A Message From the President

1992 was another year of strong, steady growth for the Nonprofits' Insurance Alliance of California (NIAC). With premium in force in excess of $3,500,000 at year-end, we grew by nearly seventy percent over 1991. During 1992 we renewed 90 percent of our existing members and welcomed 295 new members, for a total of more than 700 member-insureds.

Many brokers and nonprofit managers who had adopted a "wait and see" approach during our early years became actively involved with us this year. We appreciate the caution with which many approach alternative insurance arrangements and are gratified when those who are skeptical recognize NIAC's uniqueness as our strength, not a weakness.

Our claims experience to date remains far better than industry averages. Since NIAC's inception only one claim has exceeded $50,000 and that settled for under $100,000. Our reinsurance continues to cover claims in excess of $50,000. We are very pleased to report that beginning January 1, 1993, NIAC further improved its reinsurance arrangements with the addition of General Reinsurance Corporation, an A++ rated reinsurer.

Member services remain an integral part of NIAC's mission. Our lending library of videos on various topics from driver training to preventing child molestation remains a valuable resource for our members. Additionally, Larry Ferguson, Vice President of Member Services, and I continue to make presentations across the state on topics ranging from managing volunteer exposures to preventing suits against nonprofit boards of directors.

In late 1992 we introduced our new volunteer and participant accident program. With reasonable prices for annual limits up to $25,000, this coverage is available for volunteers, students, and participants of NIAC member agencies. Many of our members provide this coverage for volunteers as a way of showing appreciation for a volunteer's time and effort.

Looking forward toward 1993, we made several changes to accommodate our steady growth. We computerized our quotation process and took the policy issuance function in-house at a substantial savings. Most recently we instituted NIAC's own in-house premium financing program. Our members will now be able to enjoy considerable savings over commercial premium financing rates. Bringing these functions in-house allows us to substantially reduce overhead costs and improve services. To accommodate our growing staff we moved our offices to the new McPherson Center for Art and History in Santa Cruz.

We take seriously the confidence our members and their brokers and agents have placed in NIAC's ability to bring stable and affordable liability coverages to the charitable sector in California. We are aware of the fine balance that we must achieve between having a head for insurance and a heart for nonprofits. We will continue to work to maintain that balance.

Pamela E Davis

Pamela Davis, President/CEO

WHAT OTHERS SAY ABOUT NIAC

"NIAC has helped us solve some very difficult problems for our nonprofits. They respond quickly and professionally. It's really a privilege to be associated with them."

Kathryn R. Hines, CPCU, ARM, President, INGHAM, COATES & PAYNE, INC.

From the Chairman of the Board

With one new member joining NIAC each day, it became clear during 1992 that NIAC has the ability to have a substantial positive impact on the charitable sector in California. We estimate that in just three years, NIAC has saved nonprofits in California nearly $2,000,000 and has the potential to save tens of millions of dollars in the future. With state and federal budget cuts and reduced corporate philanthropy, we understand our members' needs to keep program dollars at work in their communities.

To that end the Board of Directors is committed to achieving NIAC's federal tax-exempt status in 1993. We are convinced that NIAC is entitled to tax-exempt status under present Tax Code. The Board recognizes the sizeable impact this decision will have as NIAC

grows and intends to make certain that NIAC is treated fairly in this matter.

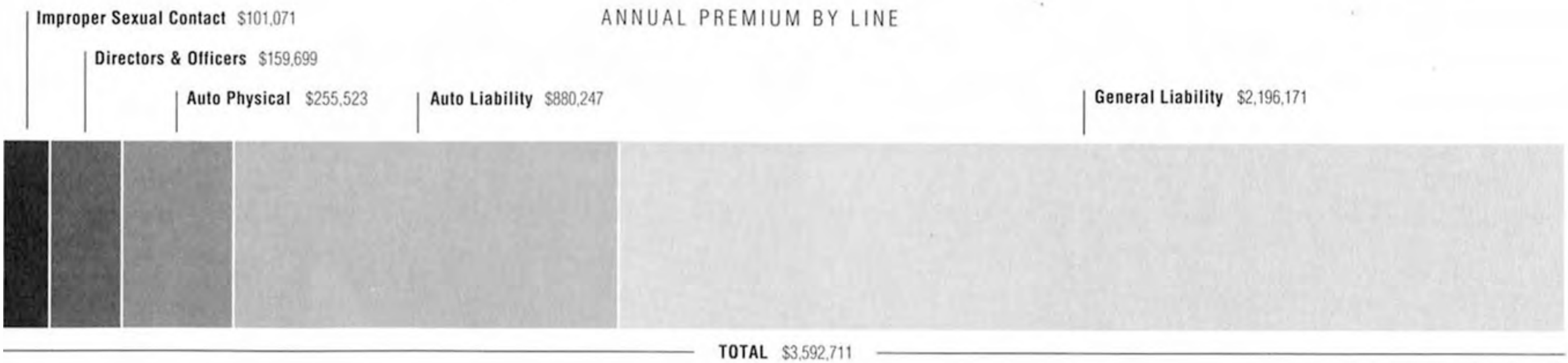
We will continue to be mindful of individual member needs while protecting the long term financial stability of the company. We look forward to another productive year.

Jess Gutierrez - *Citation Insurance Group*

WHAT OTHERS SAY ABOUT NIAC

"During 1992 our agency was presented with a lawsuit which came about due to circumstances which were not our responsibility. NIAC's claims investigators carefully researched the details of the case. Solid legal research provided us with excellent trial preparation. We were able to work with a local defense attorney provided by NIAC who skillfully presented our case in court. The defense verdict was a victory for group home providers throughout the State."

Frank Shoffner,
Executive Director,
Helping Hands Group Homes



Board of Directors

WHAT OTHERS SAY ABOUT NIAC

Thank you so much for sending me the earthquake preparedness video for individuals with developmental disabilities. Overall the video is well done and keeps its audience in mind throughout... Thanks again Larry for sharing the various resources you have with CROP.

Diane M. Horrisberger,
Program Specialist,
CROP Orange County Refugee Community Resources Project, Inc.,
Westminster

Back row from left: Larry Bacon, Dick Hotaling, Phillip Kimble, Virginia Tormey-Lawson, Ken Berrick
Front row: Jess Gutierrez, Pamela Davis, Suzie Pollack, Betty Dietrich, Audrey Harrison, Barbara Houck
Not pictured: Meredeth Clark

STAFF

Left to right:

Standing:
Jean Schaub-Ichikawa, Steve Moody, Skip Halwig, Sharon Felice, Joseph Morton, Larry Ferguson, Betty Johnson, Michael Pramuk.

