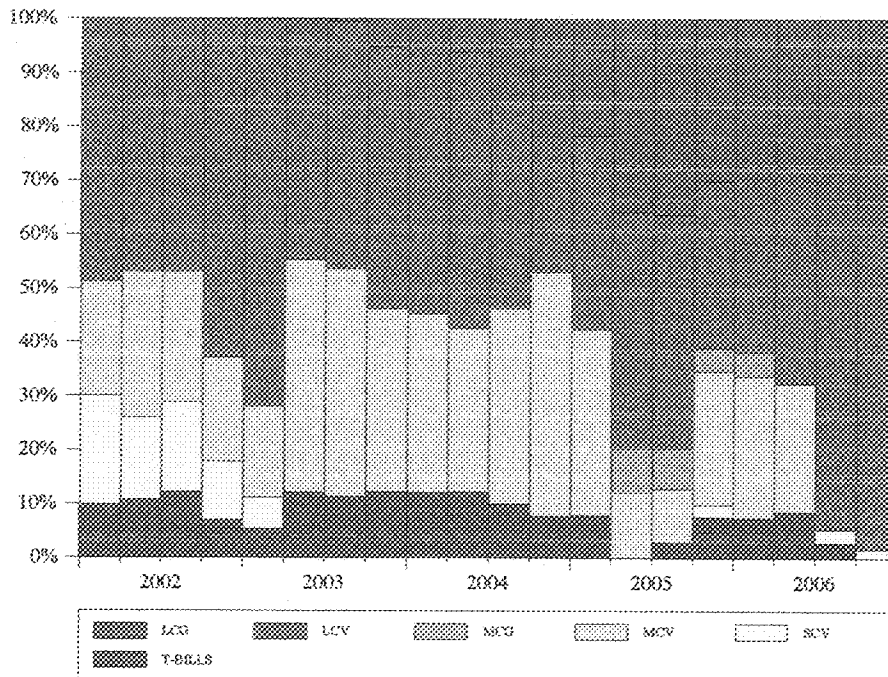


	Alpha	Sharpe Ratio	Information Ratio	Correlation
10th Percentile	0.90	0.60	0.38	0.99
25th Percentile	(0.65)	0.53	(0.01)	0.99
Median	(1.33)	0.42	(0.55)	0.98
75th Percentile	(2.66)	0.32	(0.82)	0.98
90th Percentile	(3.93)	0.27	(1.11)	0.96
AllBer: Diversified Value	* A (1.71)	0.41	(0.60)	0.99
Russell 1000 Value	** B 0.00	0.54	0.00	1.00

Rolling 4 Quarter Information Ratio Comparison Chart for 5 Years Ended December 31, 2005  
Benchmark: Russell 1000 Value

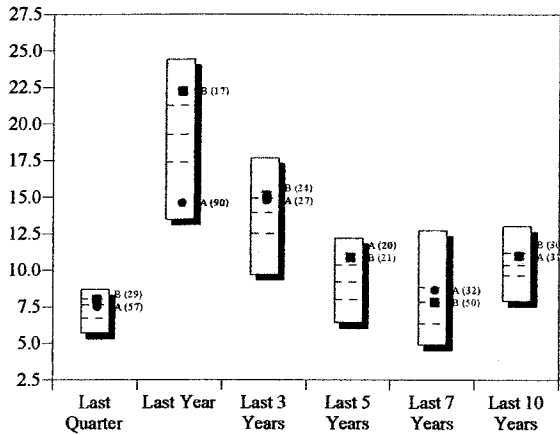


Rolling 12 Quarter Domestic Equity Style Chart for 5 Years Ended December 31, 2006  
Portfolio: AllBer: Diversified Value



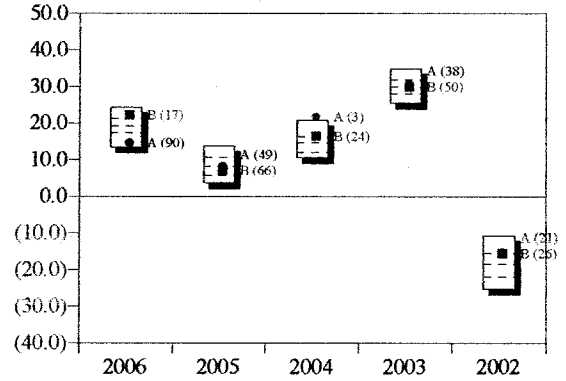
# Great Lakes Large Cap Value (Composite)

**Returns**  
for Periods Ended December 31, 2006  
Group: CAI Large Cap Value Style



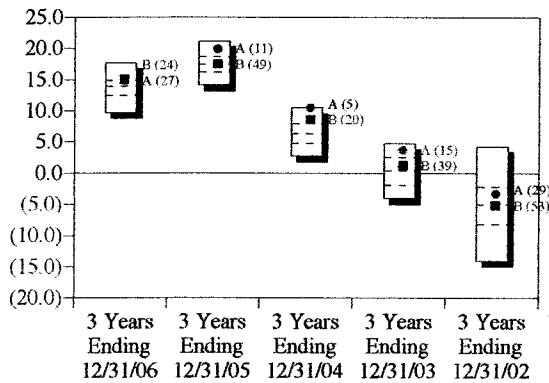
10th Percentile	8.54	23.42	16.15	11.28	10.23	12.33
25th Percentile	8.05	21.27	14.93	10.36	8.85	11.21
Median	7.65	19.28	13.94	9.22	7.81	10.39
75th Percentile	6.71	17.39	12.52	7.98	6.35	9.66
90th Percentile	6.29	14.72	10.80	6.85	5.44	8.47
GLakes: Value Equity	● A 7.50	14.59	14.77	10.86	8.65	10.96
Russell 1000 Value	■ B 8.00	22.25	15.09	10.86	7.80	11.00

**Returns**  
for Calendar Years  
5 Years Ended December 31, 2006  
Group: CAI Large Cap Value Style



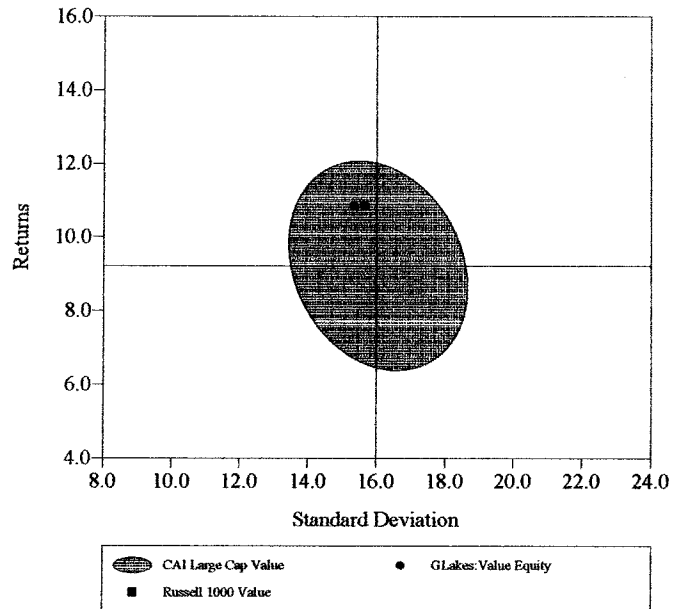
10th Percentile	23.42	13.30	19.14	34.46	(12.77)
25th Percentile	21.27	10.80	16.30	31.88	(15.47)
Median	19.28	8.24	14.68	30.06	(18.49)
75th Percentile	17.39	5.76	12.05	28.18	(21.93)
90th Percentile	14.72	4.14	11.04	26.33	(24.35)
GLakes: Value Equity	● A 14.59	8.29	21.81	30.75	(15.26)
Russell 1000 Value	■ B 22.25	7.05	16.49	30.03	(15.52)

**Returns**  
for 12 Quarter Rolling Periods  
5 Years Ended December 31, 2006  
Group: CAI Large Cap Value Style



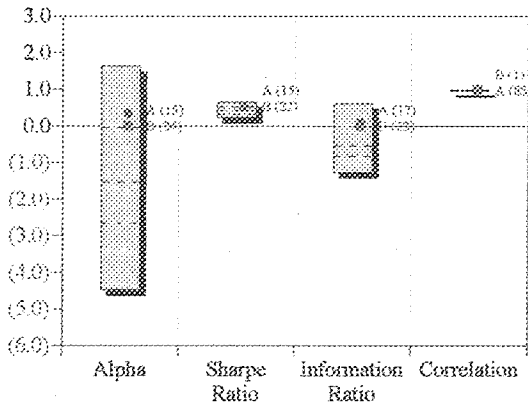
10th Percentile	16.15	19.93	9.61	4.09	1.42
25th Percentile	14.93	18.65	8.00	2.53	(2.20)
Median	13.94	17.48	6.31	0.46	(5.03)
75th Percentile	12.52	16.16	4.80	(1.93)	(8.14)
90th Percentile	10.80	14.68	3.33	(2.94)	(10.73)
GLakes: Value Equity	● A 14.77	19.93	10.51	3.75	(3.30)
Russell 1000 Value	■ B 15.09	17.49	8.57	1.22	(5.14)

**Scatter Chart**  
for 5 Years Ended December 31, 2006



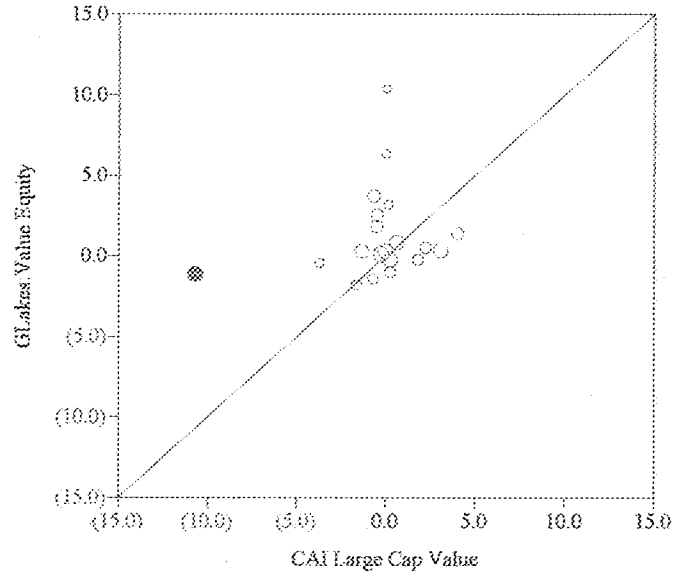
# Great Lakes Large Cap Value (Composite)

Statistics relative to Russell 1000 Value for 5 Years Ended December 31, 2006  
Group: CAI Large Cap Value Style

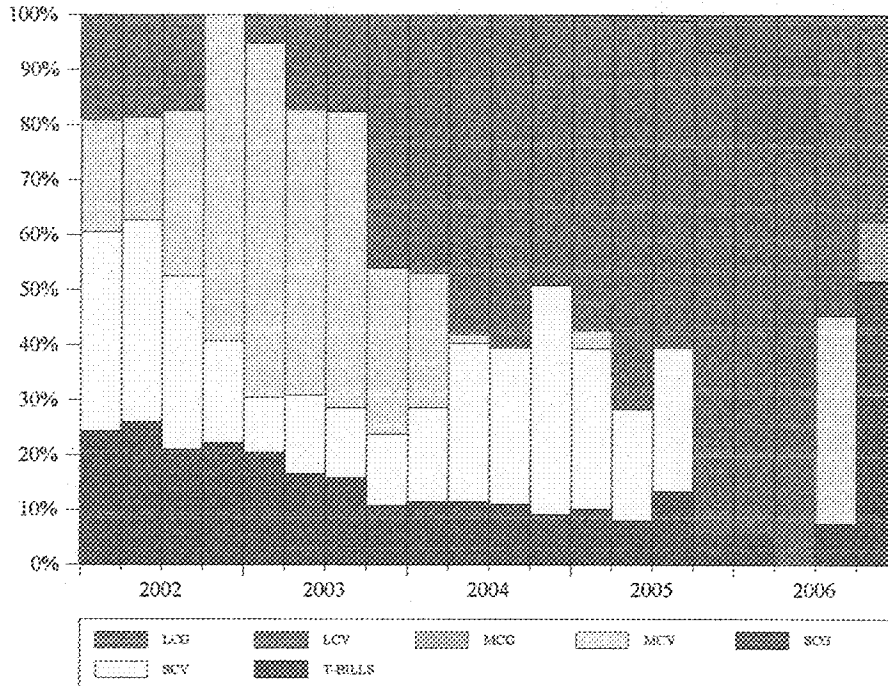


	Alpha	Sharpe Ratio	Information Ratio	Correlation
10th Percentile	0.90	0.60	0.38	0.99
25th Percentile	(0.05)	0.53	(0.01)	0.99
Median	(1.53)	0.42	(0.55)	0.98
75th Percentile	(2.68)	0.32	(0.82)	0.98
90th Percentile	(3.97)	0.27	(1.14)	0.96
GLakes: Value Equity	* A 0.34	0.55	0.09	0.97
Russell 1000 Value	* B 0.03	0.54	0.00	1.00

Rolling 4 Quarter Information Ratio Comparison Chart for 5 Years Ended December 31, 2006  
Benchmark: Russell 1000 Value

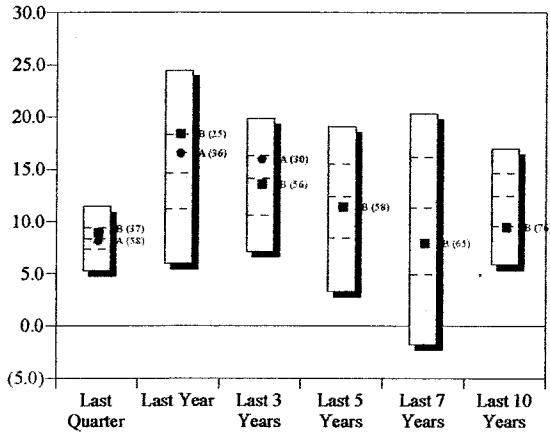


Rolling 12 Quarter Domestic Equity Style Chart for 5 Years Ended December 31, 2006  
Portfolio: GLakes: Value Equity



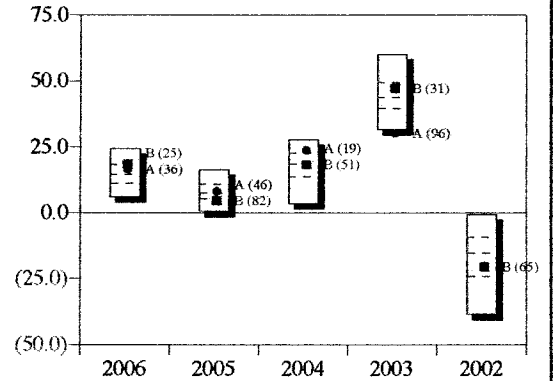
# Eagle Small Cap Equity (Composite)

Returns  
for Periods Ended December 31, 2006  
Group: CAI Small Capitalization Style



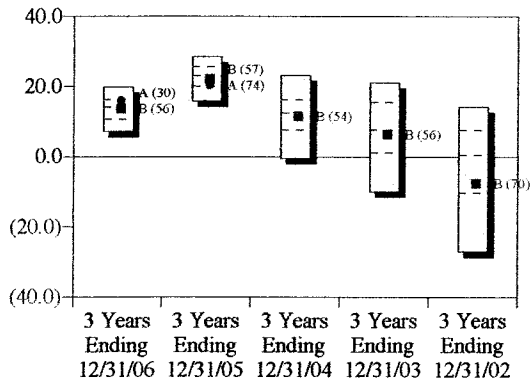
	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile	10.77	22.11	18.30	17.97	18.08	15.86
25th Percentile	9.42	18.30	16.33	15.49	16.16	14.60
Median	8.34	14.60	14.10	12.37	11.29	12.44
75th Percentile	7.34	11.20	10.58	8.44	4.91	9.59
90th Percentile	6.11	7.28	8.12	5.13	(0.65)	7.28
EAM:Sm/Mid Cap Core	● A 8.11	16.51	15.96	—	—	—
Russell 2000 Index	■ B 8.90	18.37	13.56	11.39	7.91	9.44

Returns  
for Calendar Years  
5 Years Ended December 31, 2006  
Group: CAI Small Capitalization Style



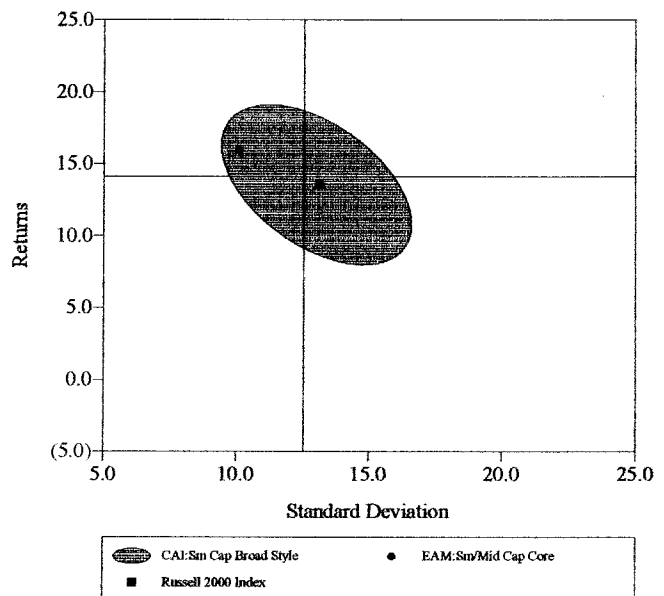
	2006	2005	2004	2003	2002
10th Percentile	22.11	14.77	25.42	55.05	(3.22)
25th Percentile	18.30	10.97	22.73	49.55	(9.37)
Median	14.60	7.55	18.46	43.84	(15.11)
75th Percentile	11.20	5.55	13.77	39.60	(24.04)
90th Percentile	7.28	2.78	8.81	34.55	(31.77)
EAM:Sm/Mid Cap Core	● A 16.51	8.17	23.72	30.22	—
Russell 2000 Index	■ B 18.37	4.55	18.33	47.25	(20.48)

