A Message From the President

1993 was an extremely good year for the Nonprofits’ Insurance Alliance of California (NIAC). At a time when many in the insurance industry are reeling from numerous catastrophic property losses, NIAC enjoys superior casualty claims experience.

NIAC closed 1993 with $5,794,254 in gross written premium and 948 members. That is 63% more than the $3,592,711 in gross written premium for 1992. We exceeded our goal for the year by nearly $200,000.

Our excellent record has allowed us to continue to substantially improve our reinsurance arrangements. As of January 1, 1994, three premier reinsurers—American Reinsurance, General Reinsurance, and North American Reinsurance—provide all of NIAC’s reinsurance. General Re and North American Re provide our treaty reinsurance, each participating on a 50% basis. This reinsurance engages when the combination of legal expenses and indemnity payments exceed $75,000 on any occurrence. American Re continues to provide facultative reinsurance for NIAC’s umbrella policies.

Each year, we work to hone our pricing and underwriting practices to enable us to develop rates that more accurately reflect the exposure presented by various nonprofit activities. The array of services provided by nonprofits is as varied as the needs in our communities. With new nonprofits being created daily to respond to expanding needs, NIAC must understand the risks associated with these services and assist our members in minimizing these exposures.

Our claims experience remains far better than industry averages. In four years, we have paid just two claims in excess of $50,000. Neither of these claims exceeded $300,000. Automobile liability continues to be a coverage line that we watch carefully. Nearly 40 percent of our incurred claims are the result of auto accidents. Accidents caused by unsafe backing, following too closely, and carelessness in intersections account for 70 percent of these auto accidents.

During 1994, we intend to develop auto training programs for our members and provide premium reductions for those organizations which participate in such trainings. It is our hope that the dollars we invest in training will more than offset the human and property damage costs associated with preventable auto accidents.

As the founder of NIAC, 1993 was the most rewarding year for me. What sometimes seemed like a hopeless cause in the late 1980s has become a thriving company led by a dedicated core of managers and staff who are proud of NIAC’s accomplishments and eager to serve the California nonprofit community for many years to come. Now over 1,000 members strong, we have come a long way. As always, there remains much more to do!

Pamela Davis, President/CEO
Watching NIAC mature over the past year has been an extremely rewarding experience for the Board of Directors. We are gratified by the growing support NIAC has received both from the California brokerage community and the nonprofit sector. NIAC’s team of dedicated employees combine their understanding of insurance pricing techniques with a sensitivity to the variety of services provided by our nonprofit members. Their talents and commitment to excellence allow even NIAC’s smallest member-insureds to enjoy pricing and service benefits formerly available only to larger commercial accounts.

During 1993, we made substantial progress toward achieving 501(c)(3) tax-exemption for NIAC. On July 1, 1993, at NIAC’s request, Congressman Pete Stark (with original co-sponsor, Sam Farr) introduced HR 2612 which would clarify the Tax Code as it applies to organizations like NIAC. That bill now has 18 bipartisan co-sponsors. We anticipate that a similar bill will be introduced in the Senate in early 1994. Members of both sides of the House and Senate have expressed support for the clarification being sought by NIAC.

Our focus for 1994 will be finding the appropriate tax vehicle to which to attach this bill and then carefully monitoring its progress as it moves through the legislative process.

As always the challenge of the coming year will be to balance the need for broad and affordable coverage for our members with building NIAC’s financial security. With our goal of $8,200,000 in gross written premium for 1994, it will undoubtedly be a busy and fruitful year.

Jess Gutierrez - Citation Insurance Group

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NONPROFITS’ INSURANCE ALLIANCE OF CALIFORNIA
A Note From Rep. Sam Farr

I wanted to bring you up-to-date on HR 2612, the bill Rep. Pete Stark and I have co-authored to provide tax exemption for risk pools that are organized and operated exclusively for charitable purposes.

As you know, HR 2612 has growing support in both the House and Senate. In addition, the Treasury has long supported the thrust of this legislation and has indicated its willingness to support its inclusion in any tax legislation that may be considered in Congress.

...I appreciate the grass-roots efforts that NIAC has expended to educate the charitable risk pool industry about this bill and hope that, eventually, we see HR 2612 enacted this year.

— Sam Farr
Member of Congress, 17th District, CA
March 11, 1994

Annual Premium by Line

- Improper Sexual Conduct $205,194
- Directors & Officers $234,998
- Auto Physical $486,265
- Auto Liability $1,531,454
- General Liability $3,336,375

Total $5,794,286

Nonprofits' Insurance Alliance of California

1993 Annual Report 3
Sometimes, the best way to get something done right is to do it yourself. That is what the California nonprofit community did when they established the Nonprofits’ Insurance Alliance of California (NIAC).

In the 1980s, nonprofits in California faced a crisis. Liability insurance had become increasingly difficult, if not impossible to obtain. Those who were able to find coverage often found that their premiums had doubled or tripled. In late 1986, a group of nonprofit leaders in California were determined to deliver nonprofits from this unpredictable insurance market and shelter nonprofits from future liability insurance crises.

After more than two years of research, analysis, and hard work, NIAC was created. Our initial capital of $1.3 million was provided by The Ford Foundation, The San Francisco Foundation, The David and Lucile Packard Foundation, The Wallace Alexander Gerbode Foundation, The Marin Community Foundation, and The Walter S. Johnson Foundation. These early supporters believed that the same successful practice of risk pooling used by doctors, attorneys, accountants, churches, universities, and over two-thirds of municipalities in California could have the same benefits for nonprofits. And they were right.

NIAC Today

Now, in our fifth year, we have over 1000 member-insureds and approximately $6,000,000 in annual premium. Our original staff of three has grown to an experienced and dedicated staff of 17. We are proud of our solid reinsurance backing for claims in excess of $75,000. General Re (Best’s A++ rated) and North American Re (Best’s A rated) share equally in NIAC’s reinsurance treaty. American Re (Best’s A) provides all reinsurance for NIAC’s umbrella policies.

NIAC prides itself on doing one thing well so that our members can make many things better. Our member-insureds benefit from our single-minded purpose of providing them with the best possible prices and coverages for their diverse needs. Our specially trained underwriting staff is sensitive to the unique aspects of nonprofit organizations.
This expertise allows us to evaluate and price a full range of coverages which are tailor-made for the nonprofit sector. For NIAC members, this translates to solid, secure, and financially sound coverages.

**Member Owned and Controlled**

NIAC is a nonprofit public benefit corporation owned and controlled by its California nonprofit organization members. Our Board of Directors is drawn from and elected by our nonprofit membership. NIAC has no stockholders and no profit motivation. All cost savings are passed on to members. It really is that simple.

**So What Happens When a Member Has a Claim?**

NIAC’s claim administrator has offices throughout California to provide our members with prompt and efficient claims handling. We are acutely aware of the negative publicity that can result from a lawsuit against a nonprofit and work to mitigate those impacts.

NIAC understands that sometimes, even with the most careful planning, an accident may happen. At NIAC, risk management is not just about paying claims, it’s also about preventing them. We work to help our members avoid claim situations with the best prior

NIAC serves a growing roster of members who provide a wide spectrum of services to seniors.
WHY NIAC? continued

planning available. This commitment to prevention can be seen on all levels of our operation.