Front row:
Sue Reimuller, Pamela Davis, Thomas Crubaugh

Not shown:
Erin Albertson, Julie Reed

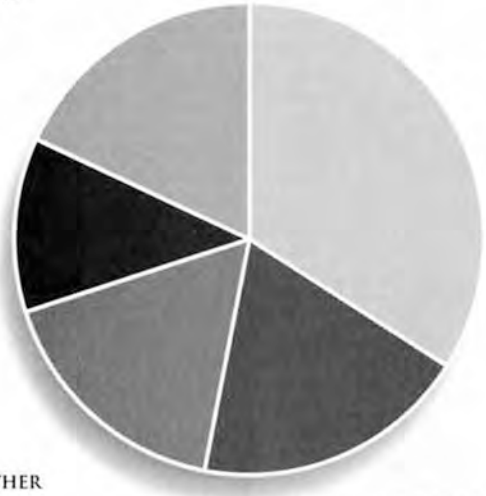
WHAT OTHERS SAY ABOUT NIAC

I have read your annual report and other materials describing NIAC's most impressive development. We are a business dedicated exclusively to the support of alternatives to traditional commercial insurance. While there are many variations of alternative structures, we have learned that success is the product of unwavering customer focus and consistent application of sound pricing and selection disciplines. These are principles that you obviously embrace and which have apparently been ignored by many traditional insurers.

Harry L. Richter, Chairman and Chief Executive Officer **Genesis**, a member of the General Re Group (one of NIAC's reinsurers)


FIRE

NIAC Member Composition



Opposite:
"California Grey Bears," one of NIAC's earliest members serves over 3000 meals to elderly participants at the annual Christmas Dinner. Five hundred volunteers participate in gleaning crops, recycling community materials and packing brown bags for weekly distribution to homebound seniors.

NIAC Members

As of December 31, 1992

▼

NIAC is represented in nearly all counties of California with members extending from Crescent City to Chula Vista. The scope of activities of this diverse membership ranges from providing group homes for severely emotionally disturbed adolescents to preserving elegant botanical gardens.

Our members offer senior day care for Alzheimer's victims, drug and alcohol counseling, soup kitchens, thrift shops, and museum collections. By serving on NIAC's elected Board of Directors, our members help chart NIAC's future. In an economic climate requiring wise use of scarce program dollars, NIAC serves the membership by containing the costs of property and liability coverages. Our earliest members have now enjoyed their fourth policy year with no rate increases. NIAC members as of December 31, 1992 are listed on the following pages.

NIAC Members

WHAT OTHERS SAY ABOUT NIAC

"CLARE has been very pleased with both the quality and cost of the service provided by NIAC. NIAC has worked with us and we have been successful together in reducing our net insurance cost each year. This is by anyone's definition a very profitable partnership. We look forward to a long term profitable relationship."

Timothy Korb-Shay,
Business Manager,
CLARE Foundation, Inc.

2311 Corporation Itself and DBA: Pax House
A Broader Living Experience (dba A.B.L.E.)
A Woman's Place of Merced & Mariposa Counties
ABC Child Development, Inc.
AD Care Inc., R.S.V.P. and Caring Callers
AIDS Community Research Consortium
ARC Vallejo-Benicia
ARC of Amador and Calaveras
Actors' Theatre of Sonoma County
Adopt International
Adoption for African American Children Committee
Aim to Please
Al Wooten, Jr. Heritage Center
Al-Anon Family Groups, District 13
Alleluia
Alliance for the Mentally Ill of San Mateo
Alma School Foundation
Alpha House, Inc.
Alpha Nu Omega Ida L. Jackson Foundation
Alpha of San Diego, Inc.
Alzheimer's Association - Monterey County Chapter
Alzheimer's Association of Orange County
Alzheimer's Services of the East Bay
Alzheimer's Association Greater North Valley Chapter
Alzheimer's Disease/Related Disorders Association of Ventura County
American Decorative Arts Forum of Northern California
American Sports Institute
Amigos De Las Americas-Marin
Ananda Marga, Inc.
Anderson Marsh Interpretive Association
Angel Society of Fallbrook
Anger Management Counseling Services
Ann Martin Children's, Inc.
Arcata and Mad River Railroad Historical Society
Argosy School for Creative Learning
Art Springs Artists' Association
Arte Americas, The Mexican Art Center
Asian American Senior Citizens Service Center
Asian Pacific Health Venture, Inc.
Asociacion Campesina Lazaro Cardenas, Inc.
Associated Center for Therapy/CSATT
Association of Housing Management Agents
Attitudinal Healing Center of Sonoma County
Audrey L. Smith Developmental Center, Inc.
Baulines Crafts Guild
Bay Area Black Consortium for Quality Health Care
Bay Area Business Group on Health
Bay Area Friends of Tibet
Bay Area Women Against Rape
Bay Institute of San Francisco
Beach Cities Coalition for Alcohol & Drug-Free
Beach Flats Housing Improvement Association
Beacon House Association of San Pedro, Inc.
Beacon House, Inc.
Berkeley Architectural Heritage Association
Bernal Heights Housing Corporation
Better Valley Services, Inc.
Big Brothers of San Diego County
Big Sister League, Inc.
Bill Wilson Center
Blind Children's Learning Center
Boys & Girls Club of Harbor City
Boys & Girls Club of Santa Rosa
Boys & Girls Club of Westminster
Boys & Girls Club of the Hi-Desert
Breast Cancer Action
Bridge for the Needy, Inc.
Bridge to China Foundation
Buddhist Peace Fellowship
Buenaventura Art Association
Butte County Children's World
C.A.M.P.
C.A.M.P.S., Inc.
C.F.S.C., Inc.
CARE-Child Abuse Recovery
Cal Poly Alumni Association, Inc.
Cal-Pep, Inc.
California AIDS Intervention Training Center
California Association of Nonprofits & N.A.C.
California Bluegrass Association
California Channel
California Coalition for Rural Housing Project (CCRH)
California Court Appointed Special Advocate Association, Inc.
California Environmental Trust
California Family Action
California Grey Bears, Inc.
California Institute for Clinical Social Work
California Native Plant Society
California Neuropsychology Services
California Parkinson's Foundation
California Rare Fruit Growers, Inc.
California Southern Small Business Development Corp.
California Working Group, Inc.
Californians for Drug-Free Youth
Cambridge Community Center
Cantori Domino
Casa Teresa, Inc.
Cascade Canyon School
Castro Valley Boys and Girls Club
Cat People, Inc.
Catholic Big Brothers, Inc.
Center for New Americans
Central Valley AIDS Team
Centro Cultural Latino de San Mateo
Centro La Familia
Chamberlain's Children Center, Inc.
Chemical Awareness and Treatment Services, Inc.
Chico Museum Association
Child Assault Prevention Training Center of California
Child Sexual Abuse Treatment Center of Yolo Cry
Childcare Coordinating Council of San Mateo County
Children & Language Pre-school
Children's Placement Service
Christian Assisted Recovery Environments, Inc.
Christian Counseling Service
Christmas Dinner Fund, Inc.
Circuit Rider Productions, Inc.
Citizens Who Care, Inc.
Clare Foundation, Inc.
Classical Philharmonic of Northern California
Clearlake Memorial Health Foundation
Coachella Valley Immigration Service
Coastal Preservation Society
Coastside Adult Day Health Center
Columbian Gardens Improvement Association
Commat
Committee on the Shelterless (C.O.T.S.)
Community Action Board of Santa Cruz County, Inc.
Community Assistance for the Retarded & Handicapped, Inc.
Community Childcare Council of Sonoma County
Community Companions, Inc. & Acme Environmental Management
Community Congress of Humboldt County
Community Congress of San Diego
Community Coordinated Child Development Council
Community Environmental Council Gildea Resource Center
Community Treatment Center
Community Ventures, Inc.
Conflict Resolution Program
Continuum HIV Day Services
Contra Costa Alternative School