Returns  
for 12 Quarter Rolling Periods  
5 Years Ended December 31, 2006  
Group: CAI Small Capitalization Style



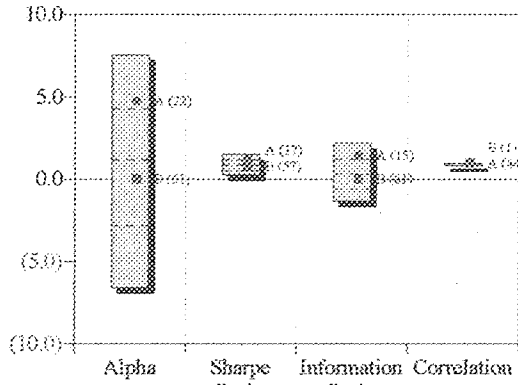
	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03	3 Years Ending 12/31/02
10th Percentile	18.30	27.36	19.89	17.82	11.75
25th Percentile	16.33	25.79	16.30	15.52	7.57
Median	14.10	23.08	12.51	7.70	0.60
75th Percentile	10.58	20.01	7.62	1.16	(10.26)
90th Percentile	8.12	16.47	2.28	(5.75)	(20.92)
EAM:Sm/Mid Cap Core	● A 15.96	20.34	—	—	—
Russell 2000 Index	■ B 13.56	22.13	11.48	6.27	(7.54)

Scatter Chart  
for 3 Years Ended December 31, 2006



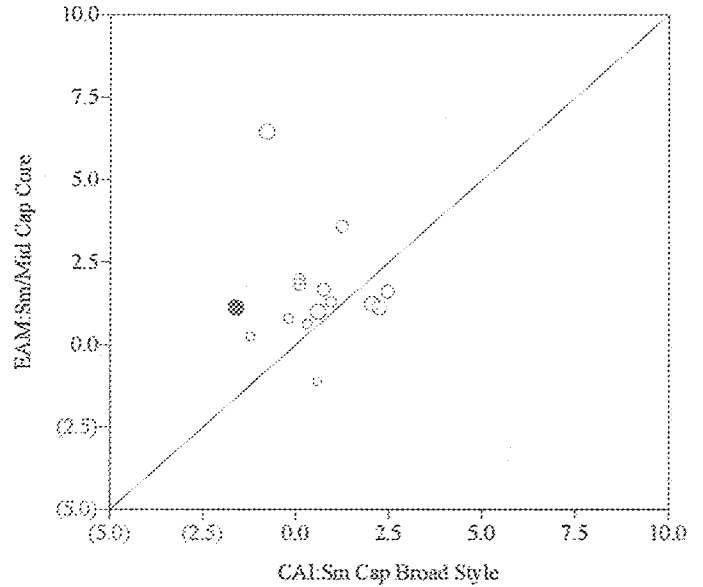
# Eagle Small Cap Equity (Composite)

Statistics relative to Russell 2000 Index for 3 Years Ended December 31, 2006  
Group: CAI Small Capitalization Style

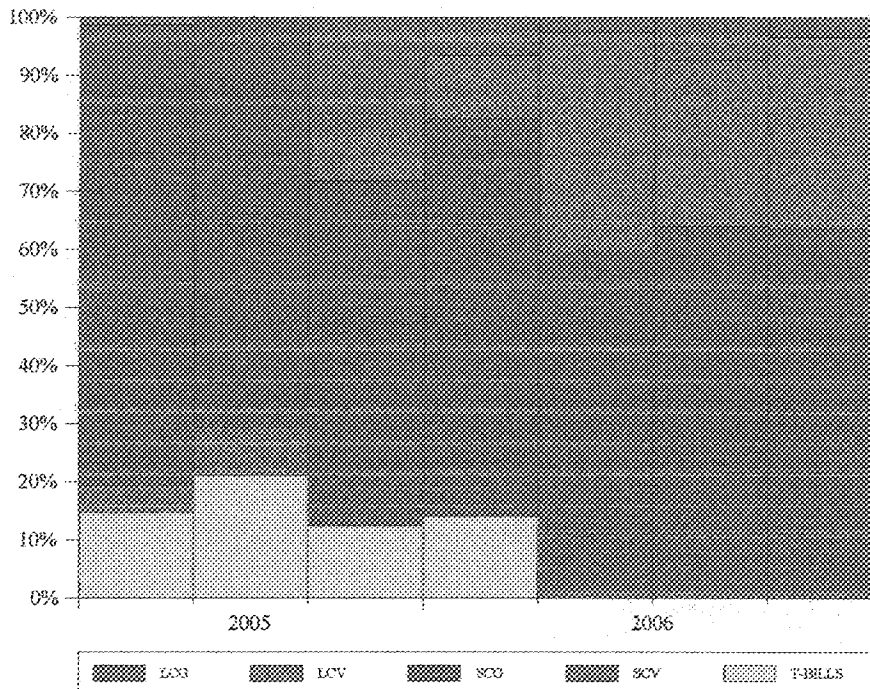


	Alpha	Sharpe Ratio	Information Ratio	Correlation
10th Percentile	6.31	1.38	1.92	0.98
25th Percentile	4.26	1.17	1.22	0.97
Median	1.19	0.87	0.31	0.95
75th Percentile	(2.83)	0.51	(0.39)	0.91
90th Percentile	(5.40)	0.33	(1.04)	0.86
EAM:Sm/Mid Cap Core	4.74	1.28	1.44	0.95
Russell 2000 Index	0.00	0.80	0.00	1.00

Rolling 4 Quarter Information Ratio Comparison Chart for 5 Years Ended December 31, 2006  
Benchmark: Russell 2000 Index



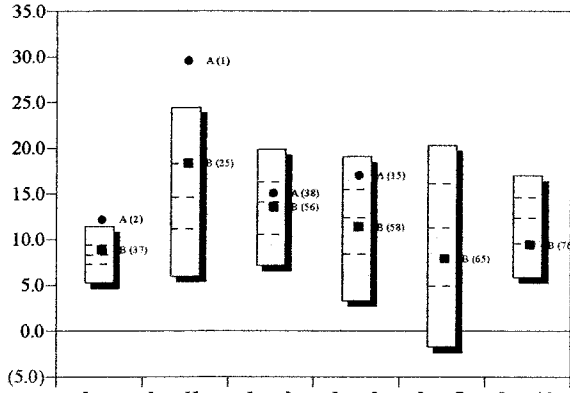
Rolling 12 Quarter Domestic Equity Style Chart Since Inception of EAM:Sm/Mid Cap Core Ended December 31, 2006





# TAMRO Small Cap Equity (Composite)

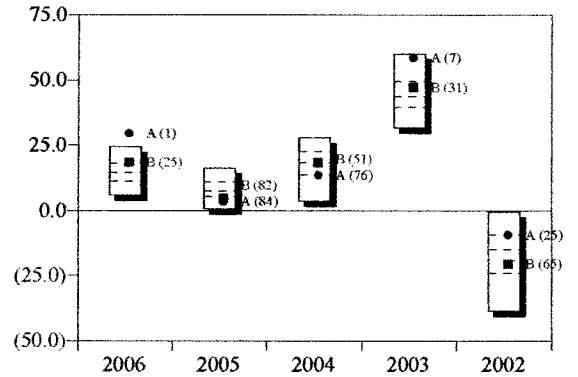
**Returns**  
for Periods Ended December 31, 2006  
Group: CAI Small Capitalization Style



10th Percentile  
25th Percentile  
Median  
75th Percentile  
90th Percentile

TAMRO:Small Cap  
Russell 2000 Index

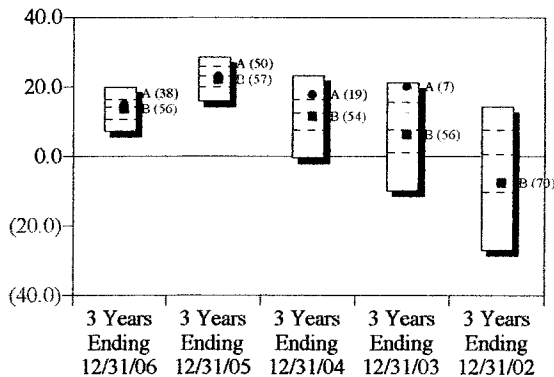
**Returns**  
for Calendar Years  
5 Years Ended December 31, 2006  
Group: CAI Small Capitalization Style



10th Percentile  
25th Percentile  
Median  
75th Percentile  
90th Percentile

TAMRO:Small Cap  
Russell 2000 Index

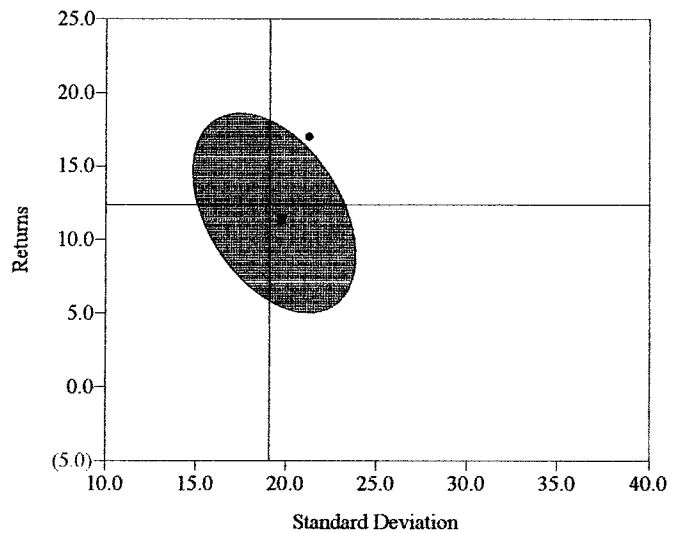
**Returns**  
for 12 Quarter Rolling Periods  
5 Years Ended December 31, 2006  
Group: CAI Small Capitalization Style



10th Percentile  
25th Percentile  
Median  
75th Percentile  
90th Percentile

TAMRO:Small Cap  
Russell 2000 Index

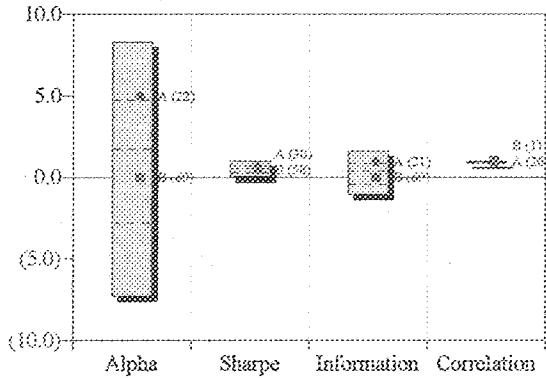
**Scatter Chart**  
for 5 Years Ended December 31, 2006



CAI:Sm Cap Broad Style  
TAMRO:Small Cap  
Russell 2000 Index

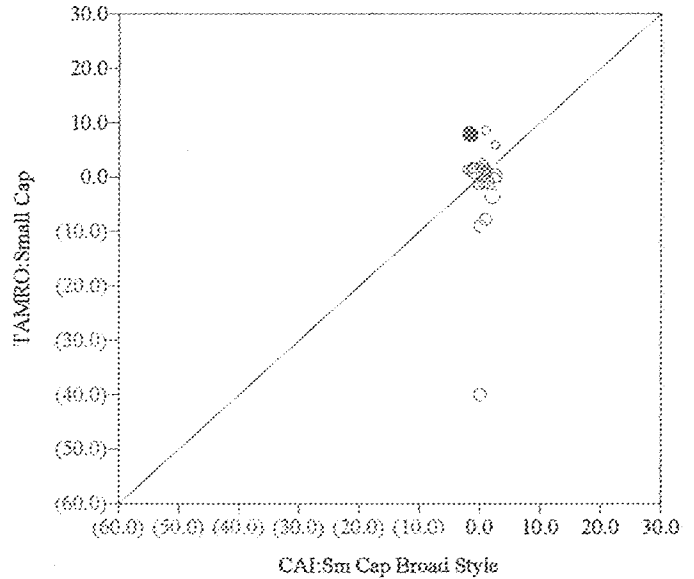
# TAMRO Small Cap Equity (Composite)

Statistics relative to Russell 2000 Index for 5 Years Ended December 31, 2006  
Group: CAI Small Capitalization Style

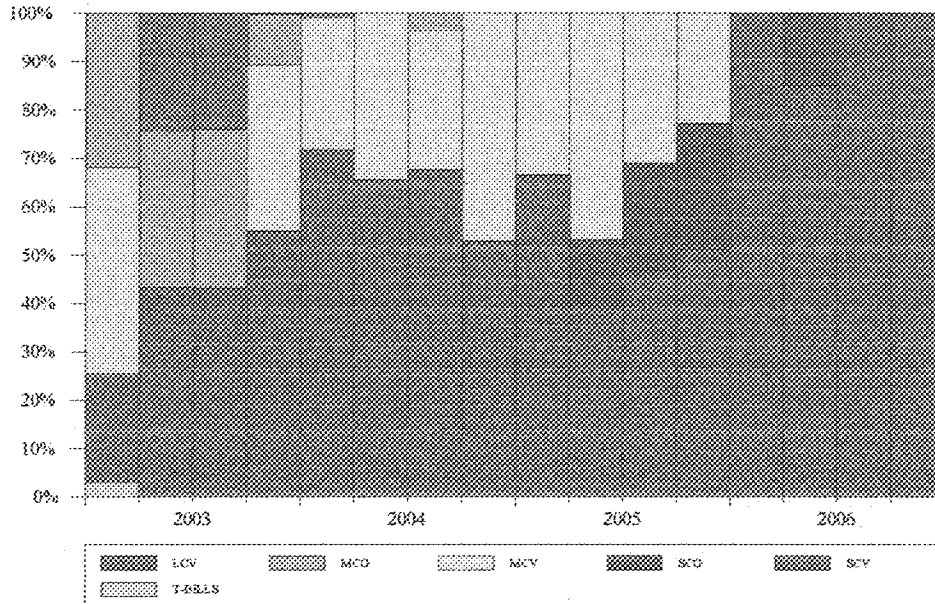


	Alpha	Sharpe Ratio	Information Ratio	Correlation
10th Percentile	7.52	0.87	1.37	0.98
25th Percentile	4.73	0.71	0.85	0.97
Median	1.74	0.55	0.39	0.96
75th Percentile	(2.78)	0.28	(0.41)	0.94
90th Percentile	(5.72)	0.13	(0.85)	0.91
TAMRO:Small Cap	4.95	0.60	0.96	0.97
Russell 2000 Index	0.00	0.45	0.00	1.00

Rolling 4 Quarter Information Ratio Comparison Chart for 5 Years Ended December 31, 2006  
Benchmark: Russell 2000 Index

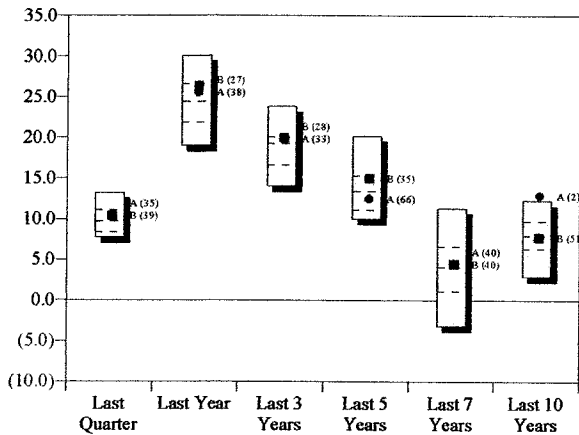


Rolling 12 Quarter Domestic Equity Style Chart Since Inception of TAMRO:Small Cap Ended December 31, 2006



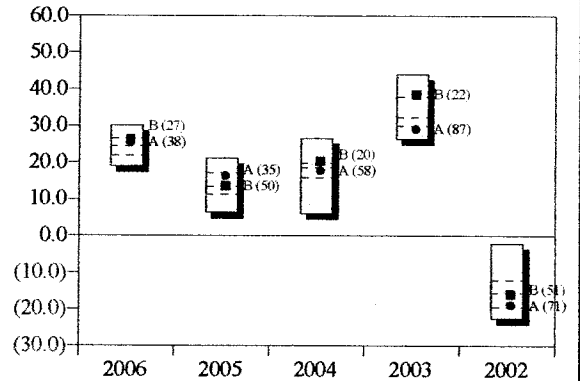
# Artisan International Fund

**Returns**  
for Periods Ended December 31, 2006  
Group: CAI MF - Intl Core Equity Style



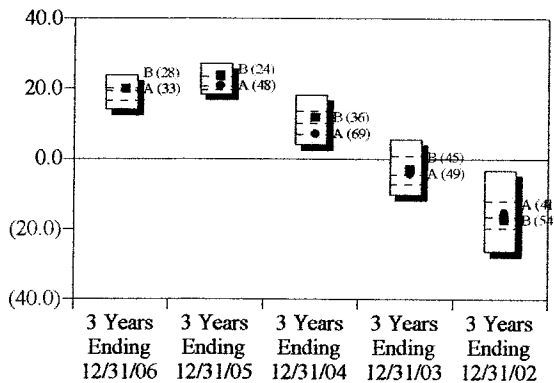
	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile	11.86	28.74	21.85	17.96	9.47	11.29
25th Percentile	11.09	26.57	20.04	15.31	6.62	9.71
Median	9.70	24.45	19.28	13.40	4.06	7.93
75th Percentile	8.30	21.86	16.62	11.11	1.12	6.36
90th Percentile	8.00	20.13	15.19	10.23	(1.32)	4.59
Artisan: Internatl; Inv	● A 10.54	● A 25.56	● A 19.79	● A 12.48	● A 4.43	● A 12.88
MSCI: EAFE US\$	■ B 10.35	■ B 26.34	■ B 19.93	■ B 14.98	■ B 4.43	■ B 7.71