NIAC is developing a unique, state-of-the-art database that will lead to more accurate pricing and risk evaluation for our nonprofit members. In addition to constantly refining our underwriting skills, we also conduct site visits and provide an assortment of free video tapes on topics ranging from driver safety to earthquake preparedness. Every dollar spent on loss control is a safeguard against potential injury. We understand that nonprofits’ primary purpose is to help people. Our job is to make sure that all parties involved stay safe.

DOES THIS SOUND LIKE SOMETHING YOU’D LIKE TO BE A PART OF?

NIAC was created by and for California nonprofits, and plans to serve the 501(c)(3) nonprofit community for many years to come. If you think your organization might benefit from membership in NIAC, ask your insurance broker to call us. If you are an insurance broker and you think NIAC might be just what your nonprofit clients need, call us at 1-800-359-6422.

WHAT OTHERS SAY ABOUT NIAC

"My agency staff really enjoys working with the NIAC staff. Working with the friendly people at NIAC makes communication, coordination and productivity easier.”

Joe Esparza
Roseville Insurance Agency
Roseville

An excursion to coastal tidepools for residents of Hollygrove, a children's home in Los Angeles. (NIAC Member since 1990.)
THE NIAC STAFF

BACK ROW FROM LEFT: Michael Pramuk,
Steven Moody, Thomas Crubaugh, Larry Ferguson,
Todd Connor
MIDDLE ROW: Claudia Weeks, Betty Johnson,
Sue Reimuller, Victoria Ruggles, Sharon Felice,
Joseph Morton, Jean Schaub-Ichikawa,
Lisa Edelman, Michele Thomas
FRONT ROW: Pamela Davis, Amanda Stolmack,
Danielle Mudge
"On behalf of PAWS/LA, allow me to thank you for generously waiving our $100 membership fee in honor of being your 1000th member. Indeed that sum will be put to prompt use in services to our clients and their beloved companion animals. It is a pleasure and an honor to be part of your family."

Nadia Sutton
Executive Director
Pets Are Wonderful Support
For People Living With HIV/AIDS- Los Angeles

A participant of PAWS/LA and her human companion.
NIAC's membership reflects the diversity of physical, emotional and cultural needs, and aspirations of the people of California. Supplying heart and help, our members stretch their imaginations and their budgets to meet the growing demands of our communities.

The composition of NIAC’s members has remained relatively stable since our inception in 1989. Our members provide service in the following areas:

- 29% Human Service, Community Improvement
- 20% Mental Health, Developmental Disabilities, Health Related
- 19% Arts, Education
- 13% Shelter, Nutrition, Jobs
- 19% Other

We celebrate the exciting and important work being accomplished by our members and list them, as of December 31, 1993, on the following pages so that you may appreciate their impressive diversity.
NIAC MEMBERS As of December 31, 1993

WHAT OTHERS SAY ABOUT NIAC

"Be it a simple endorsement request or a complicated claims matter, we have always received outstanding service. It is rare to have such a company go above and beyond what is expected of them. You make our job a lot easier. We are proud to be a working part of your organization and look forward to being a part of your growing future."

Jay-Marie Garcia
Bekker Garcia Insurance Brokers, Inc., Walnut Creek

American Decorative Arts Forum of Northern California
American Society on Aging
American Sports Institute
American Theatre Ventures
Amigos de las Americas-Marin Chapter
Anaheim Interfaith Shelter
Anderson Marsh Interpretive Association
Angel Island Association
Angel Island Institute of California
Angel Society of Fallbrook
Anger Management Counseling Services
Ann Martin Children’s Center
Antelope Valley Council on Alcoholism
Art Springs Artists’ Association
Arte Americas, The Mexican Art Center
Arts Benicia
Asian American Senior Citizens Service Center
Asian Pacific Health Venture
Associated Center for Therapy/CSATT
Association of Housing Management Agents
Artistic Healing Center of Sonoma County
Audrey L. Smith Developmental Center

B

BES Children’s Educational Theatre Company
Baker Foundation
Baulines Crafts Guild
Bay Area Black Consortium for Quality Health Care
Bay Area Business Group on Health
Bay Area Crisis Nursery
Bay Area Friends of Tibet
Bay Area Women Against Rape
Bay Institute of San Francisco
Bayview Opera House

Beach Cities Coalition for Alcohol & Drug-Free Youth
Beach Plaza Housing Improvement Association
Beacon House Association of San Pedro
Beacon House
Berkeley Architectural Heritage Association
Berkeley Women’s Health Center
Bernal Heights Housing Corporation
Better Health Foundation
Beverly Hills Theatre Guild
Big Brothers of San Diego County
Big Brothers/Big Sisters of Fresno County
Big Sister League
Big Sur Historical Society
Bill Wilson Center
Blind & Vision Impaired Center of Monterey County
Blind Children’s Learning Center
Bonita House
Borrego Springs Youth Center
Boys & Girls Club of Harbor City
Boys & Girls Club of the Hi-Desert
Boys & Girls Club of Southern Marin
Boys & Girls Club of Santa Rosa
Braille Transcription Project of Santa Clara County
Breast Cancer Action
Bridge for the Needy
Bridge to Asia Foundation
Buddhist Peace Fellowship
Buenaventura Art Association
Butte County Children’s World

C

C.A.M.P.
C.F.S.C.
CLARE Foundation
Cabrillo Guild of Music
Cache Creek Lodge
Cal-Pep
California AIDS Intervention Training Center
California Age Research Institute