Contra Costa County Volunteer Services, Inc.
Contra Costa Musical Theatre, Inc.
Copper Hill Living & Learning Center
Corner Stone Outreach, Inc.
Corralitos Padres
Corrective Behavior Institute, Inc.
Corriganville Preservation Committee
Corte Madera Larkspur Schools Foundation
Costa Mesa Senior Citizens' Corporation
Council on Aging of Sonoma County
Court Appointed Special Advocates/Santa Cruz County
Creativity Unlimited
Cri-help, Inc.
Cuddly Critters, Inc.
Cultural Odyssey
Davis Community Meals
Defensa de Mujeres
Del Norte Senior Center, Inc.
Delhi Community Center
Dell Arte, Inc.
Delta Housing Development Corp.
Delta Sigma Theta Life Development, Inc.
Dental Health Foundation, The
Descanso Gardens Guild, Inc.
Diabetes Society of Santa Clara Valley
Disabled In Action League
Discipleship Training International
Dixieland Monterey, Inc.
Do It Now Foundation of Southern California, Inc.
Dolores Street Community Center
Door to Hope, Inc.
Drug Abuse Alternative Center
E. LA Sheriffs' Youth Athletic League/Cleland House
EE's Residential Group Homes, Inc.
Earth Communications Office
Earth Links, Inc.
East Bay Consortium for Elder Abuse Prevention
East Bay Counseling & Referral Agency for the Deaf
East Bay Services to the Developmentally Disabled
East County Community Detox Center
Easter Seal Society of Los Angeles
Eco-Home Network
Ecumenical Council of the Pasadena Area Churches
Education Programs Associates
Education, Training and Research Associates
El Dorado Arts Council
El Dorado National Forest Interpretive Association
El Pajaro Community Development
El Rescate, El Rescate Legal Services, Inc., El Refugio
El Toro Youth Association
ElderHelp of San Diego
Elk Grove Historical Society, Inc.
Elmwood Institute
Emanuel Achievement Program
Emeline Child Care Center
Energy Conservation Program
Environmental Health Coalition
Episcopal Community Services
Eschaton Foundation
Extended Child Care Coalition
FAITH, Family Assistance Involving The Homeless
Fairfax-San Anselmo Children's Center
Faith Hope Counseling Services
Fallbrook Child Development Center, Inc.
Fallbrook People to People
Fallbrook Players
Family Builders By Adoption
Family Education Centers
Family Giving Tree
Family Health Education Center
Family Service Agency of Sonoma County
Family Service Association of Northern Santa Cruz County
Family Service Association of the Pajaro Valley
Family Services of Tulare County
Family Services of the Mid-Peninsula
Fifth Business, Inc.
Filipino American Council of San Francisco
Filipino Task Force on AIDS
Filipinos for Affirmative Action, Inc.
Fillmore Historical Museum
Florence Crittenton Services
Florin Historical Society
Food Bank for Monterey County
Foothill Area Community Services
Forest Theatre Guild, Inc.
Foundation Center
Foundation for Educational Software
Foundation for the Performing Arts Center
Frank H. & Eva B. Buck Foundation
Fred Finch Youth Center
Fresno Adult Literacy Council, Inc.
Fresno Metropolitan Ministry
Fresno Tomorrow, Inc.
Friends of Scrap, Inc.
Friends of Sunset Foundation
Friends of the Antelope Valley Indian Museum
Friends of the San Francisco Health Department
Friendship Center for the Blind, Inc.
Future Families, Inc.
GRASP Foundation

WHAT OTHERS SAY ABOUT NIAC

The reason I'm mailing this to you is to tell you how much I have appreciated the very professional service I have received from you and your staff. Thank you so much! Best wishes.

Sherlie B. Weeks, ARM,
AAI Insurance Service/Consultant,
Seal Beach

NIAC provides coverage for arts & musical groups including symphonies, visual arts programs, dance and drama troupes, music camps and even a society for calligraphers.

NIAC Members *continued*

WHAT OTHERS SAY ABOUT NIAC

"NIAC is serving a definite need for nonprofits. They stand heads above the competition. Their forms are broad, pricing is competitive and their staff is a pleasure to work with!"

Cole "Rusty" Kinney, AAI CPIA, Commercial Producer, **Pollard & Cossa Insurance**, Santa Maria

Gay Asian Pacific Alliance, Community HIV Project
German Language School Of Sonoma County
Giarretto Institute & Parents United
Girls, Inc. of San Leandro
Glenn County Seniors Centers
Global Outlook Educational Institution
Go Productions
Gold Key Club
Golden Umbrella, Inc. & Foster Grandparents Program
Good Shepherd Fund, Inc.
Grandparents as Parents, Inc.
Grant Beckstrand Cancer Foundation
Great Leap, Inc.
Green Pastures, Inc.
Greenacre Homes, Inc.
Gridley Guardian, Inc.
Group Home Society, Inc.
Grove Mont Community Theater
H.O.W. Foundation
Haight Ashbury Food Program
Hale Laulima, Inc.
Hamilton Family Center, Inc.
Hancock Park Elementary School Booster Club
Handsnet, Inc.
Harbor Area Gang Alternative Program, Inc.
Harbor Community Development Corp.
Harbor Gateway Center, Inc.
Head Trauma Support Project, Inc.
Headlands Center for the Arts
Help-4-People, Inc.
Helping Hands Youth Homes, Inc.
Heritage Village Seniors, Inc.
Hi Desert Meals on Wheels Transportation
High Desert Child Abuse Prevention Council
Highlands Senior Service Center
Hillsborough Schools Foundation
Hollygrove (dba) Los Angeles Orphans Home
Home Start, Inc.
Homeless Care Force, Inc.
Homeless Independence Project
Homeless Prevention Group
Homemaker Services of Indian Wells Valley
Hope for Kids, Inc.
Horizon Services, Inc.
Hospital Chaplaincy Services
Housing Development And Neighborhood
Human Investment Project of the Peninsula
Human Options
Human Response Network
Humane Society of Calaveras County
Humboldt Connections, Inc.
Humboldt County Rape Crisis Team
Humboldt Family Service Center
Hunger & Homeless Action Coalition of San Mateo County
I-Pride, Inc.
Independent Adoption Center
Independent Housing Services, Inc.
Infant/Child Enrichment Services
Information and Referral Services
Inglewood Neighborhood Housing Services
Inland Temporary Homes, Inc.
Institute For Food & Development Policy, Inc.
Institute for the Advancement of Human Behavior
Institute for the Study of Somatic Education
Instituto Pro Musica de California
Inter-Faith Shelter Network, Inc.
Interfaith Service Bureau, Inc.
International Church Relief Fund
International Gay & Lesbian Archives
International Gay & Lesbian Human Rights Commission
International Rivers Network
Inyo Council for the Arts
Irvine Senior Foundation
Jesuit Volunteer Corps.
Jewish Community Center of Greater San Jose
Jewish Senior Center & Geriatric Services of Orange County
Jinan - Sacramento Sister Cities Corp.
Jovenes de Antano
Jubilee West, Inc.
June L. Mazer Lesbian Collection
Kainos Home and Training Center
Karis House, Inc.
Kay Ceniceros Multi-Purpose Senior Center
Kenwood Fireman's Association
Kern County Alcohol Center, Inc.
Kern County Hispanic Commission on Drug Abuse
Khepera Recovery Homes
Kids Cancer Connection
Kids on Kampus, Inc.
Kids' Turn
King's Court Play'rs, Inc.
Kings Community Action Organization, Inc.
Kings Haven House
Kira Foundation, Inc.
Korean American Community Services, Inc.
Korean Community Center of the East Bay
Kuumbwa Jazz Society
L.I.E.U.-C.A.P., Inc.
LO*OP Center, Inc.
La Casa De San Mateo
La Casa de las Madres
La Jolla Community Services, Inc.
La Jolla Youth, Inc.
La Monte Academie
La Puente Valley Food Pantry
Lake County Big Brothers & Sisters
Lakeside Historical Society
Leadership Tomorrow
League of Volunteers of Newark
Learning Disability Association of California
Lekotek Family Resource Center
Lemoore Senior Citizens, Inc.
Life Lab Science Program
Life Management Institute dba: New Horizons School
Lifeline Mission of San Francisco
Light-At-The-End-Of-The-Tunnel Foundation
Lilliput Children's Services
Links to Positive People
Little Tokyo Service Center
Live Oak Adult Day Services, Inc.
Live Oak Foundation, Inc.
Live Oak Seniors, Inc.
Live at Home Foundation
Livermore Heritage Guild
Living in Familiar Environments (L.I.F.E.)
Lompico Community Center
Long Term Care Services of Ventura County
Los Angeles Baroque Orchestra
Los Angeles Municipal Art Gallery Associates
Los Angeles Womens Foundation
Los Padres Interpretive Association
M-2/Match Two, Inc.
Madrone Hospice, Inc.
Marin Assn. for Retarded Citizens
Marin Athletic Foundation
Marin Community Food Bank
Marin Council of Agencies
Marin Services for Women
Mariposa School
Mariposa Women's Center
Matrix
Meadowlark Service League
Meals on Wheels of San Francisco
Meals on Wheels of the Monterey Peninsula, Inc.
Meeting Place
Mendocino Area Parks Association
Mendocino Coast Botanical Gardens Preservation Corp.
Mendocino County Public Broadcasting KZYX Radio
Mental Research Institute
Mini Twelve Step House, Inc.
Miracle House, Inc.
Modoc County Teach, Inc.