**Returns**  
for Calendar Years  
5 Years Ended December 31, 2006  
Group: CAI MF - Intl Core Equity Style



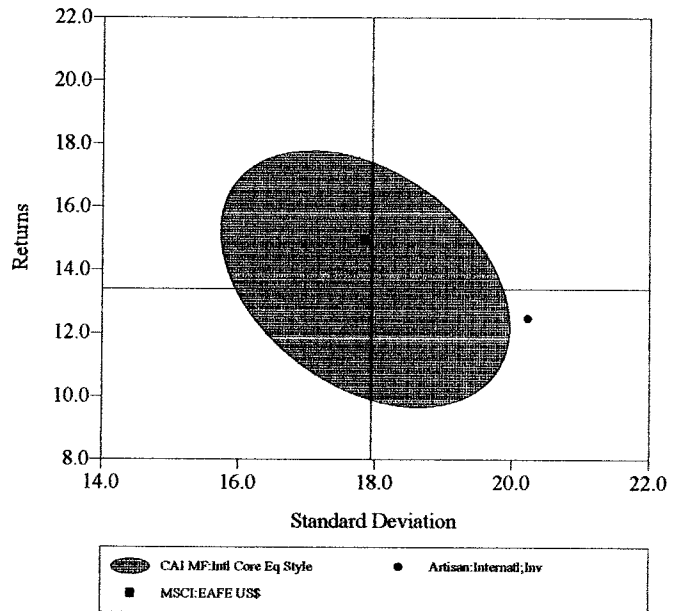
	2006	2005	2004	2003	2002
10th Percentile	28.74	20.73	24.32	43.38	(6.13)
25th Percentile	26.57	17.07	19.78	38.00	(12.03)
Median	24.45	13.54	18.54	32.35	(15.50)
75th Percentile	21.86	11.21	15.78	30.04	(19.52)
90th Percentile	20.13	9.15	12.36	28.30	(21.07)
Artisan: Internatl; Inv	● A 25.56	● A 16.27	● A 17.76	● A 29.14	● A (18.90)
MSCI: EAFE US\$	■ B 26.34	■ B 13.54	■ B 20.25	■ B 38.59	■ B (15.94)

**Returns**  
for 12 Quarter Rolling Periods  
5 Years Ended December 31, 2006  
Group: CAI MF - Intl Core Equity Style



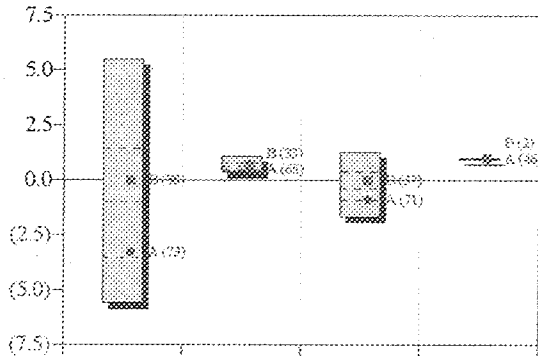
	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03	3 Years Ending 12/31/02
10th Percentile	21.85	26.27	15.57	3.31	(7.61)
25th Percentile	20.04	23.43	13.69	0.81	(11.84)
Median	19.28	20.74	10.16	(4.47)	(16.53)
75th Percentile	16.62	19.55	6.95	(7.12)	(19.63)
90th Percentile	15.19	18.86	5.46	(9.20)	(22.76)
Artisan: Internatl; Inv	● A 19.79	● A 20.92	● A 7.24	● A (4.13)	● A (15.18)
MSCI: EAFE US\$	■ B 19.93	■ B 23.68	■ B 11.89	■ B (2.91)	■ B (17.24)

**Scatter Chart**  
for 5 Years Ended December 31, 2006



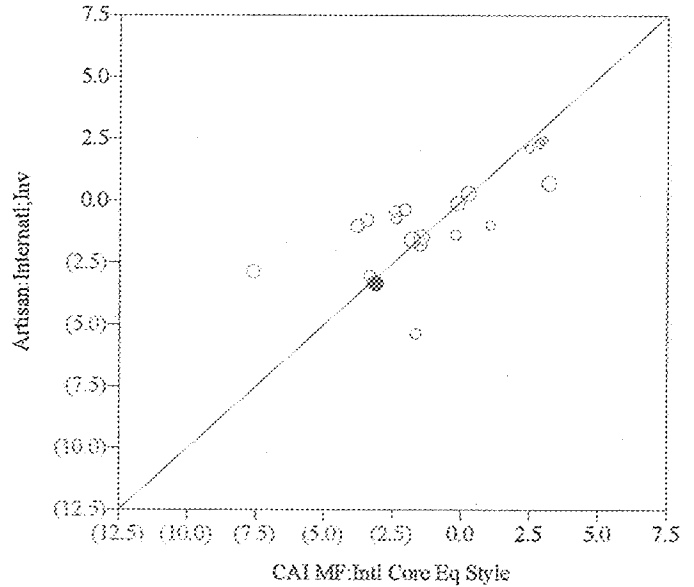
# Artisan International Fund

Statistics relative to MSCI:EAFE US\$  
for 5 Years Ended December 31, 2006  
Group: CAI MF - Intl Core Equity Style

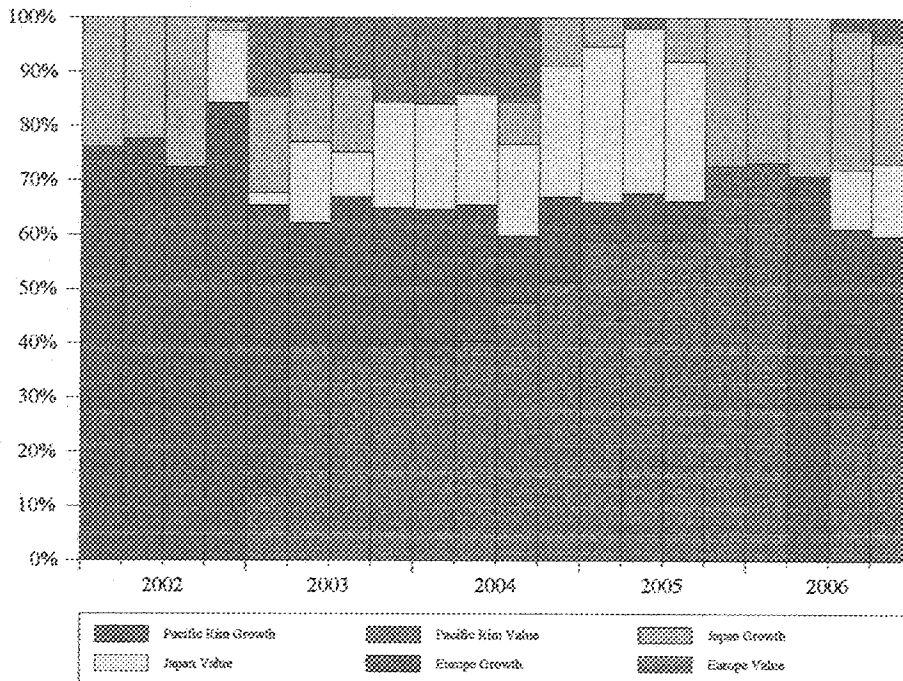


	Alpha	Sharpe Ratio	Information Ratio	Correlation
10th Percentile	3.34	0.91	0.92	0.99
25th Percentile	1.43	0.79	0.37	0.99
Median	(0.99)	0.63	(0.39)	0.98
75th Percentile	(3.56)	0.46	(0.83)	0.97
90th Percentile	(4.17)	0.43	(1.31)	0.96
Artisan Internat, Inv * A	(3.30)	0.50	(0.89)	0.98
MSCI:EAFE US\$ * B	0.00	0.70	0.00	1.00

Rolling 4 Quarter Information Ratio Comparison Chart  
for 5 Years Ended December 31, 2006  
Benchmark: MSCI:EAFE US\$

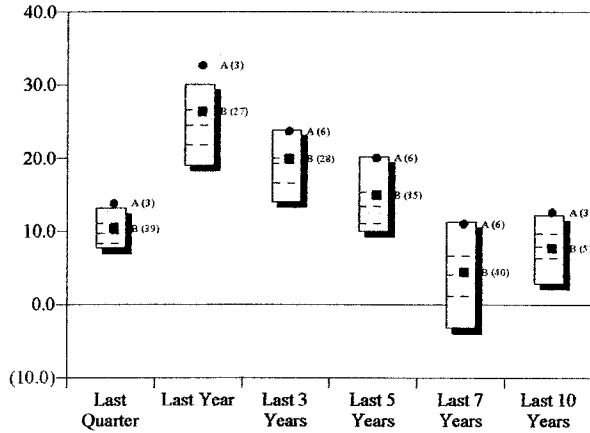


Rolling 12 Quarter International Equity Style Chart  
for 5 Years Ended December 31, 2006  
Portfolio: Artisan: Internat, Inv



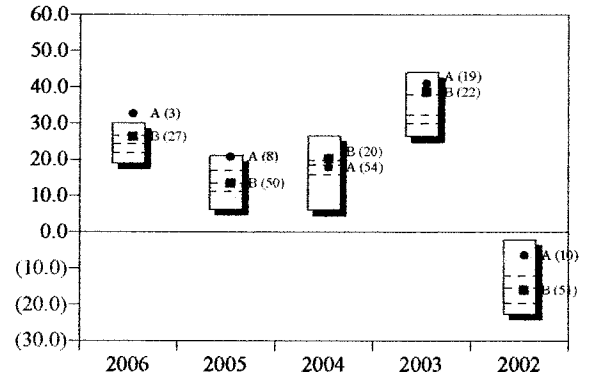
# Harbor International Fund

**Returns**  
for Periods Ended December 31, 2006  
Group: CAI MF - Intl Core Equity Style



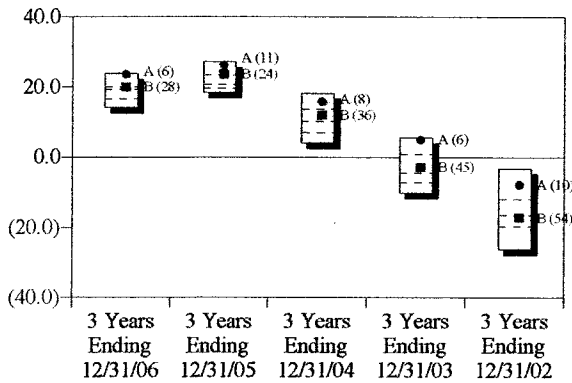
Harbor:Intl:Inst	● A	13.83	32.69	23.67	20.07	11.04	12.64
MSCI:EAFE US\$	■ B	10.35	26.34	19.93	14.98	4.43	7.71

**Returns**  
for Calendar Years  
5 Years Ended December 31, 2006  
Group: CAI MF - Intl Core Equity Style



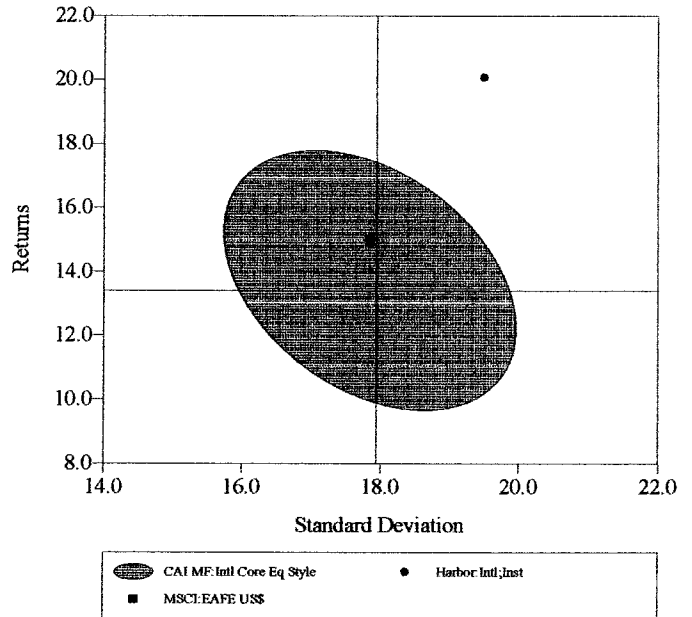
Harbor:Intl:Inst	● A	32.69	20.84	17.97	40.95	(6.38)
MSCI:EAFE US\$	■ B	26.34	13.54	20.25	38.59	(15.94)

**Returns**  
for 12 Quarter Rolling Periods  
5 Years Ended December 31, 2006  
Group: CAI MF - Intl Core Equity Style



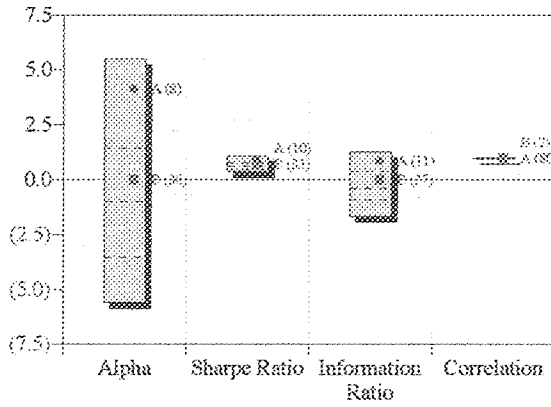
Harbor:Intl:Inst	● A	23.67	26.19	15.90	5.01	(7.92)
MSCI:EAFE US\$	■ B	19.93	23.68	11.89	(2.91)	(17.24)

**Scatter Chart**  
for 5 Years Ended December 31, 2006

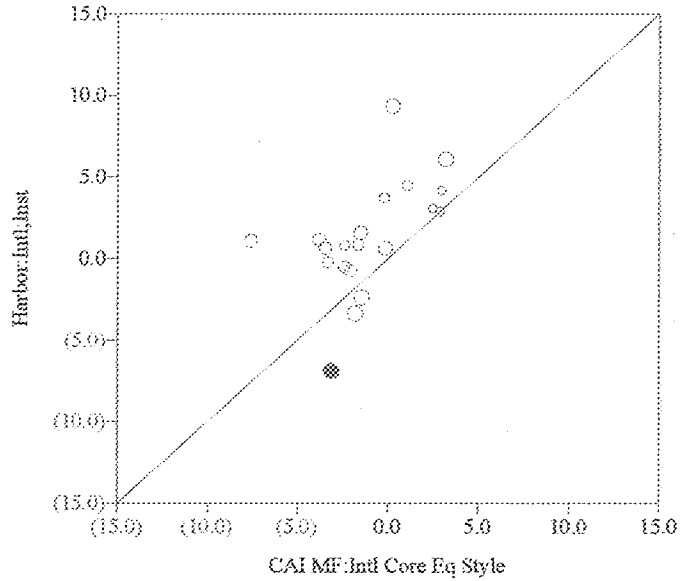


# Harbor International Fund

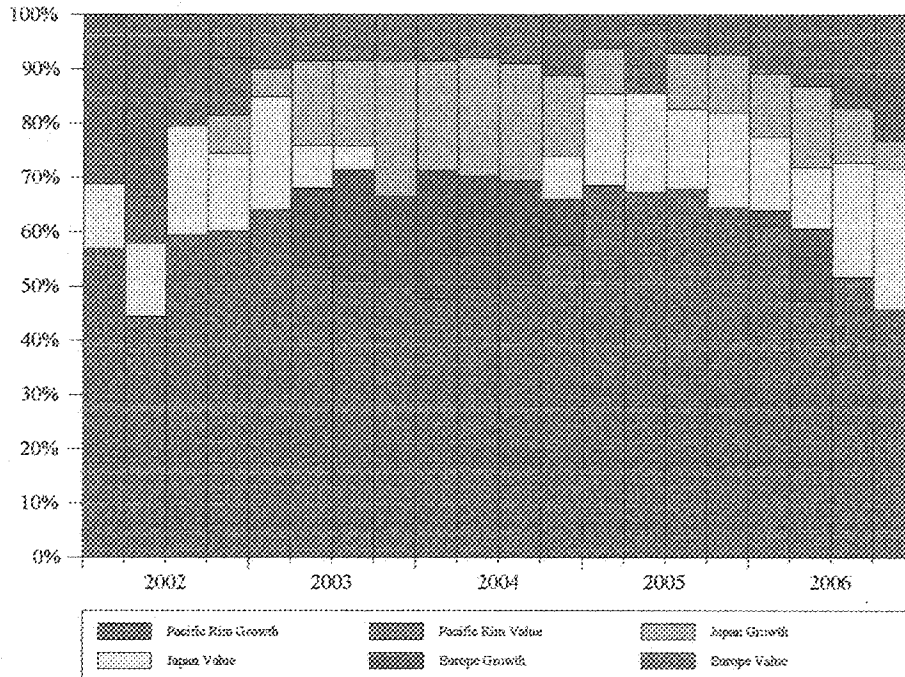
Statistics relative to MSCI:EAFE US\$  
for 5 Years Ended December 31, 2006  
Group: CAI MF - Intl Core Equity Style