California Association of Nonprofits & N.A.C.
California Bluegrass Association
California Channel
California Council for the Promotion of History
California Council for the Social Studies
California Court Appointed Special Advocate Association
California Environmental Trust
California Family Action
California Foundation on Employment & Disability
California Freedom House Fellowship
California Grey Bears
California Hispanic Commission on Alcohol & Drug Abuse
California Institute for Clinical Social Work
California Leadership
California Native Plant Society
California Neuropsychology Services
California Parkinson’s Foundation
California Rare Fruit Growers
California Safety Council
California Southern Small Business Development Corporation
California State Student Association
California Supreme Court Historical Society
California Working Group
Californians for Drug-Free Youth
Cambridge Community Center
Campbell Union Elementary Education Foundation
Cantori Domino
Capp Street Project
Casa Teresa
Cascade Canyon School
Castro Valley Boys and Girls Clubs
Cat People
Catholic Big Brothers
Center Point
Center for Critical Architecture
Center for Independence of the Disabled
Center for New Americans
Center for Studies of the Future
Central Coast Neurobehavior Center
Central Orange County YWCA
Central Valley AIDS Team
Centro Cultural Latino de San Mateo
Centro La Familia de Fresno
Challenged Family Resource Center
Chamberlain's Children Center
Champs Foundation
Chemical Awareness and Treatment Services
Chico Museum Association
Child Abuse Prevention Agency
Child Assault Prevention Training Center of California
Child Care Employee Project
Child Quest International
Child Sexual Abuse Treatment Center of Yolo County
Children's Coordinating Council of San Mateo County
Children & Language Pre-school
Children's Benefit League
Children's Garden of California
Children's Institute International
Children's Placement Service
Choral Artists of California
Choral Conductors Guild
Christian Assisted Recovery Environments
Christian Counseling Service
Chula Vista Bayfront Conservancy Trust
Circuit Rider Productions
Citizens Who Care
City Heights Community Development Corporation
Ciudad de los Ninos de Salamanca
Claremont Friendship Center
Classical Philharmonic
CLEARlake Memorial Health Foundation
Coachella Valley Immigration Service
Coalition Against Domestic and Sexual Violence
Coastside Adult Day Health Center
Coastwalk
Commart
Committee on the Shelterless
Community Action Board of Santa Cruz County
Community Alliance Program for Ex-Offenders
Community Assistance for the Retarded & Handicapped
Community Care Car
Community Childcare Council of Sonoma County
Community Companions & Acme Environmental Management
Community Congress of San Diego
Community Coordinated Child Development Council
Community Environmental Council
Community Housing Developers
Community Human Services
Community Living Centers
Community Outreach
Community Partnership for Youth
Community Resources for the Disabled
Community Treatment Center
Computer Using Educators
Conflict Resolution Program
Continuum HIV Day Services
Contra Costa Alternative School
Contra Costa County Volunteer Services
Contra Costa Humane Society
Cooper Fellowship
Copper Hill Living & Learning Center
Cornerstone Outreach
Coro Southern California
Corralitos Padres
Corrective Behavior Institute
Corriganville Preservation Committee
Court Madera Larkspur Schools Foundation
Costa Mesa Senior Citizens' Corporation
Council on Aging Services for Seniors
Court Appointed Special Advocates/Santa Cruz County
Creative Business Opportunities
Creative Harmanics Institute

Like many NIAC members, The Names Project brings its important message to local communities. The AIDS Memorial Quilt, shown here, conveys the sobering reality of AIDS to many people.

C:
Cri-HELP
Crisis House Corporation
Crossroads Family Center
Cuddly Critters
Cultural Odyssey
Cupertino Senior Day Services

D:
Daly City Emergency Food Pantry
Davis Community Meals
Defensa de Mujeres
Del Norte Association for Developmental Services
Del Norte Senior Center
Delhi Community Center
Dell Arte
Delta Sigma Theta Life Development

Democratic Management Services
Dental Health Foundation
Diabetes Society of Santa Clara Valley
Didi Hirsch Community Health Clinic
Disabled American Veterans Charities/Greater L.A.
Disabled In Action League
Discipleship Training International
Dixieland Monterey
Do It Now Foundation of Southern California
Dolores Street Community Services
Domestic Crisis Services of Tehama County
Door of Hope
Door to Hope
Double Check Retreat
NIAC MEMBERS As of December 31, 1993

WHAT OTHERS SAY ABOUT NIAC

"Unlike most youth groups which are run by adults for young people, Tree Musketeers is a nonprofit corporation that is administered by kids. The mission is to bring about environmental improvement through their own actions and, by example, to challenge other people and businesses to join the youth environmental movement. NIAC makes youth, parents, volunteers and the public feel safe. When there's no need to worry, energies can be better spent on saving the earth."

Gail Church
Executive Director
Tree Musketeers

Drug Abatement Institute
Drug Abuse Alternative Center

E
EE's Residential Group Homes
Earth Communications Office
Earth Links
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
East Los Angeles Sheriff's Youth Athletic League
East Oakland Youth Development Center
Easter Seal Society of Los Angeles
Eco-Home Network
Ecumenical Council of the Pasadena Area Churches
Education Foundation of Cottage-Rohnert Park
Education Programs Associates
Education, Training and Research Associates
El Dorado Arts Council
El Dorado National Forest Interpretive Association
El Hogar Mental Health and Community Services
El Pajaro Community Development Corporation
El Rescate, El Rescate Legal Services, & El Refugio
ElderHelp of San Diego
Elmwood Institute
Emmanuel Achievement Program
Emeline Child Care Center
Emeryville Community Action Program
Encampment for Citizenship
Endowment for Youth
Environmental Health Coalition
Ephphatha Counseling Center
Episcopal Community Services
Episcopal Community Services of San Francisco
Exchon Foundation
Escondido Historical Society
Ethiopian Community Services Experience Corps
Extended Child Care Coalition of Sonoma County

F
Fairfax-San Anselmo Children's Center
Faith Hope Counseling Services
Fainbrook Child Development Center
Fallbrook People to People
Fallbrook Players
Family Center
Family Builders By Adoption
Family Emergency Shelter Coalition
Family Giving Tree
Family Home Education Center
Family Service Agency of Sonoma County
Family Service Agency of the Greater Sacramento Area
Family Service Association of Butte & Glenn Counties
Family Service Association of Northern Santa Cruz County
Family Service Association of the Pajaro Valley
Family and Community Enrichment Services
Federation of Indian Association
Fenix Services
Fifth Business
Filipino American Council of San Francisco
Filipino Task Force on AIDS
Filipinos for Affirmative Action
Fillmore Historical Museum
Five Branches Institute, College of Traditional Medicine
Florence Crittenton Services
Floris Historical Society
Fontana We Care
Food Bank for Monterey County
Foothill Area Community Services
Foothill Unity Center
Forest Theatre Guild
Fort Ross Interpretive Association
Foster Youth Connection of Los Angeles County
Foundation Center for Phenomenological Research
Foundation for Educational Software
Foundation for the Performing Arts Center
Foundation for the Retarded of the Desert
Frank H. & Eva B. Buck Foundation
Fraze Community Center
Fred Finch Youth Center
Fresh Start Farms
Fresno Adult Literacy Council
Fresno Metropolitan Ministry
Fresno Rescue Mission
Fresno Unity Group Homes
Friends of Jefferson House
Friends of Robinson Gardens
Friends of San Luis Obispo Botanical Garden
Friends of Scrap
Friends of Sunset Foundation
Friends of the Antelope Valley Indian Museum
Friends of the Arcata Marsh
Friends of the Mission Cultural Center
Friends of the San Francisco Health Department
Friends of the Santa Cruz Public Libraries
Friendship Center for the Blind
Future Families

G
GAAPA Community HIV Project
GRASP Foundation
Gay and Lesbian Community Services Center of Orange County
Genesis/A Sanctuary for the Arts
Girls Inc. of San Leandro
Glenn County Seniors Centers
Global Exchange
Global Outlook Educational Institution
Go Productions
Gold Key Club
Golden Umbrella & Foster Grandparents Program
Good Samaritan Shelter
Good Shepherd Fund
Goodwill Industries of the Redwood Empire
Grandview Foundation
Grant: Beckstrand Cancer Foundation
Great Leap
NIAC members like Plaza De La Raza offer cultural and artistic opportunities for children.