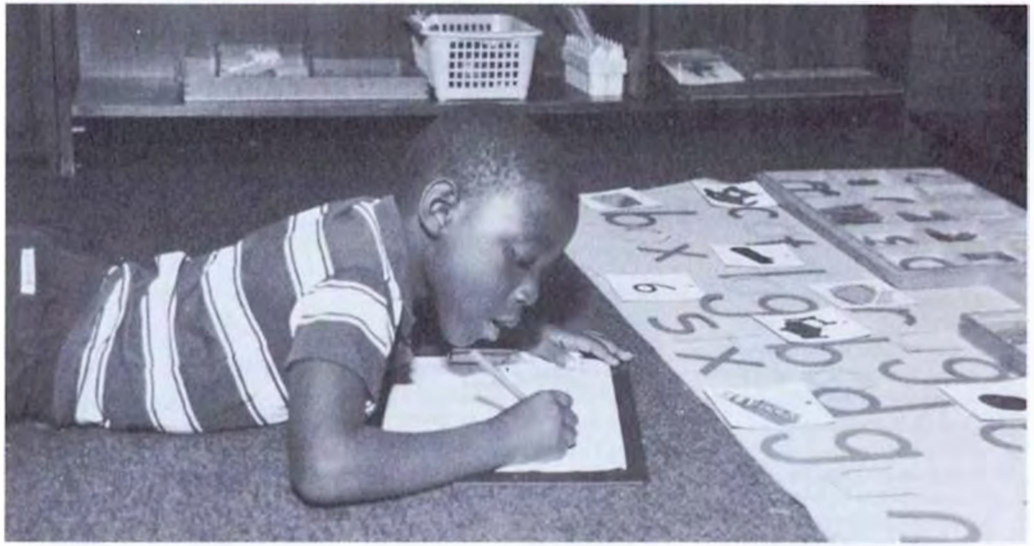
Volunteers are the backbone of NIAC's member organizations. Programs like Fresno's Friendship Center for the Blind rely on countless hours of patient help from dedicated community workers.

Molecular Research Institute, Inc.
Monterey County Homeless Coalition
Monterey County Theatre Alliance
Monterey County Vietnam Veterans Memorial Committee
Moores Cottage, Inc.
Morning Out Club
Morongo Basin Adult Health Services Corp.
Morongo Basin Mental Health Services
Morongo Basin Unity Home, Inc.
Mother Lode Ombudsman, Inc.
Mountain Crisis Services
Mt. Diablo Interpretive Association
Mt. San Jacinto Natural History
Mt. Tamalpais Interpretive Assn.
NCI Affiliates, Inc.
Naamans Fellowship
Napa Emergency Women's Services
Napa Valley Natural History Association
National Task Force on Aids Prevention
Natural History Association of San Luis Obispo Coast
Neighborhood House of North Richmond
New Directions Adolescent Services
New Directions for People with Disabilities, Inc.
New Fillmore Community Theater
New Learning School
New Performance Consort, Inc.
New Start
New Testament Community Outreach
North Coast Interpretive Association
Northern California Chapter of the National Hemophilia Foundation
Northern California Ecumenical Council, Inc.
Northside Community Ctr. Filipino American Senior Opportunity Development. Council
Northwestern Pacific Railroad Historical Society
Novato Ecumenical Housing, Inc.
Novato Human Needs
Novato Youth Center
OMI Neighbors in Action
Oak Center Cultural Center, Inc.
Oakland Community Fund
Oakland Independence Support Center
Ocean Park Community Center
Ohana Cultural Center
Ombudsman Services of Contra Costa, Inc.
Ombudsman/Advocacy Services of Inyo/Mono County
Omni Programs, Inc./Peers Against Substance Abuse
On Our Own, Inc.
One Shoe Crew
Open Sea Foundation
Orange County Community Consortium, Inc.
Orange County Community Development Council
Orange County Consolidated Transportation Services
Orange County Intergroup of Overeaters Anonymous
Orange County Refugee (C.R.O.P.)
Orange Elderly Services, Inc.
Orange Housing Development Corp.
Organized People of Elmhurst Neighborhood (OPEN)
P & V Group Homes, Inc.
PACT (People Acting in Community Together)
PARCA
Pacific Autism Center for Education (P.A.C.E.)
Pacific Choral Company
Pacific Composers Forum
Pacific Theatre Ensemble
Pajaro Valley Affordable Housing Corp.
Pajaro Valley Historical Association
Pajaro Valley Prevention & Student Assistance, Inc.
Pajaro Valley Shelter Services
Paradise Strive Center, Inc.
Parent Services Project, Inc.
Parenting Network, Inc.
Parents Center, Inc.
Parents Helping Parents, Inc.
Parents of Success
Pasadena Childrens Training Society
Patient Assistance Foundation
Peg Taylor Center for Adult Day Health Center
Peninsula Alano Club
Peninsula Area Information & Referral Service
Peninsula Community Foundation
Peninsula League
Peninsula Outreach Welcome House
People Assisting the Homeless
People Helping People
Performing Stars of Marin
Phase III, Inc.
Pioneer Home Outreach, Inc.
Plaza De La Raza
Plumas Crisis Intervention Resource Center
Poplar Center, Inc.