Rolling 4 Quarter Information Ratio Comparison Chart  
for 5 Years Ended December 31, 2006  
Benchmark: MSCI:EAFE US\$

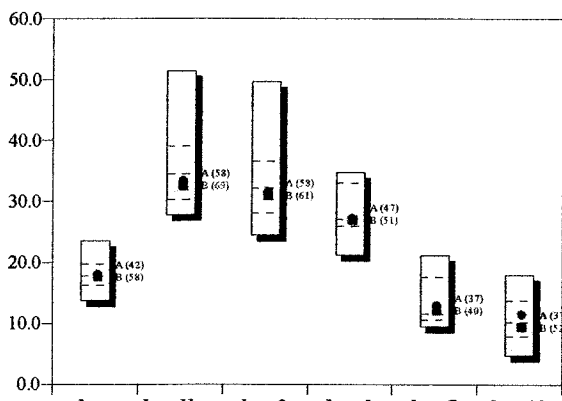


Rolling 12 Quarter International Equity Style Chart  
for 5 Years Ended December 31, 2006  
Portfolio: Harbor Intl Inst



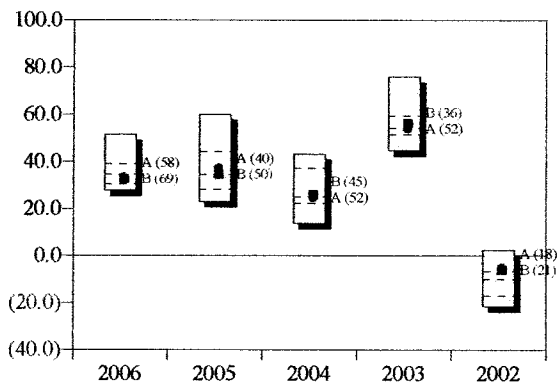
# SSgA Emerging Markets Equity

**Returns**  
for Periods Ended December 31, 2006  
Group: CAI MF - Emerging Markets Style



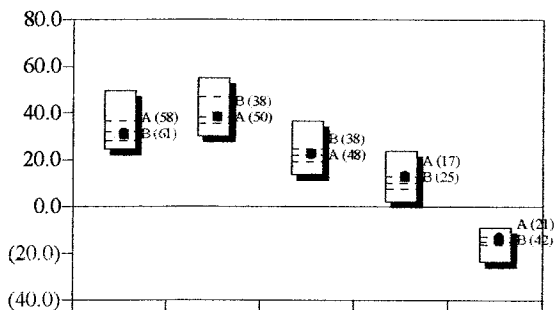
10th Percentile	22.11	47.28	48.41	34.13	20.57	17.13
25th Percentile	19.81	39.05	36.67	33.05	17.61	13.77
Median	17.80	34.57	32.13	27.04	11.58	10.27
75th Percentile	16.32	30.35	28.18	25.90	10.60	7.91
90th Percentile	15.25	28.24	27.03	22.79	9.90	5.75
SSgA:Emerg Mkts	● A 18.05	33.45	31.69	27.27	12.98	11.49
MSCI:Emer Markets	■ B 17.64	32.99	30.97	26.97	12.18	9.40

**Returns**  
for Calendar Years  
5 Years Ended December 31, 2006  
Group: CAI MF - Emerging Markets Style



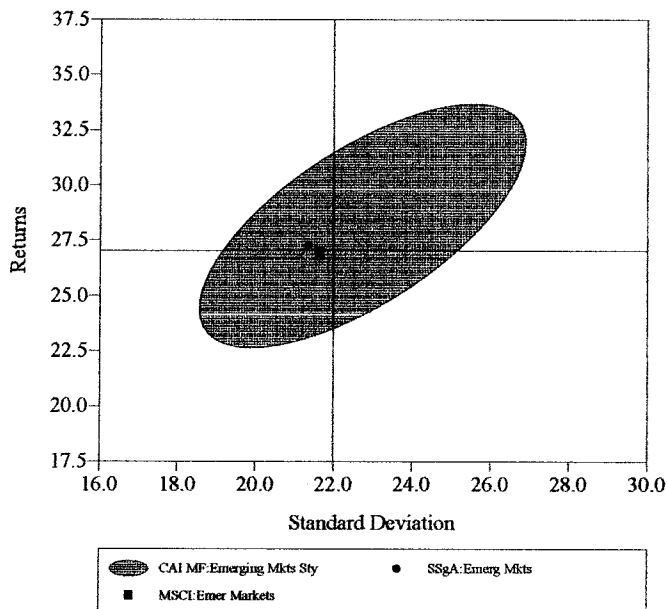
10th Percentile	47.28	55.17	40.91	69.98	1.73
25th Percentile	39.05	44.32	37.23	59.45	(6.50)
Median	34.57	34.53	25.07	54.18	(9.97)
75th Percentile	30.35	28.19	22.19	51.46	(16.97)
90th Percentile	28.24	24.27	15.46	46.18	(20.87)
SSgA:Emerg Mkts	● A 33.45	37.28	24.67	53.97	(5.03)
MSCI:Emer Markets	■ B 32.59	34.54	25.95	56.28	(6.00)

**Returns**  
for 12 Quarter Rolling Periods  
5 Years Ended December 31, 2006  
Group: CAI MF - Emerging Markets Style



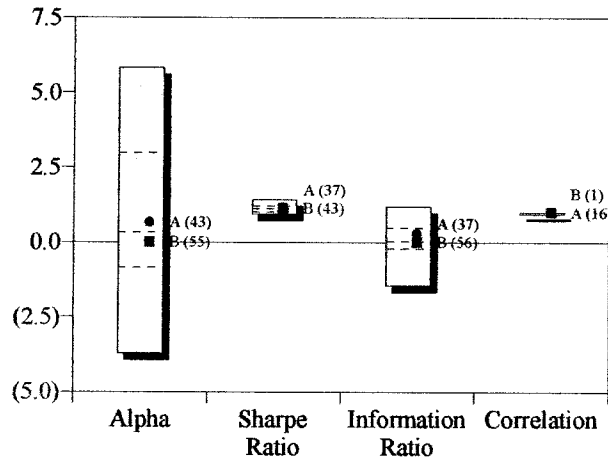
10th Percentile	48.41	53.68	32.16	18.94	(11.39)
25th Percentile	36.67	46.84	24.61	12.86	(13.00)
Median	32.13	38.13	22.06	10.10	(15.02)
75th Percentile	28.18	35.55	19.31	7.71	(16.20)
90th Percentile	27.03	32.21	15.46	3.65	(21.88)
SSgA:Emerg Mkts	● A 31.69	38.12	22.16	13.68	(12.58)
MSCI:Emer Markets	■ B 30.97	38.35	22.77	12.77	(13.97)

**Scatter Chart**  
for 5 Years Ended December 31, 2006



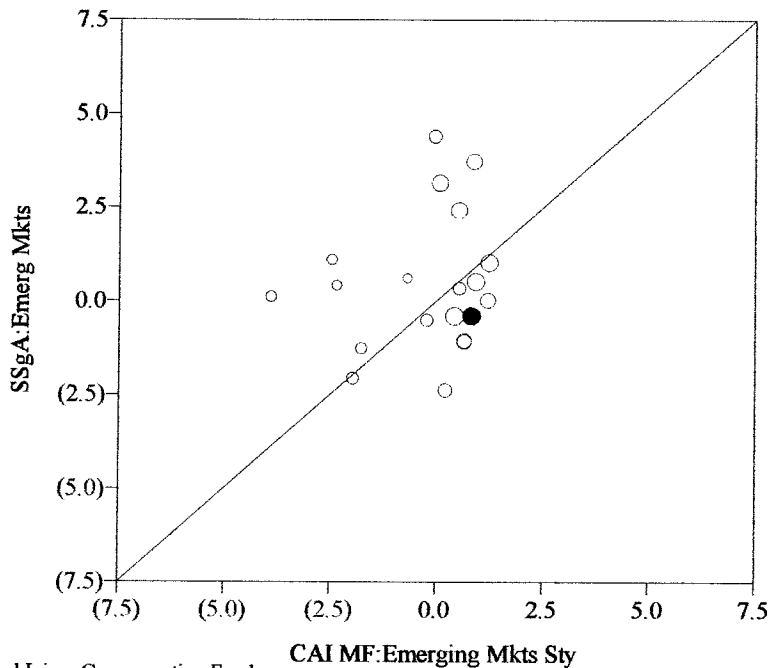
# SSgA Emerging Markets Equity

Statistics relative to MSCI:Emer Markets  
for 5 Years Ended December 31, 2006  
Group: CAI MF - Emerging Markets Style



10th Percentile	5.39	1.37	1.15	0.99	
25th Percentile	2.99	1.22	0.47	0.99	
Median	0.34	1.11	0.04	0.99	
75th Percentile	(0.85)	1.02	(0.23)	0.95	
90th Percentile	(2.11)	0.96	(0.89)	0.93	
SSgA:Emerg Mkts	● A	0.67	1.16	0.29	0.99
MSCI:Emer Markets	■ B	0.00	1.13	0.00	1.00

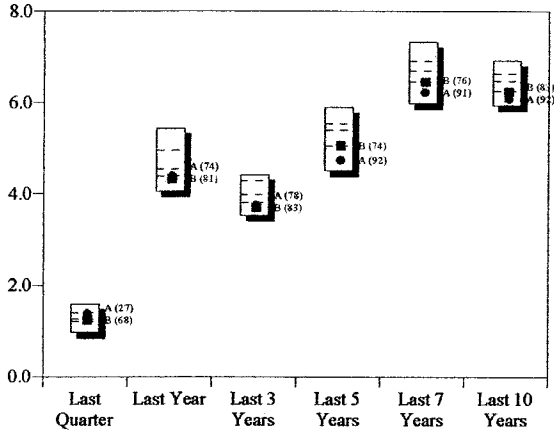
Rolling 4 Quarter Information Ratio Comparison Chart  
for 5 Years Ended December 31, 2006  
Benchmark: MSCI:Emer Markets





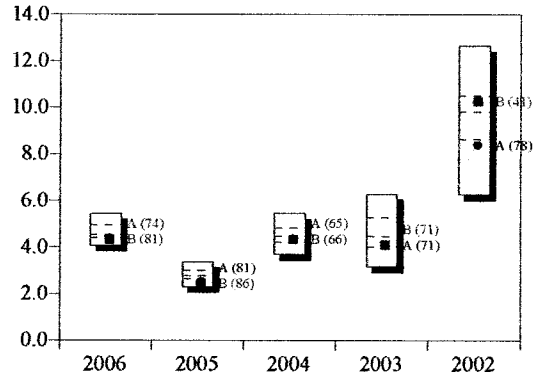
# Vanguard Total Bond Index

**Returns**  
for Periods Ended December 31, 2006  
Group: CAI Core Bond Fixed-Inc Style



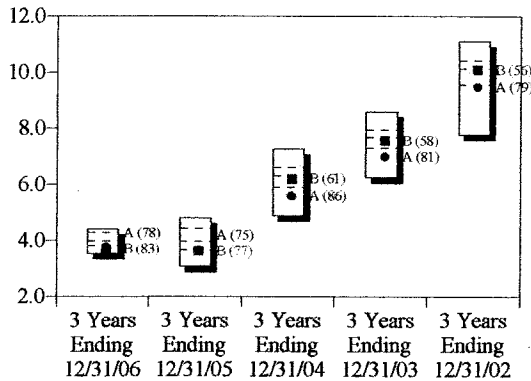
	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile	1.49	5.30	4.34	5.74	7.16	6.81
25th Percentile	1.40	4.96	4.29	5.54	6.91	6.64
Median	1.26	4.54	3.98	5.40	6.69	6.48
75th Percentile	1.22	4.39	3.81	5.05	6.46	6.26
90th Percentile	1.05	4.23	3.62	4.89	6.31	6.16
Vanguard Tot Bd;Inst	● A (27)	● A (74)	● A (78)	● A (74)	● B (76)	● B (81)
Lehman Aggregate	■ B (68)	■ B (81)	■ B (93)	■ A (92)	■ A (91)	■ A (92)
	1.38	4.40	3.76	4.74	6.22	6.08
	1.24	4.33	3.70	5.06	6.45	6.24

**Returns**  
for Calendar Years  
5 Years Ended December 31, 2006  
Group: CAI Core Bond Fixed-Inc Style



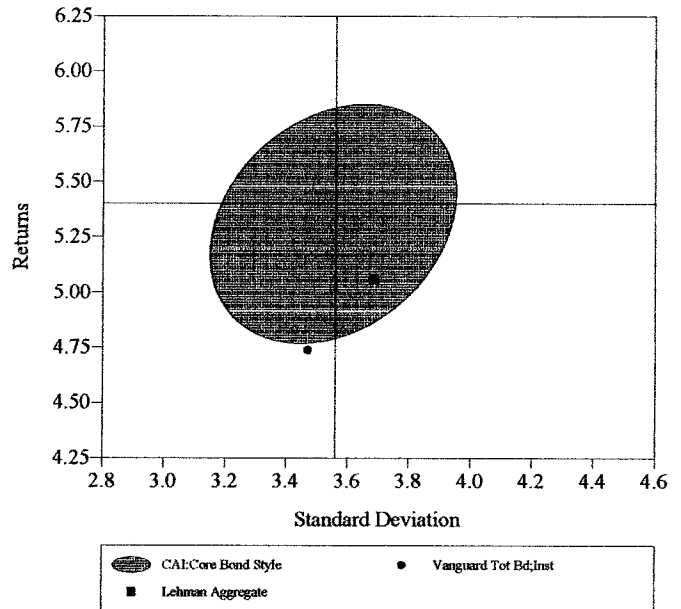
	2006	2005	2004	2003	2002
10th Percentile	5.30	3.14	5.29	6.08	11.78
25th Percentile	4.96	3.01	4.84	5.27	10.51
Median	4.54	2.77	4.48	4.48	9.81
75th Percentile	4.39	2.64	4.23	4.02	8.61
90th Percentile	4.23	2.37	3.90	3.64	7.72
Vanguard Tot Bd;Inst	● A (74)	● A (81)	● A (65)	● B (71)	● B (48)
Lehman Aggregate	■ B (81)	■ B (86)	■ B (66)	■ A (71)	■ A (78)
	4.40	2.53	4.36	4.10	8.39
	4.33	2.43	4.34	4.10	10.26

**Returns**  
for 12 Quarter Rolling Periods  
5 Years Ended December 31, 2006  
Group: CAI Core Bond Fixed-Inc Style



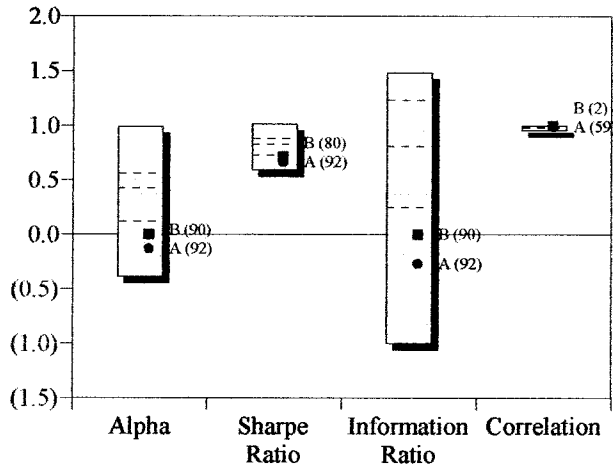
	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03	3 Years Ending 12/31/02
10th Percentile	4.34	4.73	6.98	8.33	10.99
25th Percentile	4.29	4.44	6.62	7.96	10.42
Median	3.98	3.98	6.32	7.69	10.14
75th Percentile	3.81	3.66	5.91	7.30	9.55
90th Percentile	3.62	3.30	5.29	6.65	8.99
Vanguard Tot Bd;Inst	● A (78)	● A (75)	● B (61)	● A (81)	● B (55)
Lehman Aggregate	■ B (83)	■ B (77)	■ A (86)	■ A (81)	■ A (79)
	3.76	3.66	5.60	7.00	9.48
	3.70	3.62	6.20	7.57	10.10

**Scatter Chart**  
for 5 Years Ended December 31, 2006



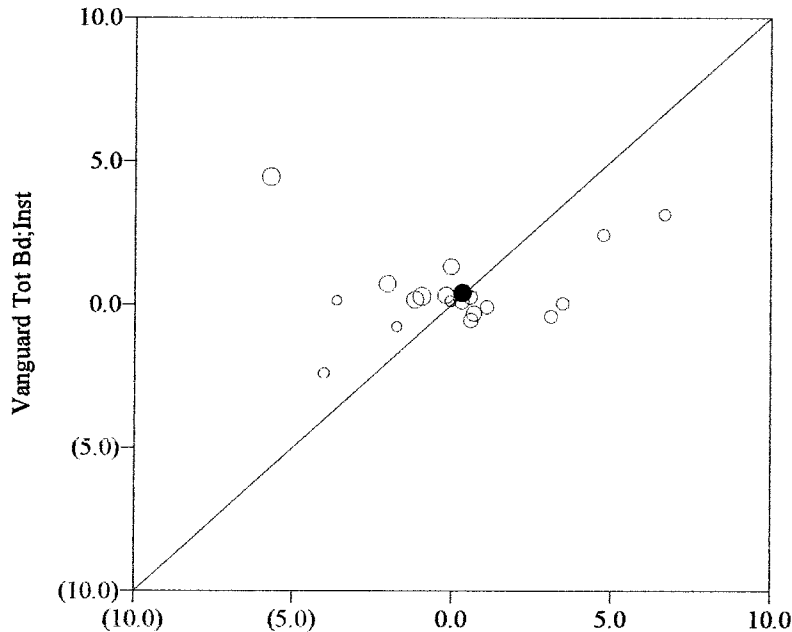
# Vanguard Total Bond Index

Statistics relative to Lehman Aggregate  
for 5 Years Ended December 31, 2006  
Group: CAI Core Bond Fixed-Inc Style