Los Padres Interpretive Association
Lyme Disease Resource Center
Lynch Foundation for Children
Lytle Creek Senior Citizens Association

M
M-2/Match Two
Madrone Hospice

Marin Association for Retarded Citizens
Marin Athletic Foundation
Marin Child Abuse Council
Marin Child Care Council
Marin City Children's Program
Marin Community Food Bank
Marin Council of Agencies
Marin Services for Men
Marin Services for Women
Mariposa Golden Agers
Mariposa School
Mary Ann Wright Foundation
Outreach Mission
Math/Science Technology Foundation
Matrix
McDowell Youth Homes
Meadowlark Service League
Meals on Wheels of San Francisco
Meals on Wheels of the Monterey Peninsula
Meeting Place
Mendocino Coast Botanical Gardens Preservation Corporation
Mendocino County Public Broadcasting KZYX Radio
Mental Research Institute
Mexican Cultural Center
Mid City Christian Services
Mid-Weeklies
Miracle House
Mitchell-Redner Centers
Modoc Child Care Council
Molecular Research Institute
Monterey Bay Girl Scout Council
Monterey County Homeless Coalition
Monterey County Vietnam Veterans Memorial Committee
Morongo Basin Adult Health Services Corporation
Morongo Basin Mental Health Services
Mother Lode Ombudsman
Mountain Crisis Services
Mountain Empire Historical Society
Mt. Diablo Interpretive Association

Mt. San Jacinto Natural History Association
Mt. Tamalpais Interpretive Association

N
NCI Affiliates
Na Ohana O Ke Awa
Napa Emergency Women's Services
Napa Valley Natural History Association
National Council on Alcoholism & Drug Dependency
National Federation of the Blind of California
National Foundation for the Treatment of Abused Children
National Latina Health Organization
National Task Force on AIDS Prevention
National Visiting Teachers Association
Natural History Association of San Luis Obispo Coast
Neighborhood House of North Richmond
Nepenthean Homes Foster Family Agency
New Connections
New Directions Adolescent Services
New Directions for People with Disabilities
New Fillmore Community Theater
New Performance Consortium
New Start
New Testament Community Outreach
New Way Foundation
North Coast Big Brothers/Big Sisters
North Coast Rape Crisis Team
North Coast Redwood Interpretive Association
North County Community Projects
North Bay Ecumenical Homes
Northern California Chapter of the National Hemophilia Foundation
Northern California Ecumenical Council

Northern California Purchasing Council
Northern California Service League
Northwestern Pacific Railroad Historical Society
Nowato Youth Center
Nurses in Action

O
OMI Neighbors in Action
OPICA Adult Day Care Center
Oak Center Cultural Center
Oakland Community Fund
Oakland Jazz Alliance
Ocean Park Community Center
Ohana Cultural Center
Ombudsman Services of Contra Costa County
Ombudsman/Advocacy Services of Inyo/Mono Counties
Omni Programs/Peers Against Substance Abuse
On Our Own
One Shoe Crew
Ontario-Upland Meals on Wheels
Open Sea Foundation
Orange County CTSA
Orange County Community Consortium
Orange County Community Development Council
Orange County Community Resources Opportunity Project
Orange Housing Development Corporation
Orchidmania
Organized People of Elmhurst Neighborhood (OPEN)
Over 21

P
PACT (People Acting in Community Together)
PAX House
Pacific Autism Center for Education
Pacific Choral Company
Pacific Composers Forum

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Nonprofits' Insurance Alliance of California
Plaza De La Raza performances also provide a forum for creative expression and encourage community support and participation.

San Francisco Network of Mental Health Clients
San Francisco Psychotherapy Research Group
San Francisco Urban Service Project
San Francisco Women's Center & Lavender Youth
San Gabriel Valley Alliance for the Mentally Ill
San Geronimo Valley Cultural Center
San Gorgonio Child Care Consortium
San Gorgonio Volunteer Association
San Jacinto Valley School of the Arts
San Jose Shelter
San Juan Bautista Child Care Center
San Luis Obispo Children's Museum
San Luis Obispo County AIDS Support Network
San Luis Obispo Literacy Council
San Mateo Coast Natural History Association
NIAC MEMBERS As of December 31, 1993

WHAT OTHERS SAY ABOUT NIAC

"NIAC has proven to be a viable alternative to the traditional carriers for our nonprofit accounts. They have provided us with responsive service and cost effective insurance coverage, designed to meet the specific needs of the nonprofit sector. Their commitment to providing a market for some, who previously were unable to obtain affordable insurance, is refreshing."

Jim Cochran, CIC
Senior Partner
Advanced Insurance Marketing
Orange

San Pasqual Battlefield Volunteer Association
Santa Barbara Rape Crisis Center/De Mano A Mano
Santa Clara Historical & Genealogical Society
Santa Clara Valley Multi Service Center
Santa Clarita Valley Boys and Girls Club
Santa Cruz Bluegrass Society
Santa Cruz Citizen's Committee for the Homeless
Santa Cruz Community Counseling Center
Santa Cruz County Animal Welfare Association
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
Santa Maria Museum Art Center
Santa Monica Symphony Association
Santa Paula Theater Center
Santa Ynez Valley Senior Advisory Council
Sarah's House
Saratoga Area Senior Coordinating Council
Saratoga Historical Foundation
Save the Whales
Schola Cantorum
School of Humanities & the Arts Alumni Association
Second Chance Youth Program
Seeking It Through Exhibitions
Seneca Residential and Day Treatment Center
Senior & Disabled Citizens Coalition of Riverside
Senior Daycare Center/David Kahn Center
Senior Legal Center of Northern California
Senior Programs of Santa Barbara Sequoia Dawn Seniors Club Services Center for Independent Living (SCIL)
Sexual Assault and Domestic Violence Center
Shakespeare San Francisco
Shalman Foundation
Shahaver High School
Shelter from the Storm
Shule Mandela Academy
Sierra Adoption Services
Sierra County Historical Society
Sierra Recovery Center
Sierra Vista Center
Silicon Valley Toxics Coalition
Simi Valley Historical Society
Siskiyou Child Care Council
Siskiyou Domestic Violence Program
Siskiyou Performing Arts Center
Siskiyou Youth Shelter
Sledgehammer Theater
Society for Calligraphy
Society for the Preservation of Carter Railroad
Sojourner Truth Foster Family Services Agency
Solano Adult Day Health Care Center
Solano Family and Childrens Services
Soledad Enrichment Action
Sonoma Child Guidance Institute
Sonoma City Opera
Sonoma County Academic Foundation/Excellence in Medicine
Sonoma County A.D.E.
Sonoma County Alzheimer's Task Force
Sonoma County Christian Network
Sonoma County Community Foundation
Sonoma County Council for Community Services
Sonoma County Head Trauma Network
Sonoma County Men's Support Center
Sonoma County People for Economic Opportunity
Sonoma County Rental Information and Mediation
Sonoma State Historic Park Association
Sonoma Valley Chorale
Sonshine Youth Services
Soroptimist House of Hope
South Central Food Distributors
South Coast Business Network
South Coast Children's Services
South County Performing Arts Building Foundation
South Valley Symphony Association
Southern Alameda County Domestic Violence Law Project
Southern California Association for Non-Profit Housing
Southern California Ecumenical Council
Southern California Indian Center
Southern California Rehabilitation Services
Southern California Veterans Service Council
Southern California Women for Understanding
Southern Regional Resource Center
Southwest Community Center
Southwest Wetlands Interpretive Association
Spanish Speaking Unity Council of Alameda County
Spar A Dime
Sparrow Creek School
Speech & Language Development Center
Spiritual Emergence Network
Squaw Valley Creative Arts Society
St. Francis House
St. John's Shelter for Women & Children
Stanislaus County Child & Infant Care Association
Starfire Foundation
Stepping Out Housing
Stiles Hall
Stockton Youth Foundation
Stop AIDS Project