WHAT OTHERS SAY ABOUT NIAC

Thank you very much for the opportunity to share the Defensive Driving Course, "Coaching the Van Driver" and Professional Fleet Drivers, "Safe Operation of Corporate Vehicles" with our staff. The information was perfect for our in-service training for the agency drivers.

Judith Morrison,
Senior Service Director,
Delta Sigma Theta Center for Life Development,
Los Angeles



NIAC's members include a wide variety of Headstart, gifted & talented, and alternative school programs for California's youth. Tailoring coverages to schools like the Foundation Center of Sacramento, NIAC provides important coverage options including improper sexual contact, van transportation coverage and student accident insurance.

Poppy Reserve Interpretive Association
Porterville Gleaning Seniors, Inc.
Porterville Halfway House
Porterville Youth, Inc.
Positive Strokes Latchkey Afterschool Tutorial
Prader-Willi California Foundation
Preservation Action Council of San Jose
Prime of Life, Inc.
Private Industry Council
Programs Plus, Inc.
Project 90, Inc. & Project 90 Foundation
Project Enable
Project Hope of Santa Cruz County
Project Interface Institute
Project Sanctuary, Inc.
Project Scout, Inc.
Project Seed, Inc.
Project Understanding
Proyecto Esperanza, Inc.
Public Art Works
Pueblo Y Salud, Inc.
Quadradic Society, Inc. Friends, In-Deed
R House, Inc.
R-SB Harbinger Corporation
Ramona Animal Shelter, Inc.
Refugee Transitions
Resolve of Northern California, Inc.
River City Recovery Center, Inc.
Riverside Medical Clinic Foundation
Riverside Mental Health Association
Rosamond Senior Citizens, Inc.
Roseville Community Health Foundation
Ross Valley Community for Schools
Rubicon Children's Center, Inc.
Rural Human Services, Inc.
Rural Opportunities Resource Center, Inc.
Russian River Jazz Festival
S.E.E. Center
SHELTER, Inc.
SITIKE
SMOOTH, Inc.
Sacramento Mutual Housing Assn.
Sacramento Religious Community for Peace
Sacramento Women's Center
Samadana, Inc.
San Benito Health Foundation
San Benito Hospice, Inc.
San Clemente Seniors, Inc.
San Diego Christian Servicemen's Center
San Diego County Parks Society
San Diego Youth Symphony, Inc.
San Francisco African American Historical & Cultural Society
San Francisco Black Coalition on AIDS
San Francisco Children's Art Center
San Francisco Educational Services
San Francisco Family Foundation
San Francisco Friends of the Urban Forest
San Francisco Homeless Task Force
San Francisco Housing Development Corp.
San Francisco League of Urban Gardeners
San Francisco Network of Mental Health Clients
San Francisco Psychotherapy Research Group
San Francisco Women Lawyers Foundation
San Gabriel Valley Alliance for the Mentally Ill
San Gorgonio Child Care Consortium
San Luis Obispo Children's Museum
San Luis Obispo County AIDS Support Network
San Luis Obispo Literacy Council
San Mateo Coast Natural History Association
San Pasqual Battlefield Volunteer Association
Santa Barbara Rape Crisis Center
Santa Clara County Committee fo Employment of Disabled
Santa Clara Historical & Genealogical Society
Santa Clara Valley Multi Service Center
Santa Cruz Bluegrass Society
Santa Cruz Citizen's Committee fc the Homeless
Santa Cruz Community Counselin Center, Inc.
Santa Cruz County Animal Welfar Association, Inc.
Santa Cruz County Symphony Association
Santa Cruz County Youth Symphony
Santa Cruz Lesbian & Gay Community Center
Santa Cruz Mountains Natural History Association
Santa Maria Association for the Retarded
Santa Maria House, Inc.
Santa Monica Symphony Association, Inc.
Santa Paula Theater Center
Santa Ynez Valley Senior Advisory Council
Saratoga Area Senior Coordinating Council
Save the Whales, Inc.
School of Humanities & the Arts Alumni Association
Second Chance Youth Program
Seeking It Through Exhibitions
Seneca Residential and Day Treatment Center
Senior Coordinating Council of Lo Gatos
Senior Daycare Center/David Kahn Center, Inc.

Senior Legal Center of Northern California, Inc.
Sentinel Fair Housing
Sequoia Dawn Seniors Club
Sequoyah Educational Center
Service Center for Independent Living
Shalan Foundation
Shelter From The Storm
Shelter for the Homeless
Sierra Adoption Services
Sierra Recovery Center, Inc.
Sierra Vista Center
Silent Way
Silicon Valley Toxic Coalition, Inc.
Siskiyou Adult Learning Center
Siskiyou Child Care Council, Inc.
Siskiyou Domestic Violence Program
Siskiyou Performing Arts Center
Sledgehammer Theatre, Inc.
Society for Calligraphy
Sojourner Truth Foster Family Services Agency, Inc.
Solano Adult Day Health Care Center
Solano Family and Childrens Services
Sonoma City Opera
Sonoma County A.I.D.E.
Sonoma County Alzheimer's Task Force
Sonoma County Christian Network
Sonoma County Community Foundation
Sonoma County Council for Community Services, Inc.
Sonoma County Head Trauma Network, Inc.
Sonoma County People for Economic Opportunity
Sonoma County Respite Services
Sonoma State Historic Park Association, Inc.
Sonoma Valley Chorale, Inc.
Sonshine Youth Services
Soroptimist House of Hope, Inc.
South Coast Children's Services, Inc.
Southern Alameda County Domestic Violence Law Project
Southern California Assoc. for Non-Profit Housing
Southern California Ecumenical Council
Southern California Rehabilitation Services
Southern California Veterans Service Council
Southern Regional Resource Center
Southwest Wetlands Interpretive Association
Spanish Speaking Unity Council of Alameda County
Spare A Dime
Speech & Language Development Center
Spinal Cord Injury Research Foundation
Spiritual Emergence Network
Squaw Valley Creative Arts Society
Stanislaus County Child & Infant Care Association, Inc.
Stepping Out Housing, Inc.
Stiles Hall
Stockton Youth Foundation
Strategies for Media Literacy
Substance Abuse Foundation
Suicide Prevention Center of Monterey County
Sumeg Patricks Point Lagoons Interpretive Association
Summer House Inc. & Davis Summer House, Inc.
Summit League, Inc.
TENA Council
Tahoe Turning Point, Inc.
Tax-Aid
Timpany Center Foundation
Travelers Aid Society of Los Angeles
Traveling School, Inc.
Tree Musketeers
Tri-County Easter Seal Society
Triad Community Services
True to Life Counseling
Tulare County Children's Receiving Home, Inc.
Tuolumne Calaveras Association
Turnoff, Inc.
United Cancer Research Society
United Lumbee Nation of N.C. and America
United Way of Humboldt
United Way of Indian Wells Valley
United Way of Orange County
University Religious Center & Friendly Visitor Services
Urban Resource Systems
Valley Advocacy & Communications Center
Valley Churches United
Valley Restart Shelter, Inc.
Valley Teen Ranch, Inc.
Valley Women's Center, Inc. & Family Recovery Center
Valley of the Moon Natural History Association
Ventura County Coalition Against Household Violence
Ventura Institute of Technology
Verdugo Woodlands Dads Club
Veteran's Memorial Center, Inc.
Victor Residential Center, Inc.
Vida Nueva
Vietnam Veterans of California, Inc.
Vietnamese American Cultural & Social Council Corp
Villa Center, Inc.
Vintage House Senior Multipurpose Center
Visalia Rescue Mission, Inc.
Voices for Children, Inc.
Voices of California, Inc.
Volunteer Center of El Dorado County
Volunteer Center of Greater Orange County
Volunteer Center of Monterey County
Volunteer Center of San Francisco
WATCH (Women and their Children's Housing)
Wajumbe Cultural Institution, Inc.
Washington Union Educational Foundation
Watts Health Foundation, Inc./United Health Plan
Welfare Action
Welfare Parents Support Group, Inc.
West Bay Local Development Corporation
West Santa Rosa Local Action Council
West Valley Fish, Inc.
Western Addition Senior Citizens Services Center
Western Institute Foundation For Mental Health
Western Sonoma County Swimmers, Inc.
Western Youth Services, Inc.
White Hawk Indian Council for Children
White Lotus Foundation
Whiteside Manor, Inc.
William James Association
Willits Community Theatre
Wilmington Boys' & Girls' Club
Winifred Baker Chorale
Winters Christian Academy
Women's Alliance
Women's Crisis Support & Shelter Services
Women's Economic Agenda Project
Women's Initiative for Self Employment (WISE)
YWCA
YWCA, Inc. dba: Born Free
Yolo Alcoholic Recovery Center
Yolo Family Service Agency
Yolo Wayfarer Center (Christian Mission)
Youth & Family Services, Inc.
Youth Development Center
Youth Focus, Inc.
Youth Music Monterey
Youth Revival, Inc.
Youth for Change
Youth-on-the-Move, Inc.
Yuba Feather Communities Services.
Yuba-Sutter Gleaners Food Bank
Yuba-Sutter Legal Center Representative Payee Project