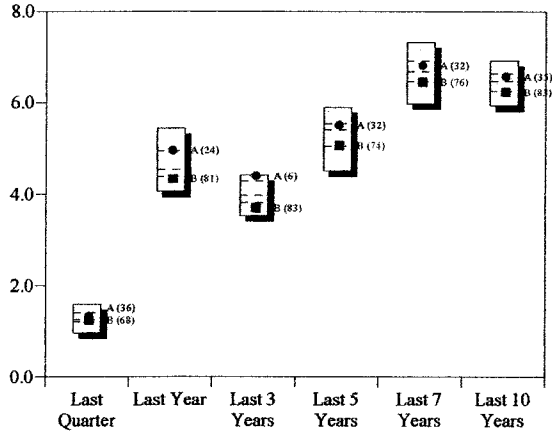
10th Percentile	0.89	0.95	1.45	1.00
25th Percentile	0.56	0.88	1.23	0.99
Median	0.43	0.83	0.81	0.99
75th Percentile	0.12	0.73	0.25	0.98
90th Percentile	0.00	0.71	0.00	0.96
Vanguard Tot Bd;Inst	● A (0.13)	0.67	(0.27)	0.99
Lehman Aggregate	■ B (0.00)	0.71	0.00	1.00

Rolling 4 Quarter Information Ratio Comparison Chart  
for 5 Years Ended December 31, 2006  
Benchmark: Lehman Aggregate



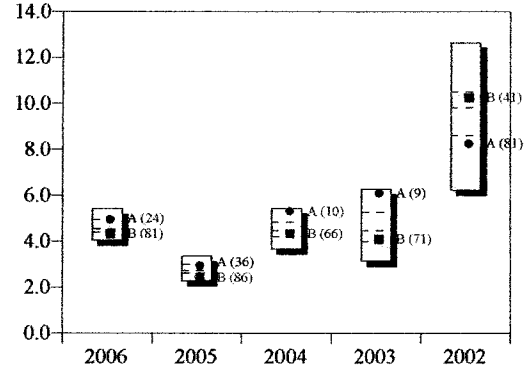
# Atlantic Asset Management

**Returns  
for Periods Ended December 31, 2006  
Group: CAI Core Bond Fixed-Inc Style**



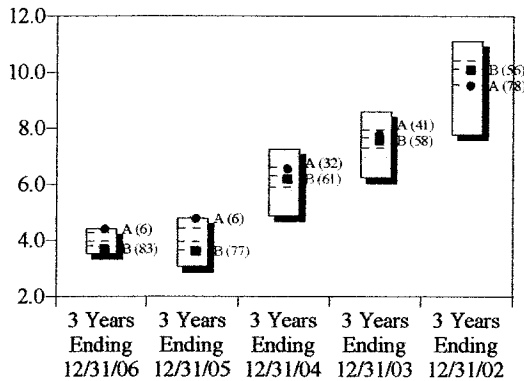
	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
10th Percentile	1.49	5.30	4.34	5.74	7.16	6.81
25th Percentile	1.40	4.96	4.29	5.54	6.91	6.64
Median	1.26	4.54	3.98	5.40	6.69	6.48
75th Percentile	1.22	4.39	3.81	5.05	6.46	6.26
90th Percentile	1.05	4.23	3.62	4.89	6.31	6.16
AtlAM:Core Fixed Inc	● A 1.33	4.96	4.41	5.51	6.82	6.58
LB:Aggr Bd	■ B 1.24	4.33	3.70	5.06	6.45	6.24

**Returns  
for Calendar Years  
5 Years Ended December 31, 2006  
Group: CAI Core Bond Fixed-Inc Style**



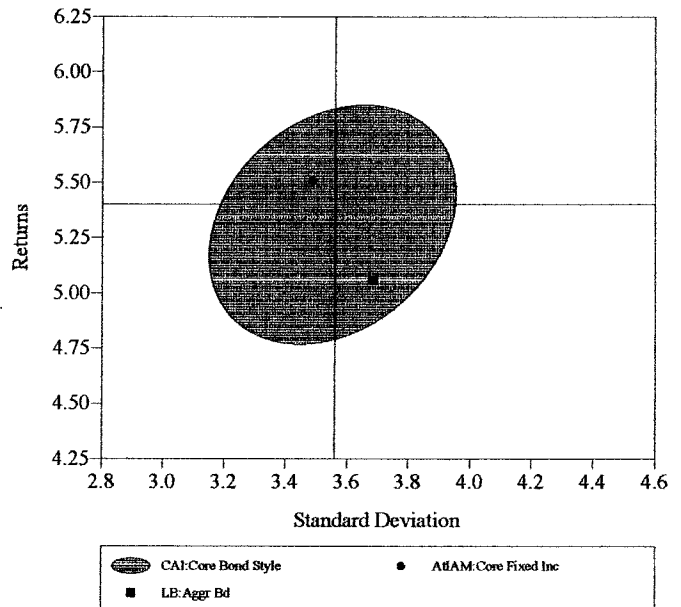
	2006	2005	2004	2003	2002
10th Percentile	5.30	3.14	5.29	6.08	11.78
25th Percentile	4.96	3.01	4.84	5.27	10.51
Median	4.54	2.77	4.48	4.48	9.81
75th Percentile	4.39	2.64	4.23	4.02	8.61
90th Percentile	4.23	2.37	3.90	3.64	7.72
AtlAM:Core Fixed Inc	● A 4.96	2.95	5.32	6.12	8.26
LB:Aggr Bd	■ B 4.33	2.43	4.34	4.10	10.26

**Returns  
for 12 Quarter Rolling Periods  
5 Years Ended December 31, 2006  
Group: CAI Core Bond Fixed-Inc Style**



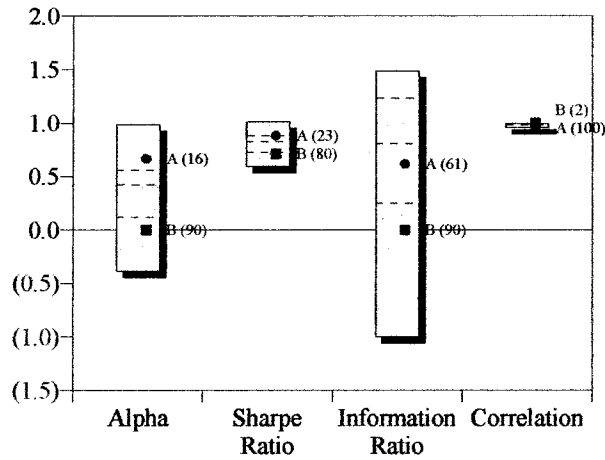
	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03	3 Years Ending 12/31/02
10th Percentile	4.34	4.73	6.98	8.33	10.99
25th Percentile	4.29	4.44	6.62	7.96	10.42
Median	3.98	3.98	6.32	7.69	10.14
75th Percentile	3.81	3.66	5.91	7.30	9.55
90th Percentile	3.62	3.30	5.29	6.65	8.99
AtlAM:Core Fixed Inc	● A 4.41	4.79	6.56	7.79	9.53
LB:Aggr Bd	■ B 3.70	3.62	6.20	7.57	10.10

**Scatter Chart  
for 5 Years Ended December 31, 2006**



# Atlantic Asset Management

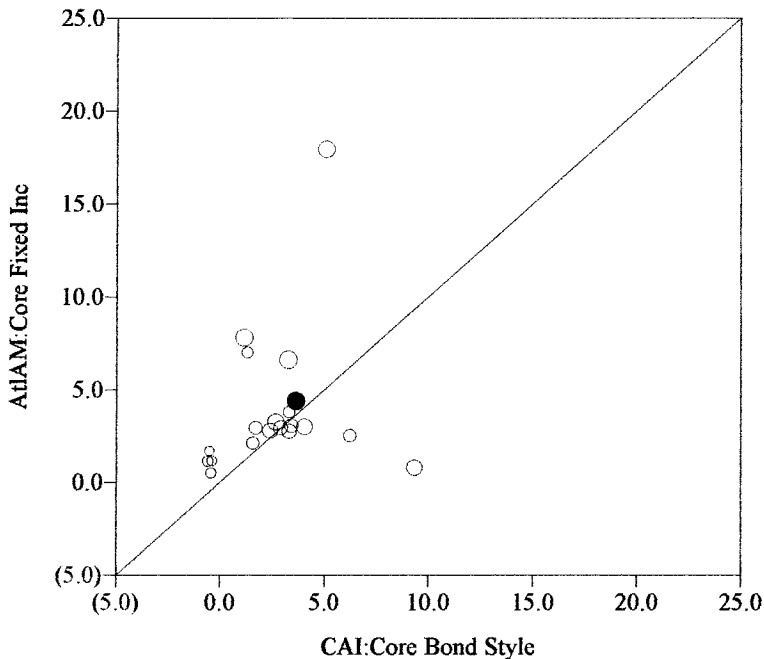
Statistics relative to LB:Aggr Bd  
for 5 Years Ended December 31, 2006  
Group: CAI Core Bond Fixed-Inc Style



10th Percentile	0.89	0.95	1.45	1.00
25th Percentile	0.56	0.88	1.23	0.99
Median	0.43	0.83	0.81	0.99
75th Percentile	0.12	0.73	0.25	0.98
90th Percentile	0.00	0.71	0.00	0.96

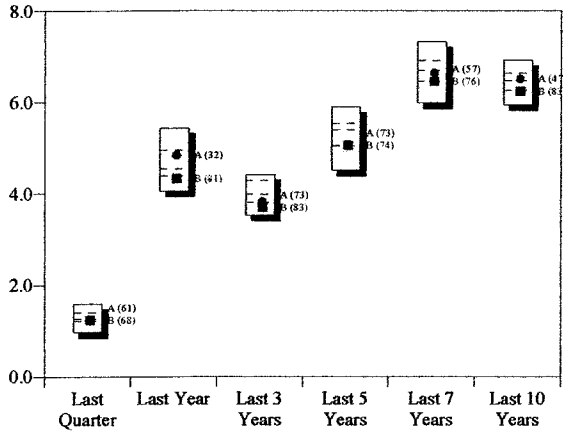
AtlAM:Core Fixed Inc	● A	0.67	0.88	0.62	0.95
LB:Aggr Bd	■ B	0.00	0.71	0.00	1.00

Rolling 4 Quarter Information Ratio Comparison Chart  
for 5 Years Ended December 31, 2006  
Benchmark: LB:Aggr Bd



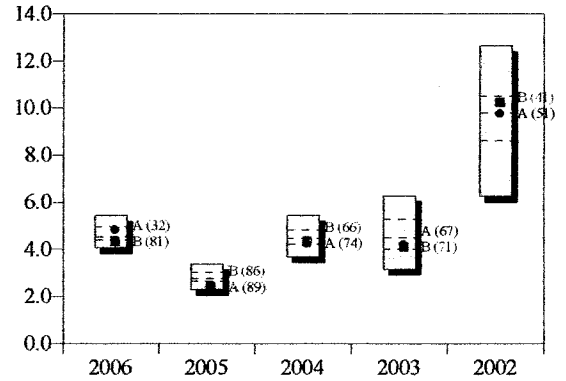
# Richmond Capital Management

**Returns  
for Periods Ended December 31, 2006  
Group: CAI Core Bond Fixed-Inc Style**



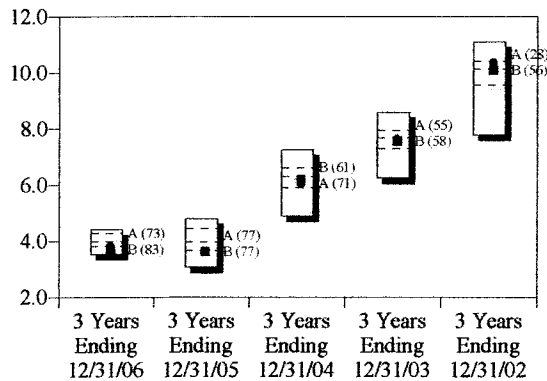
	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	
10th Percentile	1.49	5.30	4.34	5.74	7.16	6.81	
25th Percentile	1.40	4.96	4.29	5.54	6.91	6.64	
Median	1.26	4.54	3.98	5.40	6.69	6.48	
75th Percentile	1.22	4.39	3.81	5.05	6.46	6.26	
90th Percentile	1.05	4.23	3.62	4.89	6.31	6.16	
RichCp:Core Broad	● A	1.25	4.84	3.83	5.07	6.64	6.51
LB:Aggr Bd	■ B	1.24	4.33	3.70	5.06	6.45	6.24

**Returns  
for Calendar Years  
5 Years Ended December 31, 2006  
Group: CAI Core Bond Fixed-Inc Style**



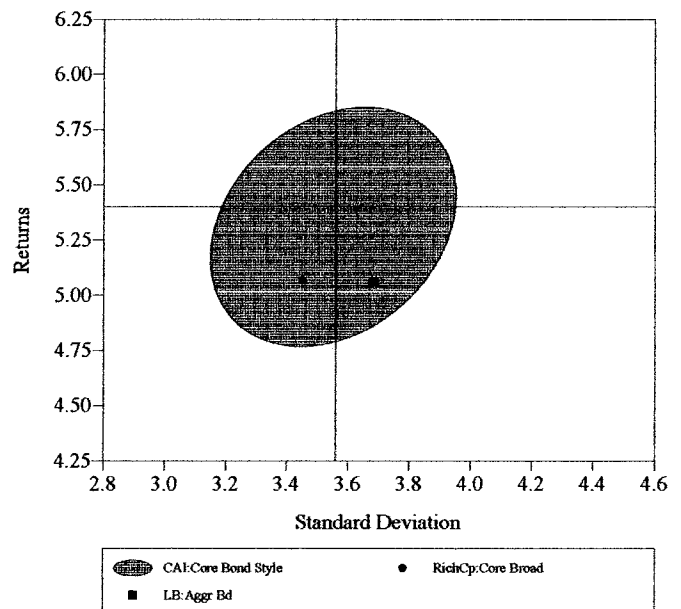
	2006	2005	2004	2003	2002	
10th Percentile	5.30	3.14	5.29	6.08	11.78	
25th Percentile	4.96	3.01	4.84	5.27	10.51	
Median	4.54	2.77	4.48	4.48	9.81	
75th Percentile	4.39	2.64	4.23	4.02	8.61	
90th Percentile	4.23	2.37	3.90	3.64	7.72	
RichCp:Core Broad	● A	4.84	2.39	4.26	4.21	9.78
LB:Aggr Bd	■ B	4.33	2.43	4.34	4.10	10.26

**Returns  
for 12 Quarter Rolling Periods  
5 Years Ended December 31, 2006  
Group: CAI Core Bond Fixed-Inc Style**



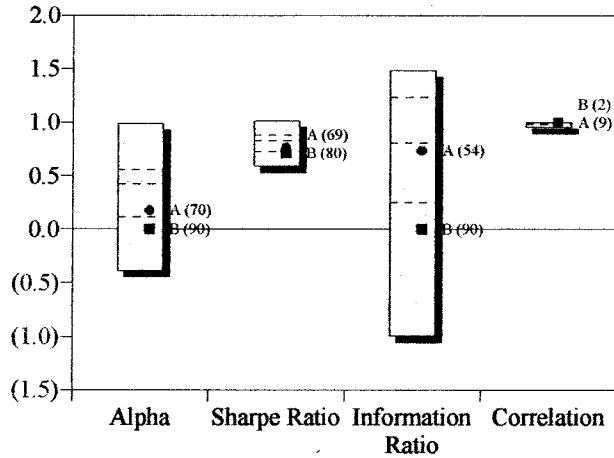
	3 Years Ending 12/31/06	3 Years Ending 12/31/05	3 Years Ending 12/31/04	3 Years Ending 12/31/03	3 Years Ending 12/31/02	
10th Percentile	4.34	4.73	6.98	8.33	10.99	
25th Percentile	4.29	4.44	6.62	7.96	10.42	
Median	3.98	3.98	6.32	7.69	10.14	
75th Percentile	3.81	3.66	5.91	7.30	9.55	
90th Percentile	3.62	3.30	5.29	6.65	8.99	
RichCp:Core Broad	● A	3.83	3.62	6.05	7.64	10.38
LB:Aggr Bd	■ B	3.70	3.62	6.20	7.57	10.10

**Scatter Chart  
for 5 Years Ended December 31, 2006**



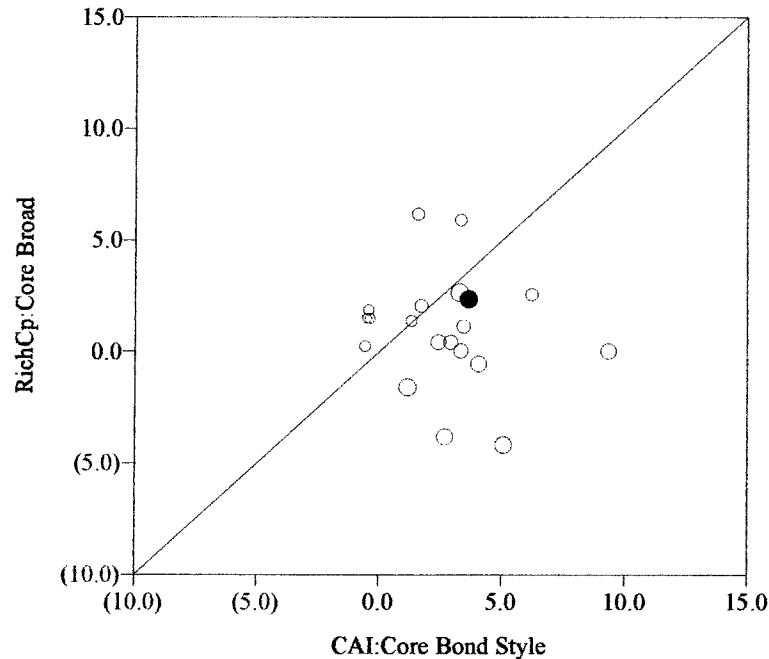
# Richmond Capital Management

Statistics relative to LB:Aggr Bd  
for 5 Years Ended December 31, 2006  
Group: CAI Core Bond Fixed-Inc Style