Substance Abuse Foundation of Long Beach
Suicide Prevention Center of Monterey County
Sumed Patrick's Point Lagoons Interpretive Association
Summer House & Davis Summer House
Summit League

T

T.E.A.C.H.
Tahoe Turning Point
Tax-Aid
Teen Challenge of Southern California
The Names Project
Therapeutic Living Center for the Blind
This Side of the Hill Players
Timken-Sturgis Foundation
Timpany Center
Toastmasters International
Tomorrow's Entrepreneurs Today
Travelers Aid Society of Los Angeles
Traveling School
Tree Musketeers
Tri-County Easter Seal Society
Triad Community Services
Trichorillomania Learning Center
Trinity College of Graduate Studies
Trinity Education Center
True to Life Counseling
Tulare County Children's Receiving Home
Tulare County Lao Family Community
Tuolumne Calaveras Association for the Handicapped
Turning Point Foundation
Turning Point of Central California

U

U.N. 50 Committee
United Cancer Research Society
United Concilio West
United Council of Spanish Speaking Organizations
Watts Health Foundation sponsors events, like this parade, which encourage community involvement and foster cross-cultural cooperation.

**WHAT OTHERS SAY ABOUT NIAC**

“We help homeless people move toward self-sufficiency, with shelter and rehabilitative programs that work! Our partnership with NIAC is a benefit to the entire community.”

Anita Louis Grossman
Development Director
Episcopal Community Services of San Francisco

**V**
- Valley Advocacy & Communications Center
- Valley Churches United
- Valley Oak Children's Services
- Valley Restant Shelter
- Valley of the Moon Natural History Association
- Ventura Arts Council
- Ventura County Council on Aging
- Verdugo Woodlands Dads Club
- Veteran’s Memorial Center
- Victor Residential Center
- Vietnamese American Cultural & Social Council Corporation
- Villa Center
- Vintage House Senior Multipurpose Center
- Visalia Rescue Mission
- Voices for Children
- Volunteer Center of El Dorado County
- Volunteer Center of Greater Orange County
- Volunteer Center of Monterey County
- Volunteer Center of San Francisco
- Volunteers of America of Los Angeles
- Volunteers of America, Bay Area
- Volunteers of America, Sacramento & Central Valley
- West Santa Rosa Local Action Council
- West Valley Fish
- Western Addition Senior Citizens Services Center
- Western Institute Foundation For Mental Health
- Western Sonoma County Swimmers
- Western Youth Services
- White Lotus Foundation
- Whiteside Manor
- Whittier Cultural Arts Foundation
- William G. Irwin Charity Foundation
- William James Association
- Willis Community Theatre
- Wilmington Boys & Girls’ Club
- Women’s Alliance
- Women’s Center-High Desert
- Women’s Crisis Support & Shelter Services
- Women’s Economic Agenda Project
- Women’s Initiative for Self Employment
- Workshop Organized for Rehabilitation by Kiwanis

**YWCA dba: Born Free**
- Yolo County Coalition Against Hunger
- Yolo Family Service Agency
- Yolo Wayfarer Center
- Young Audiences of the Bay Area
- Youth & Family Services
- Youth Development Center
- Youth Focus
- Youth Intervention Program
- Youth Music Monterey
- Youth Revival
- Youth for Change
- Youth-on-the-Move
- Yuba Feather Communities Services
- Yuba-Sutter Gleaners Food Bank
- Yuba-Sutter Legal Center
- Representative Payee Project

United Irish Societies of Southern California
United Lumbee Nation of Northern California and America
United States Catholic Conference
United Way of Butte/Glenn Counties
United Way of Fresno County
United Way of Humboldt
United Way of Indian Wells Valley
United Way of Northern California
United Way of Orange County
University Religious Center & Friendly Visitor Services
University of California, Berkeley Foundation
Urban Resource Systems

**WATCH (Women and their Children’s Housing)**
- Wajumbe Cultural Institution
- Walden Center Elementary School
- Washington Union Educational Foundation
- Watts Health Foundation/United Health Plan
- Welfare Action
- Welfare Parents Support Group
- West Antelope Valley Educational Foundation
- West Bay Local Development Corporation
- West Santa Rosa Local Action Council
- West Valley Fish
- Western Addition Senior Citizens Services Center
- Western Institute Foundation For Mental Health
- Western Sonoma County Swimmers
- Western Youth Services
- White Lotus Foundation
- Whiteside Manor
- Whittier Cultural Arts Foundation
- William G. Irwin Charity Foundation
- William James Association
- Willis Community Theatre
- Wilmington Boys & Girls’ Club
- Women’s Alliance
- Women’s Center-High Desert
- Women’s Crisis Support & Shelter Services
- Women’s Economic Agenda Project
- Women’s Initiative for Self Employment
- Workshop Organized for Rehabilitation by Kiwanis
We have audited the accompanying balance sheets of Nonprofits' Insurance Alliance of California as of December 31, 1993 and 1992, 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, 1993 and 1992, 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.

As described in note 2, the Company changed its method of accounting for reinsurance in 1993.