WHAT OTHERS SAY ABOUT NIAC

Participants with NIAC can save themselves some time by not bothering to shop around. Thanks to you and your board for your effort at providing affordable insurance to nonprofits.

William H. Fuser, MSW,
Executive Director,
Lilliput Children's Services,
Stockton

Report of Independent Accountants

We have audited the accompanying balance sheets of Nonprofits' Insurance Alliance of California as of December 31, 1992 and 1991, and the related statements of income, members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nonprofits' Insurance Alliance of California as of December 31, 1992 and 1991, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The Company has limited historical data for use in its estimates of loss and loss expense reserves and reinsurance premiums. Although the Company considers its experience and industry data in determining such estimates, assumptions and projections as to future events are necessary, and the ultimate amounts may differ materially from the amounts projected.

KPMG Peat Marwick

KPMG Peat Marwick
San Francisco
March 11, 1993

Balance Sheets

December 31, 1992 and 1991

Assets

Assets	1992	1991
Restricted investments (Note 3)	$ 1,542,424	1,490,839
Investments (Note 4)	2,447,519	1,311,815
Total investments	3,989,943	2,802,654
Cash	111,465	62,649
Premiums receivable	368,789	247,085
Interest receivable	84,756	29,156
Other receivables	30,326	19,357
Property and equipment, net of accumulated depreciation of $44,689 in 1992 and $26,373 in 1991	52,345	46,239
Prepaids and deposits	37,232	16,437
Deferred acquisition costs	340,486	214,114
Deferred tax asset (note 5)	126,701	48,777
Total assets	$ 5,142,043	3,486,468

Liabilities and Members' Equity

	1992	1991
Loss and loss adjustment expense reserves (note 7)	1,721,660	967,303
Unearned premiums (note 7)	1,302,263	740,975
Reinsurance payable	112,535	69,618
Accounts payable	166,650	152,173
Income taxes payable (note 5)	162,789	48,777
	3,465,897	1,978,846
Subordinated debt (note 6)	1,300,000	1,300,000
Members' equity:		
Members' contributions	227,555	141,824
Other paid-in capital	31,054	31,054
Retained earnings	117,537	34,744
Total members' equity	376,146	207,622
Total liabilities and members' equity	$ 5,142,043	3,486,468

See accompanying notes to financial statements.

Statements of Income

Years ended December 31, 1992 and 1991

Revenues:

Revenues:	1992	1991
Gross written premium	$ 3,592,709	2,158,492
Ceded premium (note 7)	(917,736)	(498,599)
Net written premium	2,674,973	1,659,893
Increase in unearned premium	(561,288)	(376,590)
Net earned premium (note 7)	2,113,685	1,283,303
Net restricted investment income (note 3)	66,975	71,080
Net investment income	116,832	70,627
Net realized gain (loss) on sales of investments	(9,038)	55,229
Other income	49,053	74,231
Total revenues	2,337,507	1,554,470

Expenses:

Expenses:	1992	1991
Losses and loss expenses incurred	1,268,211	773,265
Salaries and employee benefits	424,774	308,586
Commission expense	268,928	161,931
Other expense	256,713	239,669
Total expenses	2,218,626	1,483,451
Income before income taxes	118,881	71,019
Income tax expense (note 5)	36,088	-
Net income	$ 82,793	71,019

See accompanying notes to financial statements.

STATEMENTS OF MEMBERS' EQUITY

Years ended December 31, 1992 and 1991

	Members' contributions	Other paid-in capital	Retained earnings (deficit)	Total members' equity
Balances at December 31, 1990	$ 96,626	31,054	(36,275)	91,405
Members' contributions	45,198	-	-	45,198
Net income	-	-	71,019	71,019
Balances at December 31, 1991	141,824	31,054	34,744	207,622
Members' contributions	85,731	-	-	85,731
Net income	-	-	82,793	82,793
Balances at December 31, 1992	$ 227,555	31,054	117,537	376,146

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

Years ended December 31, 1992 and 1991

	1992	1991
Cash flows from operating activities:		
Net income	$ 82,793	71,019
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized gain (loss) on sales of investments	9,038	(55,229)
Depreciation	18,316	14,291
Deferred income tax benefit	(77,924)	(42,982)
Changes in assets and liabilities:		
Increase in premiums receivable	(121,704)	(115,836)
Increase in deferred acquisitions costs	(126,372)	(86,975)
Increase in loss and loss adjustment expense reserves	754,357	666,211
Increase in unearned premiums	561,288	376,590
Increase (decrease) in reinsurance payable	42,917	(27,757)
Increase in income taxes payable	114,012	42,982
Other, net	(116,294)	29,657
Net cash provided by operating activities	1,140,427	871,971
Cash flows from investing activities:		
Purchase of investments	(6,033,288)	(6,827,517)
Sales or maturities of investments	4,880,368	5,929,337
Purchases of property and equipment	(24,422)	(21,391)
Net cash used in investing activities	(1,177,342)	(919,571)
Cash flows from financing activities:		
Proceeds from members' contributions	85,731	45,198
Net cash provided by financing activities	85,731	45,198
Net increase in cash	48,816	(2,402)
Cash at beginning of year	62,649	65,051
Cash at end of year	$ 111,465	62,649

See accompanying notes to financial statements.