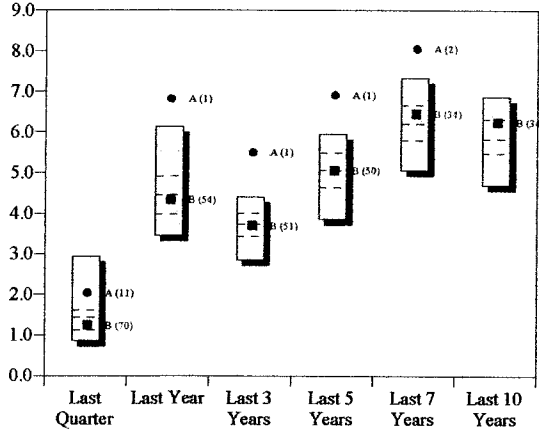
10th Percentile	0.89	0.95	1.45	1.00	
25th Percentile	0.56	0.88	1.23	0.99	
Median	0.43	0.83	0.81	0.99	
75th Percentile	0.12	0.73	0.25	0.98	
90th Percentile	0.00	0.71	0.00	0.96	
RichCp:Core Broad	● A	0.18	0.77	0.74	1.00
LB:Aggr Bd	■ B	0.00	0.71	0.00	1.00

Rolling 4 Quarter Information Ratio Comparison Chart  
for 5 Years Ended December 31, 2006  
Benchmark: LB:Aggr Bd



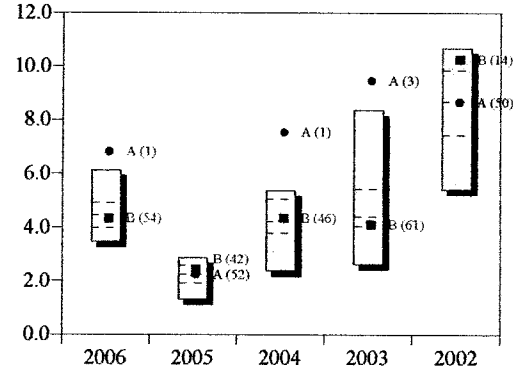
# Western Asset Core Plus Bond Fund

**Returns  
for Periods Ended December 31, 2006  
Group: CAI MF - Core Bond Style**



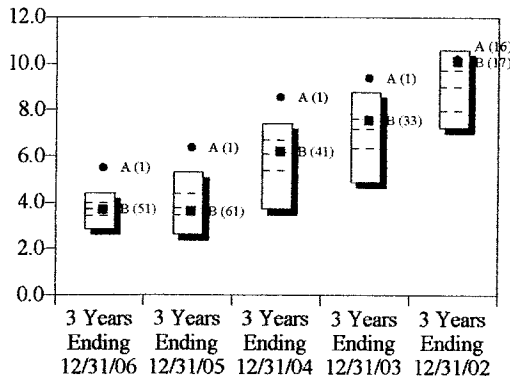
10th Percentile	2.10	5.53	4.24	5.76	6.94	6.75
25th Percentile	1.62	4.92	4.01	5.50	6.66	6.32
Median	1.45	4.46	3.73	5.07	6.21	5.84
75th Percentile	1.13	3.98	3.44	4.64	5.80	5.47
90th Percentile	1.02	3.65	3.22	4.18	5.28	4.92
Western Asset Core Pl,I	● A 2.04	6.82	5.50	6.91	8.06	—
LB:Aggr Bd	■ B 1.24	4.33	3.70	5.06	6.45	6.24

**Returns  
for Calendar Years  
5 Years Ended December 31, 2006  
Group: CAI MF - Core Bond Style**



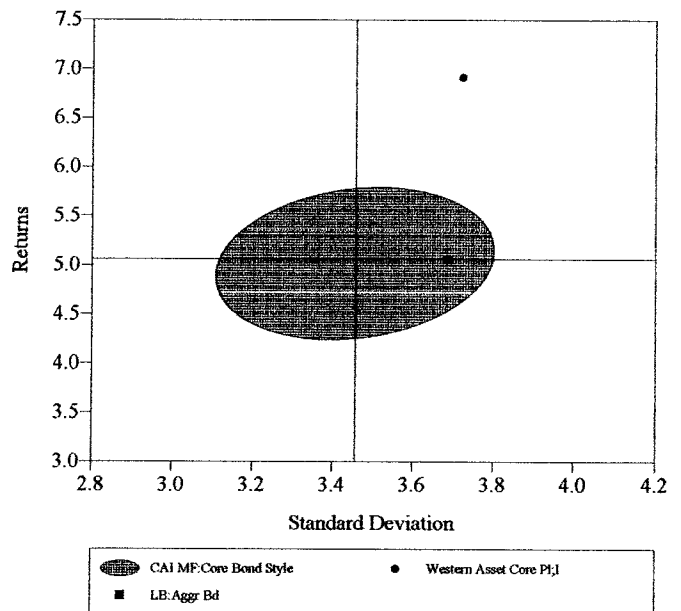
10th Percentile	5.53	2.84	5.30	6.90	10.32
25th Percentile	4.92	2.57	5.05	5.44	9.86
Median	4.46	2.24	4.22	4.40	8.68
75th Percentile	3.98	1.92	3.79	4.05	7.44
90th Percentile	3.65	1.69	3.03	3.41	6.67
Western Asset Core Pl,I	● A 6.82	2.23	7.54	9.46	8.67
LB:Aggr Bd	■ B 4.33	2.43	4.34	4.10	10.26

**Returns  
for 12 Quarter Rolling Periods  
5 Years Ended December 31, 2006  
Group: CAI MF - Core Bond Style**



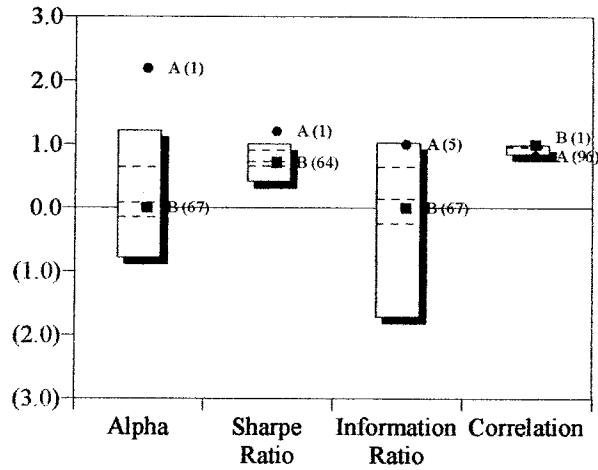
10th Percentile	4.24	5.02	7.09	8.50	10.48
25th Percentile	4.01	4.39	6.70	7.63	9.72
Median	3.73	3.78	6.10	7.17	9.01
75th Percentile	3.44	3.46	5.37	6.35	7.96
90th Percentile	3.22	3.16	4.58	5.70	7.61
Western Asset Core Pl,I	● A 5.50	6.37	8.55	9.39	10.20
LB:Aggr Bd	■ B 3.70	3.62	6.20	7.57	10.10

**Scatter Chart  
for 5 Years Ended December 31, 2006**



# Western Asset Core Plus Bond Fund

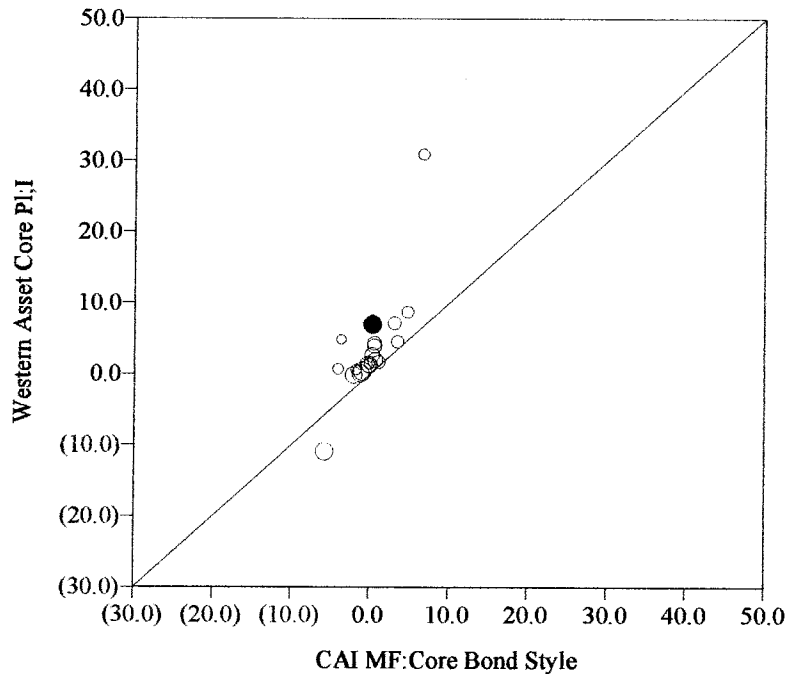
Statistics relative to LB:Aggr Bd  
for 5 Years Ended December 31, 2006  
Group: CAI MF - Core Bond Style



10th Percentile	0.99	0.95	0.86	1.00
25th Percentile	0.65	0.91	0.65	0.99
Median	0.09	0.73	0.14	0.97
75th Percentile	(0.14)	0.66	(0.25)	0.95
90th Percentile	(0.75)	0.49	(0.63)	0.90

Western Asset Core Pl,I	● A	2.19	1.21	1.01	0.82
LB:Aggr Bd	■ B	0.00	0.71	0.00	1.00

Rolling 4 Quarter Information Ratio Comparison Chart  
for 5 Years Ended December 31, 2006  
Benchmark: LB:Aggr Bd







# Performance Report

## IPS Executive Summary

**Virginia Birth-Related  
Neurological Injury Compensation Fund**

**EXECUTIVE SUMMARY**

<b>Current Assets</b>	\$141,307,994.20 (12/31/04)
<b>Investment Time Horizon</b>	10 + years
<b>Target Annual Return</b>	6.8% nominal return (CPI plus 4.2%)*
<b>Risk Tolerance</b>	95% confidence that losses will not exceed 7.1% in a given year

<b>Asset Allocation</b>	<b>Lower Limit</b>	<b>Normal Allocation</b>	<b>Upper Limit</b>
<b>Total Equities</b>		<b>50%</b>	
<b>Total Fixed Income/Cash</b>		<b>50%</b>	
		<b>100%</b>	
<b>Domestic Equities</b>		<b>35%</b>	
<i>Large Cap</i>	25%	30%	35%
<i>Small Cap</i>	2 %	5%	8%
<b>International Equities</b>		<b>15%</b>	
<i>Developed International</i>	9%	12%	15%
<i>Emerging Market</i>	1%	3%	5%
<b>Fixed Income</b>		<b>45%</b>	
<i>Domestic Fixed Income</i>	35%	45%	55%
<b>Cash</b>	3%	<b>5%</b>	15%

**Total Fund Evaluation Benchmarks**

**Short Term** - Performance will be measured against a weighted blend of market and/or median manager benchmarks based upon the strategic asset allocation policy of the Fund.

**Long Term** – Inflation (CPI) plus 4.2%

\*CPI assumption = 2.6% (2005 Capital Markets Projections of Callan Associates, Inc)

**Benchmarks** (This table identifies the benchmarks available for comparative performance.)

<b>Asset Class</b>	<b>Market Index</b>	<b>Callan Style Database</b>
<i>Total Portfolio</i>	Custom Weighted Blend	
<i>Large Cap U.S. Equities</i>	S&P 500	Large Cap Broad
	MSCI US Prime Market 750	
	Russell 1000	Large Cap Growth Large Cap Value
	Russell 1000 Growth	
	Russell 1000 Value	
<i>Small Cap U.S. Equities</i>	S&P 600	Small Cap Broad
	Russell 2000	Small Cap Growth Small Cap Value
	Russell 2000 Growth	
	Russell 2000 Value	
<i>Developed International Equities</i>	MSCI EAFE	Core International Equity
	MSCI EAFE Growth	
	MSCI EAFE Value	
<i>Emerging Markets Equity</i>	MSCI Emerging Markets	Emerging Markets Equity
<i>Domestic Fixed Income</i>	Lehman Aggregate Lehman Intermediate Aggregate	Core Fixed Income

## Manager Structure History

### Current Managers

	Asset Class	Inception
<i>INTECH Large Cap Growth</i>	Large Cap Growth	04/30/2006
<i>Rainier Investment Management</i>	Large Cap Growth	05/09/2006
<i>Vanguard Large-Cap Index Fund</i>	Large Cap	08/04/2005
<i>AllianceBernstein</i>	Large Cap Value	05/24/2006
<i>Great Lake Advisors</i>	Large Cap Value	05/09/2006
<i>TAMRO Capital Partners</i>	Small Cap Broad	08/31/2006
<i>Eagle Asset Management</i>	Small Cap Broad	08/31/2006
<i>Artisan International Fund</i>	International Equity	06/22/2006
<i>Harbor International Fund</i>	International Equity	06/22/2006
<i>SSgA Emerging Markets Fund</i>	Emerging Markets	06/22/2006
<i>Vanguard Total Bond Market Index</i>	Fixed Income	08/04/2005
<i>Western Asset Core Plus Bond</i>	Fixed Income	09/29/2006
<i>Richmond Capital Management</i>	Domestic Fixed Income	10/03/2006
<i>Atlantic Asset Management</i>	Domestic Fixed Income	10/03/2006

### Terminated Managers/Funds

	Asset Class	Inception	Termination
<i>Merrill Lynch Equity</i>	Large Cap	09/30/2000	07/27/2005
<i>Merrill Lynch Fixed Income</i>	Fixed Income	09/30/2000	07/27/2005
<i>Vanguard Emerging Markets VIPER/ETF</i>	Emerging Markets	08/04/2005	06/20/2006
<i>Vanguard Developed Markets Index Fund</i>	International Equity	08/04/2005	06/15/2006
<i>Vanguard Small-Cap Index Fund</i>	Small Cap	08/04/2005	08/29/2006

## \*Custom Benchmarks for Total Fund

- **Style Target** = 30% CAI MF: Lg Cap Broad Style; 5% CAI MF: Sm Cap Broad Style; 12% CAI MF: Intl Core Equity Style; 3% CAI MF: Emerging Markets Style; 45% CAI MF: Core Bond Style; 5% CAI: Cash Management; CAI: Small Cap Broad
- **Index Target** = 30% MSCI U.S. Prime Market 750; 5% MSCI U.S. Small Cap 1750; 12% MSCI EAFE; 3% MSCI Emerging Markets; 45% LB Aggregate; 5% 90-day T-Bill

## **Quarterly Performance Report Disclosure/Account Reviews (INST)**

### **Important Disclosure Information**

This report has been prepared by Capital Advisory Group (CapGroup) using information from sources that include the following: the computer software, investment manager and fund sponsor databases of Callan Associates, Inc.; the fund custodian(s); investment manager(s); third party data vendors; the client; and other outside sources as directed by the client. Account information has been compiled solely by CapGroup and has not been independently verified. CapGroup assumes no responsibility for the accuracy or completeness of the information provided, or methodologies employed by any providers external to CapGroup.

In reviewing this report, it should be noted that past performance may not be indicative of future results. The individual account performance information contained in this report reflects the reinvestment of dividends, and is net of applicable transaction fees and mutual fund expenses, but not custody fees, investment manager fees and the investment advisory fees charged to the Account by CapGroup. Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. Comparative performance information for manager universes has been provided by Callan Associates, Inc. and does not reflect the deduction of investment manager fees, the incurrence of which would have the effect of decreasing the historical returns for the respective universes. It should not be assumed that your account holdings correspond directly to any comparative indices or manager universes. A copy of our current written disclosure statement discussing our advisory services and fees continues to remain available for your review upon request.

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

Financial Statements

For Years Ended  
December 31, 2005 and 2004

# VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

## Contents

	Page
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis.....	3-10
Basic Financial Statements:	
Statements of Net Assets.....	11
Statements of Revenues, Expenses and Changes in Net Assets .....	12
Statements of Cash Flows.....	13
Notes to Financial Statements .....	14-21
Required Supplementary Information:	
Claims Development Information.....	22-24
Supplementary Information:	
Schedule of General and Administrative Expenses .....	25
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 <i>Government Auditing Standards</i> .....	26-27



## 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, 2005 and 2004, 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 opinions.

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, 2005 and 2004 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 March 15, 2006 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 10 and other required supplementary information on pages 22 through 24 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, Buhart + Hallum, LLP*

Richmond, Virginia  
March 15, 2006

# Virginia Birth-Related Neurological Injury Compensation Program

## Management's Discussion and Analysis

This section of the Virginia Birth Related Neurological Injury Compensation Program (the Program) annual financial report represents our discussion and analysis of the Program's financial performance during the fiscal years ended December 31, 2004 and 2005. Please read it in conjunction with the Program's financial statements and accompanying notes.