KPMG Peat Marwick
San Francisco
February 25, 1994
# Balance Sheets

**December 31, 1993 and 1992**

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted investments (note 3)</td>
<td>$1,611,715</td>
<td>$1,542,424</td>
</tr>
<tr>
<td>Investments (note 4)</td>
<td>4,193,553</td>
<td>2,447,519</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td>5,805,268</td>
<td>3,989,943</td>
</tr>
<tr>
<td>Cash</td>
<td>412,596</td>
<td>111,465</td>
</tr>
<tr>
<td>Premiums receivable</td>
<td>588,167</td>
<td>368,789</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>84,578</td>
<td>84,756</td>
</tr>
<tr>
<td>Other receivables</td>
<td>12,211</td>
<td>30,326</td>
</tr>
<tr>
<td>Property and equipment, net of accumulated depreciation of $67,768 in 1993 and $44,689 in 1992</td>
<td>111,752</td>
<td>52,345</td>
</tr>
<tr>
<td>Prepaid expenses and deposits</td>
<td>26,417</td>
<td>37,232</td>
</tr>
<tr>
<td>Reinsurance recoverable (note 7)</td>
<td>349,028</td>
<td>-</td>
</tr>
<tr>
<td>Prepaid reinsurance premium (note 7)</td>
<td>958,316</td>
<td>-</td>
</tr>
<tr>
<td>Deferred acquisition costs</td>
<td>429,603</td>
<td>340,486</td>
</tr>
<tr>
<td>Deferred tax asset (note 5)</td>
<td>228,638</td>
<td>126,701</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$9,006,574</td>
<td>$5,142,043</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LIABILITIES AND MEMBERS’ EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss and loss adjustment expense reserves (note 7)</td>
<td>$3,331,468</td>
<td>$1,721,660</td>
</tr>
<tr>
<td>Unearned premiums (note 7)</td>
<td>3,029,414</td>
<td>1,302,263</td>
</tr>
<tr>
<td>Reinsurance payable</td>
<td>170,647</td>
<td>112,535</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>220,356</td>
<td>166,650</td>
</tr>
<tr>
<td>Income taxes payable (note 5)</td>
<td>168,714</td>
<td>162,789</td>
</tr>
<tr>
<td>Subordinated debt (note 6)</td>
<td>1,300,000</td>
<td>1,300,000</td>
</tr>
<tr>
<td><strong>Members’ equity:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members’ contributions</td>
<td>363,830</td>
<td>227,555</td>
</tr>
<tr>
<td>Other paid-in capital</td>
<td>31,054</td>
<td>31,054</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>391,091</td>
<td>117,537</td>
</tr>
<tr>
<td><strong>Total members’ equity</strong></td>
<td>$785,975</td>
<td>$376,146</td>
</tr>
<tr>
<td>Commitments and contingencies (notes 7 and 8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities and members’ equity</strong></td>
<td>$9,006,574</td>
<td>$5,142,043</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.

# Statements of Income

**Years ended December 31, 1993 and 1992**

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross written premium</td>
<td>$6,140,430</td>
<td>$3,753,622</td>
</tr>
<tr>
<td>Ceded premium (note 7)</td>
<td>(1,515,842)</td>
<td>(1,078,649)</td>
</tr>
<tr>
<td><strong>Net written premium</strong></td>
<td>4,624,588</td>
<td>2,674,973</td>
</tr>
<tr>
<td>Increase in unearned premium</td>
<td>(768,835)</td>
<td>(561,288)</td>
</tr>
<tr>
<td><strong>Net earned premium (note 7)</strong></td>
<td>3,855,753</td>
<td>2,113,685</td>
</tr>
<tr>
<td>Net restricted investment income (note 3)</td>
<td>68,487</td>
<td>66,975</td>
</tr>
<tr>
<td>Net investment income</td>
<td>160,884</td>
<td>116,832</td>
</tr>
<tr>
<td>Net realized loss on sales of investments</td>
<td>(7,575)</td>
<td>(9,038)</td>
</tr>
<tr>
<td>Other income</td>
<td>133,013</td>
<td>49,053</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>$4,210,562</td>
<td>$2,337,507</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXPENSES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Losses and loss adjustment expenses incurred (note 7)</td>
<td>2,483,727</td>
<td>1,268,211</td>
</tr>
<tr>
<td>Salaries and employee benefits</td>
<td>603,982</td>
<td>424,774</td>
</tr>
<tr>
<td>Commission expense</td>
<td>434,573</td>
<td>268,928</td>
</tr>
<tr>
<td>Other expense</td>
<td>273,804</td>
<td>256,713</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>3,796,086</td>
<td>2,218,626</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>414,476</td>
<td>118,881</td>
</tr>
<tr>
<td>Income tax expense (note 5)</td>
<td>140,222</td>
<td>36,088</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$273,554</td>
<td>$82,793</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
### Statements of Members' Equity

**Years ended December 31, 1993 and 1992**

<table>
<thead>
<tr>
<th></th>
<th>Members' contributions</th>
<th>Other paid-in capital</th>
<th>Retained earnings</th>
<th>Total members' equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balances at December 31, 1991</td>
<td>$141,824</td>
<td>31,054</td>
<td>34,744</td>
<td>207,622</td>
</tr>
<tr>
<td>Members' contributions</td>
<td>85,731</td>
<td></td>
<td></td>
<td>85,731</td>
</tr>
<tr>
<td>Net income</td>
<td></td>
<td></td>
<td>82,793</td>
<td>82,793</td>
</tr>
<tr>
<td>Balances at December 31, 1992</td>
<td>227,555</td>
<td>31,054</td>
<td>117,537</td>
<td>376,146</td>
</tr>
<tr>
<td>Members' contributions</td>
<td>136,275</td>
<td></td>
<td></td>
<td>136,275</td>
</tr>
<tr>
<td>Net income</td>
<td></td>
<td></td>
<td>273,554</td>
<td>273,554</td>
</tr>
<tr>
<td>Balances at December 31, 1993</td>
<td>$363,830</td>
<td>31,054</td>
<td>391,091</td>
<td>785,975</td>
</tr>
</tbody>
</table>

*See accompanying notes to financial statements.*

### Statements of Cash Flows

**Years ended December 31, 1993 and 1992**

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$273,554</td>
<td>82,793</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Net realized losses on sales of investments</td>
<td>7,575</td>
<td>9,038</td>
</tr>
<tr>
<td>- Depreciation</td>
<td>23,079</td>
<td>18,316</td>
</tr>
<tr>
<td>- Deferred income tax benefit</td>
<td>(101,937)</td>
<td>(77,924)</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Increase in premiums receivable</td>
<td>(219,378)</td>
<td>(121,704)</td>
</tr>
<tr>
<td>- Increase in reinsurance recoverable</td>
<td>(349,028)</td>
<td>-</td>
</tr>
<tr>
<td>- Increase in prepaid reinsurance premium</td>
<td>(958,316)</td>
<td>-</td>
</tr>
<tr>
<td>- Increase in deferred acquisitions costs</td>
<td>(89,117)</td>
<td>(126,372)</td>
</tr>
<tr>
<td>- Increase in loss and loss adjustment expense reserves</td>
<td>1,609,808</td>
<td>754,357</td>
</tr>
<tr>
<td>- Increase in unearned premiums</td>
<td>1,727,151</td>
<td>561,288</td>
</tr>
<tr>
<td>- Increase in reinsurance payable</td>
<td>58,112</td>
<td>42,917</td>
</tr>
<tr>
<td>- Increase in income taxes payable</td>
<td>5,925</td>
<td>114,012</td>
</tr>
<tr>
<td>Other, net</td>
<td>118,007</td>
<td>(116,294)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>2,105,435</td>
<td>1,140,427</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of investments</td>
<td>(5,258,797)</td>
<td>(6,033,288)</td>
</tr>
<tr>
<td>Sales or maturities of investments</td>
<td>3,400,704</td>
<td>4,880,368</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(82,486)</td>
<td>(24,422)</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(1,940,579)</td>
<td>(1,177,342)</td>
</tr>
<tr>
<td><strong>Cash flow from financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from members' contributions</td>
<td>136,275</td>
<td>85,731</td>
</tr>
<tr>
<td>Net increase in cash</td>
<td>301,131</td>
<td>48,816</td>
</tr>
<tr>
<td>Cash at beginning of year</td>
<td>111,465</td>
<td>62,649</td>
</tr>
<tr>
<td>Cash at end of year</td>
<td>$412,596</td>
<td>111,465</td>
</tr>
<tr>
<td><strong>Supplemental disclosure of cash flow information:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount paid for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Federal income taxes</td>
<td>$95,660</td>
<td>85,456</td>
</tr>
<tr>
<td>- Interest expense paid</td>
<td>$26,000</td>
<td>26,000</td>
</tr>
</tbody>
</table>

*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, 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 $2,000,000 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 conduct claims. Directors’ and officers’ liability is available to member’s 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 1993 and 1992, 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 required by generally accepted accounting principles. These costs generally include commissions, underwriting, policy issue and marketing costs. Amortized acquisition costs were $752,978 for 1993 and $588,636 for 1992, 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, an gain or loss is included in income. Depreciation expense was $23,079 and $18,316 in 1993 and 1992, respectively.