Notes to Financial Statements

1. Organization

Nonprofits' Insurance Alliance of California (the Company) was incorporated on September 15, 1988 as a nonassessable nonprofit mutual benefit corporation. In July, 1991 the status of the Company was changed by a vote of the members to a public benefit corporation. The Company operates in California as a risk pool pursuant to authorization under Section 5005.1 of the California Corporations Code. The Company is not subject to the rules, regulation and supervision of the California Department of Insurance (DOI).

Organizations which meet the following requirements may become members of the Company: 1) nonprofit corporations which are incorporated and operating in the state of California; 2) which have received and maintain current and unrevoked determination of tax-exempt status under Section 501(c)(3) of the Internal Revenue Code; 3) which are offered general liability coverages and agree to purchase such coverages; and 4) which pay the premium for such coverages and the required membership contribution. Because the Company is nonassessable, the members of the Company, which are both its owners and insureds, are not liable for the Company's liabilities should they exceed the Company's assets.

The Company provides commercial general liability, miscellaneous professional liability, automobile liability, auto physical damage, and employer's non-owned and hired automobile liability coverages to its members. Coverage is provided on an occurrence form. Typical limits are an annual aggregate of $1,000,000 and $1,000,000 per occurrence. An annual aggregate of $2,000,000 is available. A special claims-made coverage with a $250,000 annual aggregate limit including defense and indemnity is available for improper sexual contact claims. Directors' and officers' liability is available to members on a claims-made form. The typical limit of coverage is $1,000,000.

The Company receives a one-time contribution from each new member in the form of a nonrefundable membership contribution. During 1992 and 1991, the contribution amount was ten percent of the commercial general liability premium.

2. Summary of Significant Accounting Policies

(a) Revenue Recognition

Premiums are recognized as earned on a pro rata basis over the terms of the policies, which usually consist of twelve months. Anticipated investment income is not considered in determining if a premium deficiency exists.

(b) Deferred Acquisition Costs

Policy acquisition costs incurred are deferred and amortized over the period of premium recognition as is required by generally accepted accounting principles. These costs generally include commissions, underwriting fees, policy issue and marketing costs. Amortized acquisition costs were $588,636 for 1992 and $353,587 for 1991, respectively.

(c) Property and Equipment

Data processing equipment, purchased software, and office furniture and equipment are stated at cost and depreciated over five years using the straight-line method. Upon retirement or disposition of fixed assets, any gain or loss is included in income. Depreciation expense was $18,316 and $14,291 in 1992 and 1991, respectively.

(d) Investments

Investments in bonds are carried at amortized cost. Declines in the value of investments, which are determined to be other than temporary, are charged to realized losses. Realized gains/losses on sales of investments are reflected in the statements of income, based on the specific identification method. Proceeds from sales of bonds were $1,185,760 in 1992 which resulted in gross realized gains of $5,289 and gross realized losses of $14,327. Sales of bonds in 1991 resulted in gross realized gains of $55,229.

(e) Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expense reserves are estimates based on an expected loss and loss expense ratio of 60% of net premiums earned. This method is used because the Company has not been in existence for a sufficient length of time to establish historical and statistical bases for estimating these liabilities. This ratio is based on the historical experience of a similar program and claims experience to date. Management believes that this ratio is conservative. The Company has engaged an independent actuary to review and analyze its loss data and propose revisions to the reserving methodology. Ultimate losses may differ significantly from the amounts recorded. Changes in estimates of losses are included in income in the

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period in which the estimates are changed.

(F) RISK MANAGEMENT SERVICE FEE INCOME

In 1990, the Company received $60,537 from the California Association of Nonprofits to provide loss control and risk management services for member nonprofit agencies. The Company recognizes risk management service fee income for these services as they are performed. During 1992 and 1991, risk management service fee income was $-0- and $42,843, respectively.

(G) INCOME TAXES

In July of 1991, the Company was granted tax-exempt status by the state of California and state franchise taxes paid in previous years of $2,272 were refunded to the Company.

In February 1993, the Company received an adverse ruling on its application for federal tax-exempt status. Management intends to file a suit against the Internal Revenue Service (IRS) in an effort to achieve tax-exempt status. The Company has been instructed by the IRS to file as a taxable entity for 1991 and subsequent periods. The Company had previously been instructed by the IRS to file as a tax exempt entity for 1991. Accordingly, the Company has recorded federal income taxes in its 1991 and 1992 financial statements.

Effective January 1, 1991, the Company adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Statement 109 requires a change from the deferred method of accounting for income taxes of APB Opinion 11 to the asset and liability method of accounting for income taxes. Under the asset and liability method of Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The cumulative effect of adopting Statement 109 on the 1991 consolidated statement of income was $-0-.

(H) NEW ACCOUNTING STANDARD

In December 1992, the Financial Accounting Standards Board (FASB) issued Statement No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts," which is required to be implemented for fiscal years beginning after December 31, 1992. The Company will adopt Statement No. 113 in 1993. This Statement affects financial statement presentation and disclosures and will not impact financial position or operating results. It requires reinsurance receivables (including amounts related to claims incurred but not reported and case estimates of reported claims) and prepaid reinsurance premiums to be reported as assets. Reinsurance receivables are estimated in a manner consistent with the liabilities relating to the underlying reinsured contracts.

(I) RECLASSIFICATIONS

Certain amounts in the 1991 financial statements have been reclassified to conform to the 1992 financial statement presentation.

3. RESTRICTED INVESTMENTS

The proceeds from the issuance of subordinated debt (see note 6) and related earned interest are held as restricted investments and may not be commingled with any other funds.

Funds in these restricted accounts may be withdrawn only to fund obligations of the Company to its policyholders and claimants related to all loss and loss adjustment expenses and to make payments for principal and/or interest due related to the subordinated debt. Funds in the restricted accounts may not be used for the operating expenses of the Company. To date, funds have been used only for interest payments on the subordinated debt. Such interest expense was $26,000 in both 1992 and 1991.