### FINANCIAL HIGHLIGHTS

- During 2005 the Board of Directors (the Board) made several significant decisions designed to improve the overall investment strategy and the financial position of the Program. They are described as follows:
  - After a detailed review of response for proposals and a recommendation from the Investment Committee, the Board employed CapGroup of Richmond as the Program's investment consultant.
  - The Board approved a comprehensive Investment Policy Statement (IPS) researched and prepared by CapGroup.
  - After a detailed review of response for proposals and a recommendation by CapGroup and the Investment Committee, the Board approved SunTrust Bank as the new custodian of the Programs' investment funds.
  - Investment funds were transferred from Merrill Lynch to SunTrust Bank in August and invested in various Vanguard Index Funds.
  - The Board appointed the first Audit Committee to oversee annual audit activities.
- The funding study authorized by House Joint Resolution 646 in the 2005 General Assembly was completed, published and assigned a house document number (HD11). This comprehensive report provides historical and current status information as well as alternatives for decreasing the deficit. The latter portion was developed in conjunction with Pinnacle Actuarial Services of Bloomington, IL, chosen for their extensive experience with patient compensation programs.
- The revenue from fees and assessments increased by \$1,527,396 or (8%) in 2005. Fees assessed from participating physicians increased \$131,265 or (6%), participating hospitals increased \$22,541 or (1%), insurance companies increased \$1,365,292 or (14%) and mandated physicians fees increased \$8,298 or (0.2%). (An explanation of significant variances is included later in this report).
- The revenue from fees and assessments increased by \$1,968,000 or (12%) in 2004. Fees assessed from participating physicians increased \$350,000 or (19%), participating hospitals increased \$373,000 or (16%), insurance companies increased \$955,000 or (11%) and mandated physicians fees increased \$288,000 or (9%).
- The Program's total net assets decreased by \$26.0 million and \$22.7 million in 2005 and 2004 respectively primarily due to the increase in provision for claims.
- In 2005 the Program provided \$5,500,000 in nursing care, \$198,000 in therapy, \$695,000 for 21 handicapped accessible vans, \$937,000 for housing benefits, \$239,000 for durable medical equipment and technology, \$64,000 for hospitals and physician visits, and \$351,000 for claimant legal fees.
- The average cost per active claimant in 2005 and 2004 was approximately \$104,000 and \$82,000 respectively.

# Virginia Birth-Related Neurological Injury Compensation Program

## Management's Discussion and Analysis

- According to the September 2005 Actuarial Report, forecasts of future claim payments increased \$13.5 million due to the revision in the mortality table extending the life expectancies of claimants.
- As of December 31, 2005 there were a total of 536 participating physicians, up 28 from 508 physicians in 2004. Participating Hospitals decreased by 1 from 33 in 2004 to 32 in 2005.
- At the close of 2005 the Program has a total of 110 admitted claimants, 19 of which are deceased. Thirteen claimants were admitted including 2 that were deceased prior to admission. In addition, two other claimants became deceased during 2005. Fourteen claimants were pending as of December 31, 2005. See chart below.

### Total Admitted, Deceased and Active Claimants

	<u>Total</u>	<u>2004</u>	<u>2005</u>	<u>Total</u>
	<u>01/01/2004</u>	<u>Activity</u>	<u>Activity</u>	<u>12/31/05</u>
<b>Admitted</b>	87	10	13	110
<b>Deceased</b>	14	1	4	19
<b>Active</b>	<u>73</u>			<u>91</u>

## 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.

For the fiscal year ending December 2003 and prior fiscal years, the Program's financial statements were prepared according to recommendations of the Financial Accounting Standards Board in its' Statement of Financial Accounting Standards No. 117, Financial Statements for Not for Profits Organizations. After a study of the Program's organizational structure, management determined that the Program's financial statements should be presented in accordance with GAAP applicable to enterprise funds of local government units. This change was adopted January 1, 2004. This change in basis of accounting resulted in a change in reporting formats and had no significant effect on assets, net assets or changes in net assets reported for the year ending December 2004.

# Virginia Birth-Related Neurological Injury Compensation Program

## Management's Discussion and Analysis

### FINANCIAL ANALYSIS

#### Net Assets:

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

**Table 1**  
**Net Assets**  
**As of December 31, 2005, 2004, and 2003**  
**(In millions)**

	2005	2004	2003
<b>Current Assets</b>	\$ 10.7	\$ 12.3	\$ 24.3
<b>Non current Assets</b>	155.8	134.6	103.7
<b>Total Assets</b>	<u>166.5</u>	<u>146.9</u>	<u>128.0</u>
<b>Current Liabilities</b>	20.5	17.3	16.8
<b>Unpaid Claims Reserve</b>			
<b>Admitted Claims</b>	175.9	139.0	122.9
<b>Incurred but not reported claims</b>	95.3	89.8	64.8
<b>Total Unpaid Claims Reserve</b>	<u>271.2</u>	<u>228.8</u>	<u>187.7</u>
<b>Total Liabilities</b>	<u>291.7</u>	<u>246.1</u>	<u>204.5</u>
<b>Unrestricted Net Assets (Deficit)</b>	(125.2)	(99.2)	(76.5)
<b>Total Net assets</b>	<u>\$ (125.2)</u>	<u>\$ (99.2)</u>	<u>\$ (76.5)</u>

At December 31, 2005 and 2004, the total assets of the Program were \$166.5 and \$146.9 million, respectively; total liabilities were \$291.7 and \$246.1 million, respectively, while combined net assets were negative \$125.2 and \$99.2 million, respectively. Net assets are negative due to the fact that the amount of unpaid claims reserve exceeds total non current assets set aside to pay for future claims.

The decrease in current assets from 2004 of \$12.3 million to 2005 of \$10.7 million is insignificant and the amount held in current assets (cash & cash equivalents) is in compliance with the Investment Policy Statement (IPS). The \$21.2 million increase in non current assets from \$134.6 million in 2004 to \$155.8 million in 2005 consists primarily of \$6.0 million in investment income and \$16.0 million in assessments deposited and invested.

Current liabilities exceed current assets by \$9.8 million in 2005. Current assets are comprised of cash and cash equivalents while current liabilities consist primarily of deferred revenue. According to the IPS the target allocation for cash is around 5% and current assets are in compliance. As revenue is received it is invested on a monthly basis with approximately \$1 million held in liquid cash equivalents to meet the short-term needs of the fund.

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

# Virginia Birth-Related Neurological Injury Compensation Program

## Management's Discussion and Analysis

### Comparison of IBNR to Net Assets

	2005	2004	2003
<b>Incurred but not reported claims</b>	\$ 95.3	\$ 89.8	\$ 64.8
<b>Total Net Assets</b>	(125.2)	(99.2)	(76.9)
<b>Unfunded Portion of Admitted Claims</b>	<u>\$ (29.9)</u>	<u>\$ (9.4)</u>	<u>\$ (12.1)</u>

The above chart shows the comparison of the IBNR claims to the deficit in the total net assets from 2003 to 2005. From 2003 to 2004 there is a reduction in the amount of the unfunded portion of the admitted claims of and \$2.7 million. If IBNR was not included in the Statement of Net Assets the asset position related to the liabilities improves each year. Up to 2004 the revenues are covering more of the admitted claims but the IBNR grew at a much greater rate.

In 2005 the unfunded portion of admitted claims increases \$20.5 million. This is due to a significant increase in the actuarial estimate of future expenses for both admitted and IBNR claims. This increase is attributable to several changes in assumptions made by the actuaries. The most significant is the revision of the mortality table, increasing the life expectancies of the claimants in the program and increasing the estimate of future payments by \$13.5 million. In addition the methodology for projecting non-claimant administrative expenses changed as well as the method for calculating the present value amount for lost wages for group C claimants, those born but not yet admitted to the fund. The forecast for lifetime expenses for Group C Claimants increased 12% from \$1.76 million in 2004 to \$1.97 million in 2005 because of the increase in actual nursing cost in 2004. The forecast for lifetime nursing expenses rose 15% from \$1.1 million in 2004 to 1.4 million in 2005.

Accounts payable as of December 31, 2005 and 2004 is \$1,050,000 and \$691,000 respectively, showing an increase of \$359,000. The majority of the accounts payable are nursing expense and payments for several large renovation projects that were paid in January and February 2006.

In addition, claimant expenses increased \$2,600,000 from \$6,900,000 in 2004 to \$9,500,000 in 2005. This increase was due, in part, to ten new claimants admitted in 2004 as well as thirteen in 2005 increasing both the number and amounts of invoices. Nursing expenses alone increased \$1,100,000 from 2004 to 2005 primarily due to an existing demand that had not been supplied by the nursing community previously and to a lesser extent a 5% increase in some fees. Several large renovation projects as well as several large payments for claimants' legal fees contributed to the increase.

# Virginia Birth-Related Neurological Injury Compensation Program

## Management's Discussion and Analysis

### 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, 2005, 2004, and 2003**  
**(in millions)**

	2005	2004	2003
<b>Revenues</b>			
<b>Fees and Assessments</b>	\$ 19.9	\$ 18.3	\$ 16.4
<b>Net Investment Income</b>	6.1	7.1	9.6
<b>Other</b>	-	-	0.1
<b>Total Revenues</b>	<u>26.0</u>	<u>25.4</u>	<u>26.1</u>
<b>Expenses</b>			
<b>Provision for claims</b>	51.9	48.0	20.6
<b>General and administration</b>	0.1	0.1	0.1
<b>Total Liabilities</b>	<u>52.0</u>	<u>48.1</u>	<u>20.7</u>
<b>Change in net assets</b>	(26.0)	(22.7)	5.4
<b>Beginning net assets (deficit)</b>	(99.2)	(76.5)	(81.9)
<b>Ending net assets (deficit)</b>	<u>\$ (125.2)</u>	<u>\$ (99.2)</u>	<u>\$ (76.5)</u>

### 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, 2005 and 2004, revenues totaled \$26.0 and \$25.4 million, respectively.

Assessments for 2005 for participating and non-participating physicians were \$5,100 and \$260 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 \$160,000. In 2005 liability insurers paid one quarter of one percent on the direct premiums written during the prior year.

The insurance fees collected from liability insurers increased 14% from \$9.9 million in 2004 to \$11.3 million in 2005. This increase can be attributed to an increase in the underlying premiums in Virginia upon which the assessments are calculated. The 2004 assessment was based on premiums of approximately \$3.7 billion and 2005 on premiums of approximately \$4.3 billion. Changes in premiums may be due to increase in rates, payrolls, general insurance and market conditions.

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

# Virginia Birth-Related Neurological Injury Compensation Program

## Management's Discussion and Analysis

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

Net investment income decreased \$1.0 million from 2004 to 2005 due to normal market fluctuations. In 2005 the Board made the decision to employ SunTrust Bank as custodian of the Program's funds, replacing Merrill Lynch. In August 2005, Merrill Lynch liquidated the investments and transferred them to SunTrust.

### EXPENSES

For the fiscal years ended December 31, 2005 and 2004 expenditures totaled \$52.0 million and \$48.1 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 9.5% and 9.8% of the total expenses (administrative plus claimant) for 2005 and 2004 respectively. Of the total administrative expenses of \$916,000 in 2005 approximately \$733,000 or 80% is related to claims according to program management and \$183,000 is related to program administration. In 2004 80% or \$546,000 of a total of \$683,000 in Administrative expenses was related to claims and \$137,000 related to program administration.

Total administrative expenses amounted to \$916,000 and \$683,000 in 2005 and 2004, respectively, primarily due to an increase in professional services and payroll expenses. The Board employed several medical and financial consultants (consultant and actuary) to complete the Funding Study and CapGroup to act as the Programs investment advisors. The Program also sought legal advice and research as to how to administer the wage benefit as claimants reach age 18. A professional employer organization was hired to provide human resource and payroll services. During 2005 two permanent employees were added to the staff, one position of which was previously filled by a temporary professional.

Provision for claims includes the portion of general administration expenses related to claims and actual and future expenses related to claims. Claimant expenses include nursing, therapy, physician and hospital visits, prescriptions, housing, transportation, and durable medical equipment. Provision for claims increased from \$48.0 million in 2004 to \$51.9 million in 2005 primarily due to the changes in the assumptions reflected in the actuarial study completed and published in September 2005 and discussed previously in this report.

# Virginia Birth-Related Neurological Injury Compensation Program

## Management's Discussion and Analysis

### 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.

### ECONOMIC FACTORS

On July 1, 2003 legislation became effective that has the potential to significantly increase the costs of the Program but not increase revenues. These changes may result in increased administrative expenses, increased number of claimants, and a new category of claimants eligible for awards up to \$100,000. A summary of the legislation is as follows;

- The Office of the Attorney General (OAG) shall provide requested legal services to the Program. The Program shall compensate the OAG for the provision of such legal services.
- Every hospital shall provide for each infant hospitalized in neonatal intensive care an informational brochure prepared and approved by the board of directors of the Program.
- The Workers' Compensation Commission (The Commission) may make an award, at its discretion, for compensation for attorney's fees for unsuccessful claims. Anyone born between July 1, 2003 and June 30, 2004 that submits a petition and is denied can receive attorney's fees. This decision was repealed effective July 1, 2004.
- If The Commission determines an infant has sustained a birth related injury and was delivered by a participating physician or born in a participating hospital, and the infant dies within 180 days, the Commission may make an award up to \$100,000 to the infant's family.

As of December 31, 2005 there were no petitions submitted or awards granted for compensation for attorney's fees for unsuccessful claims or for any infants deceased within 180 days of birth.

The above legislation has a significant effect on the increase in provision for insured events of prior years. In 2004 the increase in provision for insured events of prior years equals \$14.5 million. This provision is a combination of a decrease of \$27.4 million due to the reduction in estimated cost per claim as determined by the actuaries and an increase in the provision of \$41.9 million due to the legislative changes. The increase in the claims reserve in 2004 is primarily due to the legislative changes.

The \$42.4 million increase in claims reserve in 2005 is primarily due to the changes in assumptions made by the actuaries especially the change in the mortality table as discussed earlier. 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 (110 admitted as of 2005), none over the age of 16 and only 68 in the program three years or more as of 2004. 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. Legislative impact is uncertain and estimates will change as actual expenses and claimant's come into the program however there is no way to determine which are attributable to legislative changes. Forecasts of the number of eligible claimants are also unsure 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



# Virginia Birth-Related Neurological Injury Compensation Program

## Management's Discussion and Analysis

will increase the cost of the program. These factors have a volatile effect on the estimate of the claims reserve.

The 2005 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 18 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 2005 level, the fund will be able to continue to make claim payments for all claimants, including those admitted after December 31, 2004 (even if those claimants are born after December 31, 2004), for approximately the next 18 years. This time span has decreased from the 20 years cited in the 2004 report due to the increase in the forecasted lifetime costs per claimant, most of which is nursing. This is partially offset by legislative increases to assessment income and higher than expected forecasted assessment income from insurance companies.

As previously mentioned in this report the Board has made decisions during 2005 that impact the investment of the Program's funds. Due to the hiring of CapGroup as investment advisor the Program now has a comprehensive IPS, selected a new investment custodian (SunTrust Bank) and has a diversified portfolio of index funds. In 2006 the Board plans to incorporate active managers into the investment portfolio to maximize investment income and still maintain acceptable levels of risk. The Board believes these actions together with the guidance from CapGroup will continue to improve the investment strategy and financial position of the program, which is an important factor in reducing the actuarial deficit.