(d) INVESTMENTS
Investments in debt securities are carried at amortized cost. Declines in the fair 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 debt securities were $542,488 in 1993 which resulted in gross realized gains of $2,000 and gross realized losses of $2,000. Proceeds from sales of debt securities in 1992 were $1,185,760 which resulted in gross realized gains of $5,289 and gross realized losses of $14,327.

(e) LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES
Loss and loss adjustment expense reserves are estimates based on an expected loss and loss adjustment expense ratio. This method is used because the Company has not been in existence long enough to establish historical and statistical bases for estimating these liabilities. The expected ratio is based on the historical experience of a similar program and the Company's claims experience to date. Ultimate losses may differ significantly from the amounts recorded. Changes in estimates of losses are included in income in the period in which the estimates are changed. The Company has engaged an independent actuary to review and analyze its loss data.

(f) REINSURANCE
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.” This statement establishes the conditions required for a contract with a reinsurer to be accounted for as reinsurance andprohibits accounting and reporting standards for those contracts. It requires reinsurance recoverables (including amounts related to claims incurred but not reported) and prepaid reinsurance premiums to be reported as assets. Estimated reinsurance recoverables are to be recognized in a manner consistent with the liabilities relating to the underlying reinsured contracts. The Company adopted Statement No. 113 effective January 1, 1993. This change in accounting had no effect on net income.

(g) INCOME TAXES
The Company was granted tax-exempt status by the state of California. In February 1993, the Company received an adverse ruling on its application for federal tax-exempt status. Management has filed a suit protesting the ruling by the Internal Revenue Service (IRS) in an effort to achieve tax-exempt status. A bill is pending in Congress and was introduced in the House in July 1993, which, if passed in its present form, would grant the Company tax-exempt status. The Company was 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 and 1992. Accordingly, the Company records federal income taxes on its statistical statements.

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes.” Statement 109 requires 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 year that includes the enactment date.

(h) NEW ACCOUNTING STANDARD
In May 1993, the Financial Accounting Standards Board (FASB) issued Statement No. 115, “Accounting for Certain Investments continued on page 22
NOTES TO FINANCIAL STATEMENTS

in Debt and Equity Securities," which is effective for fiscal years beginning after December 15, 1993. This Statement addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. Those investments are to be classified in three categories and accounted for as follows:

• Debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as "held-to-maturity securities" and are reported at amortized cost.
• Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as "trading securities" and are reported at fair value, with unrealized gains and losses included in earnings.
• Debt and equity securities not classified as either "held-to-maturity securities" or "trading securities" are classified as "available-for-sale securities" and are reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholder's equity.

The Company currently anticipates its restricted and unrestricted investment portfolios will be classified as available-for-sale securities. The estimated effect of this change in accounting at January 1, 1994 will be to increase stockholder's equity by $118,288, net of deferred income taxes.

(i) RECLASSIFICATIONS

Certain amounts in the 1992 financial statements have been reclassified to conform to the 1993 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 participants related to all loss and loss adjustment expenses and to make payments for principal and/or interest 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 1993 and 1992.

Restricted investments consist of the following as of December 31, 1993 and 1992:

<table>
<thead>
<tr>
<th>1993</th>
<th>Amortized Cost</th>
<th>Unrealized Gain</th>
<th>Unrealized Loss</th>
<th>Estimated Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate obligations</td>
<td>$ 527,823</td>
<td>33,284</td>
<td>-</td>
<td>561,079</td>
</tr>
<tr>
<td>U.S. Government and agency obligations</td>
<td>482,560</td>
<td>14,106</td>
<td>(447)</td>
<td>496,219</td>
</tr>
<tr>
<td>Money market account</td>
<td>49,540</td>
<td>-</td>
<td>-</td>
<td>49,540</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>551,792</td>
<td>14,561</td>
<td>-</td>
<td>566,353</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 1,611,715</strong></td>
<td><strong>61,951</strong></td>
<td><strong>(447)</strong></td>
<td><strong>$ 1,673,219</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1992</th>
<th>Amortized Cost</th>
<th>Unrealized Gain</th>
<th>Unrealized Loss</th>
<th>Estimated Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate obligations</td>
<td>$ 660,446</td>
<td>17,871</td>
<td>-</td>
<td>678,317</td>
</tr>
<tr>
<td>U.S. Government and agency obligations</td>
<td>455,140</td>
<td>4,473</td>
<td>(2,425)</td>
<td>457,188</td>
</tr>
<tr>
<td>Money market account</td>
<td>73,432</td>
<td>-</td>
<td>-</td>
<td>73,432</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>353,486</td>
<td>16,040</td>
<td>-</td>
<td>369,526</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 1,542,424</strong></td>
<td><strong>38,384</strong></td>
<td><strong>(2,425)</strong></td>
<td><strong>$ 1,578,383</strong></td>
</tr>
</tbody>
</table>

The amortized cost and estimated market value of restricted investments at December 31, 1993, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

<table>
<thead>
<tr>
<th></th>
<th>Amortized Cost</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due in 1 year or less</td>
<td>$ 49,540</td>
<td>49,540</td>
</tr>
<tr>
<td>Due after 1 year through 5 years</td>
<td>931,749</td>
<td>979,138</td>
</tr>
<tr>
<td>Due after 5 years through 10 years</td>
<td>78,635</td>
<td>78,188</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>551,792</td>
<td>566,353</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 1,611,715</strong></td>
<td><strong>$ 1,673,219</strong></td>
</tr>
</tbody>
</table>

4. INVESTMENTS

Unrestricted investments consist of the following as of December 31, 1993 and 1992:

<table>
<thead>
<tr>
<th>1993</th>
<th>Amortized Cost</th>
<th>Unrealized Gain</th>
<th>Unrealized Loss</th>
<th>Estimated Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate obligations</td>
<td>$ 783,484</td>
<td>42,789</td>
<td>-</td>
<td>826,273</td>
</tr>
<tr>
<td>U.S. Government and agency obligations</td>
<td>1,545,237</td>
<td>38,159</td>
<td>-</td>
<td>1,583,396</td>
</tr>
<tr>
<td>Certificates of Deposit</td>
<td>50,000</td>
<td>-</td>
<td>-</td>
<td>50,000</td>
</tr>
<tr>
<td>Money market account</td>
<td>193,711</td>
<td>-</td>
<td>-</td>
<td>193,711</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>1,621,121</td>
<td>49,712</td>
<td>(3,940)</td>
<td>1,657,493</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 4,193,553</strong></td>
<td><strong>121,660</strong></td>
<td><strong>(3,940)</strong></td>
<td><strong>$ 4,311,273</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1992</th>
<th>Amortized Cost</th>
<th>Unrealized Gain</th>
<th>Unrealized Loss</th>
<th>Estimated Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate obligations</td>
<td>$ 793,073</td>
<td>19,020</td>
<td>-</td>
<td>812,093</td>
</tr>
<tr>
<td>U.S. Government and agency obligations</td>
<td>890,493</td>
<td>11,414</td>
<td>(4,694)</td>
<td>897,213</td>
</tr>
<tr>
<td>Certificates of Deposit</td>
<td>50,000</td>
<td>-</td>
<td>-</td>
<td>50,000</td>
</tr>
<tr>
<td>Money market account</td>
<td>128,391</td>
<td>-</td>
<td>-</td>
<td>128,391</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>584,662</td>
<td>-</td>
<td>(346)</td>
<td>584,316</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 2,447,519</strong></td>
<td><strong>30,434</strong></td>
<td><strong>(5,040)</strong></td>
<td><strong>$ 2,472,013</strong></td>
</tr>
</tbody>
</table>
The amortized cost and estimated market value of unrestricted investments at December 31, 1993, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

<table>
<thead>
<tr>
<th></th>
<th>Amortized Cost</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due in 1 year or less</td>
<td>$444,346</td>
<td>$444,346</td>
</tr>
<tr>
<td>Due after 1 year through 5 years</td>
<td>859,118</td>
<td>900,385</td>
</tr>
<tr>
<td>Due after 5 years through 10 years</td>
<td>1,268,968</td>
<td>1,308,649</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>1,621,121</td>
<td>1,657,893</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,193,553</strong></td>
<td><strong>$4,311,273</strong></td>
</tr>
</tbody>
</table>

## 5. INCOME TAXES

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

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>$242,859</td>
<td>$114,012</td>
</tr>
<tr>
<td>Deferred</td>
<td>(101,937)</td>
<td>(77,924)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$140,922</strong></td>
<td><strong>$36,088</strong></td>
</tr>
</tbody>
</table>

Total income tax expense differed from the amounts computed by applying the U.S. Federal income tax rate of 35 percent in 1993 and 34 percent in 1992 to income before taxes as a result of the following:

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computed &quot;expected&quot; tax expense</td>
<td>$145,066</td>
<td>40,420</td>
</tr>
<tr>
<td>Increase (reduction) in income taxes resulting from:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in valuation allowance</td>
<td>(4,332)</td>
<td></td>
</tr>
<tr>
<td>Benefit from graduated tax rates</td>
<td>(4,144)</td>
<td></td>
</tr>
<tr>
<td>****</td>
<td><strong>$140,922</strong></td>
<td><strong>36,088</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Gross deferred tax asset</th>
<th>Valuation allowance</th>
<th>Gross deferred tax liability</th>
<th>Net deferred tax asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balances at December 31, 1991</td>
<td>$121,208</td>
<td>(4,332)</td>
<td>(68,099)</td>
<td>48,777</td>
</tr>
<tr>
<td>1992 changes</td>
<td>102,255</td>
<td>4,332</td>
<td>(28,663)</td>
<td>77,924</td>
</tr>
<tr>
<td>Balances at December 31, 1992</td>
<td>223,463</td>
<td></td>
<td>(96,762)</td>
<td>126,701</td>
</tr>
<tr>
<td>1993 changes</td>
<td>154,292</td>
<td></td>
<td>(52,355)</td>
<td>101,937</td>
</tr>
<tr>
<td>Balances at December 31, 1993</td>
<td>$377,755</td>
<td></td>
<td>(149,117)</td>
<td>228,638</td>
</tr>
</tbody>
</table>

The types of temporary differences that comprise the net deferred tax asset at December 31, 1993 and 1992 include loss and loss adjustment expenses, the unearned premium reserve and deferred acquisition costs.

Management believes that the gross deferred tax asset will be recoverable from income taxes paid and therefore no valuation allowance is required as of December 31, 1993 or 1992.

## 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

Repayment of the principal was scheduled to begin in September 1993, however several provisions governed the repayment process. Principal amounts 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. Interest payments may be postponed at any time if Company management determines that paying interest would jeopardize the financial stability of the Company.

During 1993, an independent actuary performed an actuarial analysis of the Company's ability to repay the principal. The independent actuary concluded that the Company could repay a portion of the subordinated loans without jeopardizing the ability to meet current liabilities, but any reduction in surplus would affect the Company's ability to continue to grow and write new business. Therefore, since the Company is planning to increase its writings, the independent actuary recommended that principal repayments not be made at September 1993. Actuarial analyses will continue to be performed annually.

Continued on page 24.
NOTES TO FINANCIAL STATEMENTS  Continued

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. 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.

During 1992, the Company's reinsurance was 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 was a sublimit for total losses made improper sexual conduct 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 conduct coverage.

During 1993, the Company's reinsurance was also in two layers. The first layer covers losses in excess of $50,000 to a maximum of $100,000, subject to an annual aggregate deductible of $250,000. The second layer covers losses in excess of $100,000 to a maximum of $1,000,000. "Losses" for the purposes of these agreements include indemnity and allocated loss adjustment expenses.

In addition, beginning in 1992, the Company began offering umbrella coverage for general liability policies up to $500,000 in excess of $1 million. These policies are 100% ceded on a facultative basis. The Company received servicing fees on this business of $51,926 in 1993 and $24,137 in 1992.

The table below reflects the financial statement captions which are stated net of the effects of reinsurance:

<table>
<thead>
<tr>
<th>Year</th>
<th>1993</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinsurance ceded:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premium earned</td>
<td>$852,040</td>
<td>749,925</td>
</tr>
<tr>
<td>Loss and loss adjustment expenses incurred</td>
<td>349,028</td>
<td>46,432</td>
</tr>
<tr>
<td>Loss and loss adjustment expense reserves</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unused premiums</td>
<td></td>
<td>530,813</td>
</tr>
</tbody>
</table>

8. COMMITMENTS

The Company has entered into a five-year, noncancelable, operating lease for office space through March 1998. 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:

<table>
<thead>
<tr>
<th>Year ending December 31:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>$ 86,712</td>
</tr>
<tr>
<td>1995</td>
<td>93,408</td>
</tr>
<tr>
<td>1996</td>
<td>101,662</td>
</tr>
<tr>
<td>1997</td>
<td>103,943</td>
</tr>
<tr>
<td>1998</td>
<td>39,303</td>
</tr>
<tr>
<td>Total minimum lease payments</td>
<td>$ 425,588</td>
</tr>
</tbody>
</table>

The lease agreement provides for certain free rent periods and requires varying lease payments over the term of the lease. As required by generally accepted accounting principles, the Company recognizes rent expense based on the straight line average monthly rent cost over the lease term. Total rent expense for 1993 and 1992 was $81,558 and $26,176, respectively.