Restricted investments consist of the following as of December 31, 1992 and 1991:

1992	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Market Value
Corporate obligations	$ 660,446	$ 17,871	–	$ 678,317
U.S. Government and agency obligations	$ 808,546	$ 20,513	(2,425)	826,634
Money market account	73,432	–	–	73,432
	$ 1,542,424	$ 38,384	(2,425)	$1,578,383

1991	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Market Value
U.S. Government and agency obligations	$ 1,407,143	$ 29,692	–	$ 1,436,835
Money market account	83,696	–	–	83,696
	$ 1,490,839	$ 29,692	–	$1,520,531

As of December 31, 1992, restricted investments at amortized cost and estimated market value had scheduled maturities as follows:

	Amortized Cost	Market Value
Due in 1 year or less	$ 200,408	201,157
Due after 1 year through 5 years	868,237	897,906
Due after 5 year through 10 years	473,779	479,320
Total	$1,542,424	1,578,383

4. Investments

Unrestricted investments consist of the following as of December 31, 1992 and 1991:

1992

	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Market Value
Corporate obligations	$ 793,973	19,020	–	$ 812,993
U.S. Government and agency obligations	1,475,155	11,414	(5,040)	1,481,529
Certificates of Deposit	50,000	–	–	50,000
Money market account	128,391	–	–	128,391
	$ 2,447,519	30,434	(5,040)	2,472,913

1991

	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Market Value
Corporate obligations	$ 100,047	205	–	$ 100,252
U.S. Government and agency obligations	560,059	$ 1,629	–	$ 561,688
Certificates of Deposit	603,498	–	–	$ 603,498
Money market account	48,211	–	–	$ 48,211
	$ 1,311,815	1,834	–	$1,313,649

As of December 31, 1992, unrestricted investments at amortized cost and estimated market value had scheduled maturities as follows:

	Amortized Cost	Market Value
Due in 1 year or less	$ 353,790	354,416
Due after 1 year through 5 years	646,878	658,597
Due after 5 year through 10 years	1,446,851	1,459,900
Total	$ 2,447,519	2,472,913

5. Income Taxes

The components of income tax expense (benefit) are as follows:

	Current	Deferred	Total
Federal – 1992:	$ 114,012	(77,924)	36,088
Federal – 1991:	$ 42,982	(42,982)	-

Total income tax expense differed from the amounts computed by applying the U.S. Federal income tax rate of 34 percent in 1992 and 1991 to income before taxes as a result of the following:

	1992	1991
Computed "expected" tax expense	$ 40,420	24,146
Increase (reduction) in income taxes resulting from:		
Change in valuation allowance	(4,332)	(15,054)
Benefit from graduated tax rates	-	(9,092)
Total	$ 36,088	-

The types of temporary differences that comprise the net deferred tax asset at December 31, 1992 and 1991 include loss and loss adjustment expenses, the unearned premium reserve and deferred acquisition costs.

The following is a summary of the changes in the deferred tax asset:

	Deferred tax asset	Valuation allowance	Deferred tax liability	Total
Balances at December 31, 1990	$ 64,180	(19,386)	(38,999)	5,795
1991 changes	57,028	15,054	(29,100)	42,982
Balances at December 31, 1991	121,208	(4,332)	(68,099)	48,777
1992 changes	102,255	4,332	(28,663)	77,924
Balances at December 31, 1992	$ 223,463	-	(96,762)	126,701

6. Subordinated Debt

In 1989, a total of $1,300,000 was provided by foundations in the form of restricted assets (see note 3) in the amounts listed below:

The Ford Foundation	$ 500,000
Wallace Alexander Gerbode Foundation	250,000
David and Lucile Packard Foundation	250,000
San Francisco Foundation	100,000
Marin Community Foundation	100,000
Walter S. Johnson Foundation	100,000
	$ 1,300,000

The Company pays two percent simple interest per year on these funds. Payment of interest is made in quarterly installments and amounted to $26,000 in both 1992 and 1991. Scheduled repayment of the principal amount of subordinated debt is as follows:

September 18, 1993	$ 214,500
September 18, 1994	214,500
September 18, 1995	429,000
September 18, 1996	442,000
	$ 1,300,000

Repayment of the principal is expected to be as listed above. However, due to the uncertainty during the organization of the Company about its actual ability to repay within the agreed upon time frame, several provisions govern the repayment process.

Recourse on these funds is generally limited to Earned Surplus. Earned Surplus is defined as the amount by which the Company's

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NOTES TO FINANCIAL STATEMENTS *Continued*

assets exceed the sum of all liabilities (excluding principal and interest obligations related to the subordinated debt). Principal amounts listed above are considered to be due and payable only when an independent actuary certifies that to make such repayment would in no way jeopardize the financial stability of the Company. If any principal amount of the subordinated debt has been authorized for payment by an independent actuary, but remains unpaid by the Company, such principal bears interest at the rate of 10% per annum; provided, however, any principal amount not authorized for repayment by a certified actuary, or due according to the schedule listed above, continues to bear interest at the rate of 2% per annum.

The Company has engaged an actuary to evaluate whether it is advisable for the Company to begin making principal repayments in 1993.

In case of material misrepresentation or fraud by the Company or its employees, use of the funds for other than their stated purpose or to influence political activities, demand may be made by the foundations for repayment of the subordinated debt out of the assets of the Company other than Earned Surplus. If it is determined that the Company is intentionally charging inadequate premiums to materially adversely affect the Company's ability to make timely payments of principal and/or interest, the foundations may request appropriate increases in premiums. If the Company and the foundations are unable to agree on appropriate future adjustments to premiums, at their option, the foundations may request repayment of the outstanding principal balance.

Interest payments may be postponed at any time if Company management determines that paying interest would jeopardize the financial stability of the Company.

7. REINSURANCE

In its normal course of business, the Company reinsures risks in excess of $50,000 with other companies through contractual agreements. Such agreements serve to limit the Company's loss on large claims.

The Company's reinsurance is in two layers. The first layer covers losses in excess of $50,000 to a maximum of $500,000. The second layer covers losses in excess of $500,000 to a maximum of $1,000,000. There is a sublimit for total claims-made improper sexual contact claims of $1,333,333 during the period of January 1, 1991 through December 31, 1992. There have been no claims to date on the improper sexual contact coverage. The table below reflects the effect on premiums and losses of all reinsurance transactions:

	1992	1991
Reinsurance ceded:		
Premiums written	$ 917,736	498,599
Premiums earned	749,925	390,599
Loss and loss adjustment expenses incurred	46,432	-
Loss and loss adjustment expense reserves	-	-
Unearned premiums	448,415	280,604

For the first layer, the Company pays a provisional reinsurance premium based on gross premiums written. This provisional reinsurance premium is adjusted based on actual ultimate loss experience, subject to a maximum and a minimum final premium. The maximum additional premium due the reinsurer for adverse loss experience was $839,996 for 1992 and $398,560 for 1991. During 1991, the Company received return premiums of $79,647. One claim was ceded in 1992. There have been no other ceded claims since inception.

For the second layer, the Company pays a reinsurance premium based on gross premiums written. This reinsurance premium is not subject to an unfavorable adjustment based on actual ultimate loss experience. However, the Company may receive a commission of 33% of the reinsurers profit, if any.

Risks reinsured would become a liability of the Company in the event the reinsurer is unable to or will not fulfill the obligations assumed under the agreements.

8. COMMITMENTS

The Company has entered into an operating lease. The lease is a five-year, noncancelable, operating lease for office space. The lease has an option to renew for a period of up to five years.

Minimum payments due under this commitment (net of sublease rents) are as follows:

	Operating lease
Year ending December 31:	
1993	$ 42,470
1994	61,791
1995	64,385
1996	72,502
1997	74,766
Thereafter	15,085
Total minimum lease payments	$ 330,999

Total rent expense for 1992 and 1991 was $26,176 and $25,733, respectively.