### CONTACTING THE PROGRAM'S FINANCIAL MANAGEMENT

This financial report is designed to provide users (e.g. citizens, taxpayers, claimant families, service providers and creditors) with a general overview of the Program's finances and to demonstrate the Program's accountability for the funds it receives. Questions concerning this report or requests for additional information should be directed to the Deputy Director, 9100 Arboretum Pkwy. Suite 365, Richmond, VA 23236, 804-330-2471 or visit our website at <http://www.vabirthinjury.com>

# Virginia Birth-Related Neurological Injury Compensation Program

## Statements of Net Assets

		December 31,	
		2005	2004
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$	10,332,288	\$ 11,473,661
Accrued interest		380,655	789,558
<b>Total current assets</b>		10,712,943	12,263,219
<b>Investments</b>		150,614,312	129,516,978
<b>Real estate held in trust</b>		5,142,281	5,052,551
<b>Property and equipment, net</b>		19,755	26,887
<b>Other assets</b>			
Security deposits		3,009	3,009
<b>Total noncurrent assets</b>		155,779,357	134,599,425
<b>Total assets</b>		166,492,300	146,862,644
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable		1,051,682	691,137
Accrued liabilities		54,069	54,069
Unearned revenue		19,347,906	16,474,887
<b>Total current liabilities</b>		20,453,657	17,220,093
<b>Unpaid claims reserve</b>			
Admitted claims		175,900,000	139,000,000
Incurred but not reported claims		95,300,000	89,800,000
<b>Total unpaid claims reserve</b>		271,200,000	228,800,000
<b>Total liabilities</b>		291,653,657	246,020,093
<b>Net assets</b>			
Invested in capital assets, net of related debt		19,755	26,887
Unrestricted (deficit)		(125,181,112)	(99,184,336)
<b>Total net assets</b>		\$ (125,161,357)	\$ (99,157,449)

# Virginia Birth-Related Neurological Injury Compensation Program

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

	Year Ended December 31,	
	2005	2004
<b>Operating revenues</b>		
Participating hospitals	\$ 2,753,450	\$ 2,730,909
Participating doctors	2,342,449	2,211,184
Mandated physician fees	3,444,676	3,436,378
Insurance fees	11,314,150	9,948,858
Other	-	100
<b>Total operating revenues</b>	<b>19,854,725</b>	<b>18,327,429</b>
<b>Operating expenses</b>		
Provision for claims	51,853,223	47,963,625
General and administration	183,164	136,569
<b>Total operating expenses</b>	<b>52,036,387</b>	<b>48,100,194</b>
<b>Operating loss</b>	<b>(32,181,662)</b>	<b>(29,772,765)</b>
<b>Nonoperating revenue (expense)</b>		
Net investment income	6,088,153	7,195,687
Gain (loss) on sale of real estate	-	149,016
Revaluation of real estate	89,730	(226,082)
Loss on sale of assets	(129)	(606)
<b>Net nonoperating revenue</b>	<b>6,177,754</b>	<b>7,118,015</b>
<b>Change in net assets</b>	<b>(26,003,908)</b>	<b>(22,654,750)</b>
<b>Net assets (deficit) at beginning of year</b>	<b>(99,157,449)</b>	<b>(76,502,699)</b>
<b>Net assets (deficit) at end of year</b>	<b>\$ (125,161,357)</b>	<b>\$ (99,157,449)</b>

# Virginia Birth-Related Neurological Injury Compensation Program

## Statements of Cash Flows

	Year Ended December 31,	
	2005	2004
<b>Cash flows from operating activities</b>		
Receipts from hospitals	\$ 2,934,100	\$ 2,519,709
Receipts from participating doctors	2,986,463	2,057,253
Mandated physician fee receipts	3,646,854	3,397,988
Receipts from insurance companies	13,160,327	10,210,638
Other receipts	-	100
Payments on behalf of claimants	(8,360,023)	(5,746,164)
Payments to suppliers of goods and services	(446,780)	(348,210)
Payments to employees	(458,511)	(323,111)
<b>Net cash provided by operating activities</b>	13,462,430	11,768,203
<b>Cash flows used in capital and related financing activities</b>		
Purchase of capital assets	(3,525)	(12,397)
<b>Cash flows from investing activities</b>		
Purchase of investment securities	(190,504,436)	(62,806,093)
Proceeds from sale and maturity of investment securities	169,844,896	33,624,370
Earnings on investment securities	6,059,262	4,063,080
Proceeds from sale of real estate investment properties	-	1,097,000
<b>Net cash used in investing activities</b>	(14,600,278)	(24,021,643)
<b>Net decrease in cash and cash equivalents</b>	(1,141,373)	(12,265,837)
<b>Cash and cash equivalents</b>		
Beginning of year	11,473,661	23,739,498
End of year	\$ 10,332,288	\$ 11,473,661
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating loss	\$ (32,181,662)	\$ (29,772,765)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	10,528	11,536
Increase (decrease) in:		
Accounts payable	360,545	571,183
Accrued liabilities	-	(10)
Deferred revenue	2,873,019	(141,741)
Claims reserve	42,400,000	41,100,000
<b>Net cash provided by operating activities</b>	\$ 13,462,430	\$ 11,768,203
<b>Noncash investing activities</b>		
Net appreciation in fair value of investment securities	\$ 1,820,061	\$ 20,631

# Virginia Birth-Related Neurological Injury Compensation Program

Notes to Financial Statements  
Years Ended December 31, 2005 and 2004

## 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* - The Program’s investments consist of various index mutual funds with underlying investments consisting of large and small cap equities, foreign equities, and bonds, and are reported at fair value based on quoted market prices. The fair value of real estate investments is based on independent appraisals. Purchases and sales of investments are recorded on their trade date.

# Virginia Birth-Related Neurological Injury Compensation Program

Notes to Financial Statements  
Years Ended December 31, 2005 and 2004

## 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.

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

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

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

## Note 2 – Deposits and investments

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

	2005	2004
Cash and deposits:		
Cash on hand	\$ 240	\$ 777
Deposits with financial institutions - demand deposits	899,653	75,019
Investments:		
Deposits with financial institutions - money market accounts	9,432,395	11,397,865
Mutual funds:		
Small cap index	7,122,494	-
Large cap index	49,190,198	-
International emerging markets index	4,836,125	-
International developed markets index	19,605,871	-
Bond index	69,859,624	-
US Government obligations	-	67,725,530
Corporate bonds	-	22,021,635
Equity securities	-	39,769,813
	<u>\$ 160,946,600</u>	<u>\$ 140,990,639</u>

# Virginia Birth-Related Neurological Injury Compensation Program

Notes to Financial Statements  
Years Ended December 31, 2005 and 2004

## Note 2 – Deposits and investments (continued)

**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 investment advisors, so long as the advisors are approved by the chief investment officer of the Virginia Retirement System.

**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, 2005 are as follows:

	Rating	Market value
Rated money market accounts	AA	\$ 9,072,525
Unrated money market accounts	N/A	359,870
Total		\$ 9,432,395
Mutual fund - bond index fund	AA1/AA2	\$ 69,859,624

**Interest rate risk:** The underlying investments of the above bond index mutual fund have a stated average weighted maturity of 7.2 years. The Program does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

	Fund description	Market value
Mutual funds:		
International emerging markets exchange-traded fund	(1)	\$ 4,836,125
International developed markets index fund	(2)	19,605,871
Total		\$ 24,441,996

(1) This fund invests in common stock of emerging markets, mirroring the MSCI Select Emerging Markets Index. This index includes approximately 660 common stocks of companies located in emerging markets around the world, with the largest markets covered in the index being South Korea, Taiwan, Brazil, South Africa, and China, making up 20%, 15%, 12%, 11%, and 8% of the index’s investments, respectively. The remaining 33% of the index is invested in thirteen other countries.

# Virginia Birth-Related Neurological Injury Compensation Program

Notes to Financial Statements  
Years Ended December 31, 2005 and 2004

## Note 2 – Deposits and investments (continued)

(2) 67% of this fund is invested in the European Stock Index Fund, which invests in common stocks included in the MSCI Europe Index. The MSCI Europe Index consists of approximately 590 common stocks of companies located in sixteen European countries, including the United Kingdom (37%), France (14%), Switzerland (10%) and Germany (10%). Twelve other countries comprise the remaining 29%. The remaining 33% of this fund is invested in the Pacific Stock Index Fund, which invests in common stocks included in the MSCI Pacific Index. The MSCI Pacific Index consists of approximately 540 common stocks of companies located in the Pacific Basin. The Index is dominated by the Japanese stock market which represents 75% of the funds holdings with the remaining 25% of the holdings being allocated among four other countries.

The Program's return on investments for years ending December 31, 2005 and 2004 is summarized as follows:

	2005	2004
Interest income	\$ 2,799,652	\$ 3,708,135
Dividend income	3,108,910	892,961
Realized gain (loss) on investments	(1,382,267)	2,867,614
Net appreciation in fair value of investments	1,820,061	20,631
Investment fees	(189,293)	(210,632)
Fiduciary fees	(68,910)	(83,022)
Net investment income	<u>\$ 6,088,153</u>	<u>\$ 7,195,687</u>

The calculation of realized gains and losses is independent of the calculation of the net appreciation in fair value of investments; therefore, realized gains and losses in 2005 and 2004 include unrealized gains and losses on those same investments recognized in prior periods as part of the net appreciation or depreciation in the fair value of investments.

## Note 3 – Investments in real estate

Under guidelines established by the Board of Directors, the Program could, up until 1999, approve the purchase or construction of a home for the family claimant subject to certain restrictions. The home is held in a trust and remains the property of the Program, subject to use by the claimant's family during the term of the trust and subject to conditions imposed by the trust agreement. The trust expires upon the death or institutionalization of the claimant, and stipulates that during occupancy the family is responsible for the payment of utilities, general maintenance of the home, and certain other similar obligations.

Investment 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 \$5,142,281 at December 31, 2005 and \$5,052,551 at December 31, 2004.



## Virginia Birth-Related Neurological Injury Compensation Program

Notes to Financial Statements  
Years Ended December 31, 2005 and 2004

### Note 4 – Capital assets

Capital assets at December 31, 2005 and 2004, and the related changes for the years then ended were as follows:

	January 1, 2005	Increases	Decreases	December 31, 2005
Computer equipment	\$ 53,621	915	(3,913)	\$ 50,623
Office equipment	33,991	2,610	-	36,601
Automobiles	17,237	-	-	17,237
	104,849	3,525	(3,913)	104,461
Less accumulated depreciation	(77,962)	(10,528)	3,784	(84,706)
Capital assets, net	\$ 26,887	\$ (7,003)	\$ (129)	\$ 19,755
	January 1, 2004	Increases	Decreases	December 31, 2004
Computer equipment	\$ 53,311	12,397	(11,907)	\$ 53,801
Office equipment	33,811	-	-	33,811
Automobiles	17,237	-	-	17,237
	104,359	12,397	(11,907)	104,849
Less accumulated depreciation	(77,727)	(11,536)	11,301	(77,962)
Capital assets, net	\$ 26,632	861	(606)	\$ 26,887

### 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 2005 and 2004). 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.

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).

# Virginia Birth-Related Neurological Injury Compensation Program

Notes to Financial Statements  
Years Ended December 31, 2005 and 2004

## Note 5 – Estimated liability for unpaid claims (continued)

- (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, 2004 and 2003 (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:

	2005	2004
Rate of claims inflation (varies based on category of expense)	1.00% - 5.35%	1.26% - 5.09%
Investment earnings / discount rate	6.55%	6.43%
<b>Mortality:</b>		
Average life expectancy of claimant at birth	21.2 years	19.2 years
Average life expectancy of claimant that attains the age of three	23.4 years	21.5 years
Average life expectancy of claimant that attains the age of four	Not available	21.6 years
Estimated number of claimants born on or before December 31, 2004 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	47 claimants

The increase in the estimated claims reserve amount is based on 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. The total number of claimants (admitted claimants and not-yet-admitted claimants) is estimated to be 157 as of December 31, 2005.

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.

# Virginia Birth-Related Neurological Injury Compensation Program

Notes to Financial Statements  
Years Ended December 31, 2005 and 2004

## Note 5 – Estimated liability for unpaid claims (continued)

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

	2005	2004
Unpaid claims and claim adjustment expenses at beginning of year	\$ 228,800,000	\$ 187,700,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of current year	21,652,174	20,733,333
Increase in provision for insured events of prior years	15,214,649	14,485,462
Total incurred claims and claim adjustment expenses	36,866,823	35,218,795
Interest	14,986,400	12,744,830
Total claims provision	51,853,223	47,963,625
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	9,453,223	6,863,625
Total payments	9,453,223	6,863,625
Total unpaid claims and claim adjustment expenses at year end	\$ 271,200,000	\$ 228,800,000

The total undiscounted unpaid claims and claim adjustment expenses amount to \$857.7 million and \$723.6 million at December 31, 2005 and 2004, 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 \$89,566 and \$62,687 for the years ending December 31, 2005 and 2004, respectively. These benefits are included as salary and benefits expense on the Program's supplementary schedule of general and administrative expenses.

# Virginia Birth-Related Neurological Injury Compensation Program

Notes to Financial Statements  
Years Ended December 31, 2005 and 2004

## Note 7 – Related party transactions

A member of the Program's Board of Directors is a member of upper management at Carilion Health System. The Program enters into transactions with various subsidiaries of Carilion Health System during its normal course of business. During 2005 and 2004, payments for medical services to these subsidiaries amounted to approximately \$331,000 and \$361,000, respectively. As of December 31, 2005, there was approximately \$40,000 of accounts payable related to these services from subsidiaries.

## Note 8 – Operating lease commitments

The Program leases its office space under an operating lease expiring on February 29, 2008. Rent expense under this lease amounted to \$55,185 and \$53,498 for fiscal years 2005 and 2004, respectively. The future minimum obligations under this lease are as follows:

2006	\$	56,206
2007		57,616
2008		9,642
	\$	<u>123,464</u>

The Program leases office equipment on a month-to-month basis. Rent expense for this equipment amounted to \$2,254 and \$1,512 at December 31, 2005 and 2004, respectively, and is included in other expenses on the supplemental schedule of general and administrative expenses.

## Note 9 – Liquidity

The actuarial study performed for the year ended December 31, 2005 determined that the Program was not actuarially sound. The forecasted information for the year ended December 31, 2005 resulted in a larger deficit. The increase in the deficit largely is attributed to the change in actuarial assumptions, including the mortality assumption (\$13.5 million increase in future claim payments). However, the actuarial study did point out that the Program is not in any immediate danger of defaulting on the payment of benefits and that the Program has sufficient assets to continue to pay for claimants' benefits.

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

## Note 10 – Contingencies

Various pending and threatened lawsuits claim eligibility for program benefits. Management believes the Program's claims reserves based upon actuarial assumptions are adequate to provide for the ultimate resolution of these claims.

**Required Supplementary Information**

# Virginia Birth-Related Neurological Injury Compensation Program

Supplementary Schedule of Claims Development Information  
As of December 31, 2005  
(In Thousands)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Premiums and investment revenue:										
1 Earned	\$ 3,736	\$ 5,781	\$ 8,477	\$ 4,931	\$ 6,001	\$ 9,378	\$ 18,136	\$ 26,131	\$ 25,445	\$ 26,032
2 Unallocated expenses	**	15	-	-	53	-	169	129	137	183
Estimated losses and expenses, end of birth year:										
3 Incurred	9,674	4,249	4,676	6,880	7,336	12,871	13,661	14,000	20,733	21,652
4 Net paid (cumulative) as of:										
End of accident year	-	-	-	-	-	-	-	-	-	-
One year later	112	78	91	142	143	119	143	159	-	-
Two years later	451	311	365	568	574	478	572	663	-	-
Three years later	718	495	582	905	914	761	1,190	-	-	-
Four years later	1,249	861	1,012	1,574	1,589	1,126	-	-	-	-
Five years later	1,323	912	1,072	1,667	2,167	-	-	-	-	-
Six years later	1,628	1,122	1,319	1,750	-	-	-	-	-	-
Seven years later	1,659	1,144	1,875	-	-	-	-	-	-	-
Eight years later	2,083	1,773	-	-	-	-	-	-	-	-
Nine years later	2,550	-	-	-	-	-	-	-	-	-

**Virginia Birth-Related Neurological Injury Compensation Program**

Supplementary Schedule of Claims Development Information  
As of December 31, 2005  
(In Thousands)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
5 Reestimated ceded losses and expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6 Reestimated net incurred losses and expenses	9,674	4,249	4,676	6,880	7,336	12,871	13,661	14,000	20,733	21,632
End of birth year	6,344	4,416	6,495	7,368	11,827	12,357	13,244	15,333	22,558	-
One year later	6,725	6,069	6,826	11,580	11,533	11,963	14,544	16,565	-	-
Two years later	10,488	6,370	9,689	11,305	11,309	13,188	15,747	-	-	-
Three years later	11,174	8,971	9,502	11,094	12,008	14,321	-	-	-	-
Four years later	17,096	8,801	9,359	11,749	12,653	-	-	-	-	-
Five years later	16,709	8,671	9,804	12,355	-	-	-	-	-	-
Six years later	16,413	9,076	10,215	-	-	-	-	-	-	-
Seven years later	17,334	9,450	-	-	-	-	-	-	-	-
Eight years later	18,186	-	-	-	-	-	-	-	-	-
Nine years later										
7 Increase (decrease) in estimated net incurred losses and expenses from end of birth year	\$ 8,512	\$ 5,201	\$ 5,539	\$ 5,475	\$ 5,317	\$ 1,450	\$ 2,085	\$ 2,565	\$ 1,825	\$ -

\*\*\* Not separately determinable.

# Virginia Birth-Related Neurological Injury Compensation Program

Notes to Required Supplementary Information  
Years Ended December 31, 2005 and 2004

## Note 1 – Claims development information

The table on the preceding pages illustrates how the Program's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by re-insurers) and other expenses assumed by the Program as of the end of each of the previous ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's gross earned premiums and reported investment revenue, amounts of premiums ceded, and reported premiums (net of reinsurance) and reported investment revenue. (2) This line shows each fiscal year's other operating costs of the Program including overhead and loss adjustment expenses not allocable to individual claims. (3) This line shows the Program's gross incurred losses and allocated loss adjustment expense, losses assumed by reinsurers, and net incurred losses and loss adjustment expense (both paid and accrued) as originally reported at the end of the year in which the event that triggered coverage occurred (called birth year). (4) This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each birth year. (5) This line shows the latest re-estimated amount of losses assumed by re-insurers for each birth year. (6) This section of ten rows shows how each birth year's net incurred losses increased or decreased as of the end of successive years. (This annual re-estimation results from new information received on known losses, reevaluation of existing information on known losses, and emergence of new losses not previously known.) (7) This line compares the latest re-estimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of losses is greater or less than originally thought. As data for individual birth years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of net incurred losses currently recognized in less mature birth years. The columns of the table show data for successive birth years.



## **Supplementary Information**

# Virginia Birth-Related Neurological Injury Compensation Program

## Schedules of General and Administrative Expenses

	<u>2005</u>	<u>2004</u>
Advertising and brochures	\$ 5,249	\$ 11,980
Computer services	13,226	12,758
Depreciation and amortization	10,528	11,536
Office	7,771	6,785
Other	59,069	34,541
Postage and mailing	9,909	49,735
Professional fees	286,744	137,535
Rent	55,185	53,498
Salaries and benefits	458,512	352,770
Telephone	9,625	11,709
	<u>915,818</u>	<u>682,847</u>
Less claims administration (allocations)	<u>732,654</u>	<u>546,278</u>
<b>Unallocated expenses</b>	<u><u>\$ 183,164</u></u>	<u><u>\$ 136,569</u></u>



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

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

We have audited the financial statements of Virginia Birth-Related Neurological Injury Compensation Program (the "Program") as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated March 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

We did note other matters involving the internal control over financial reporting that we have reported to management of the Program in a separate letter dated March 15, 2006.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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, Buhant + Hallum, LLP*

Richmond, Virginia  
March 15, 2006