Message from the President & Chairman

Our eleventh year of serving nonprofits was exciting and challenging for NIAC. Besides achieving strong operating results, we accomplished several other important initiatives. A major capital grant and the creation of sister companies will allow nonprofits in other states to benefit from NIAC's experience. To accommodate future growth and control costs, we purchased and renovated a new headquarters building in Santa Cruz. We also launched a new computer application for insurance operations, culminating two years of work. And we distributed several new loss control tools to members, including our first risk management product on CD-Rom.

Regarding operating results for the year, we welcomed 528 members and closed the year with 2,384 members, a net growth of 17%. It is especially gratifying that 91% of our members chose to renew with us. Premium revenue grew by 17.5% and totaled \$16.4 million. Our net income of \$7.4 million is largely the result of an extraordinary \$5.1 million loss reserve takedown discussed below. At year-end, NIAC's balance sheet showed members' equity of \$15.1 million, claims reserves of \$22.9 million, and total assets of \$54.0 million.

NIAC's reserve takedown in 2000 was because of better than anticipated claims experience for earlier years. This amount, which has been built up over many years based on actuarial estimates, represents funds set aside to pay for claims which did not materialize. NIAC was founded on the premise that nonprofits are better than average risks, but no statistics were available to prove the point when the company started. After a decade of experience dedicated to the nonprofit sector, we can now say with confidence that our founding premise was correct. Nonprofits, practicing good risk management, have fewer claims than predicted.

R. Lawrence Bacon, Chairman, and Pamela E. Davis, President and CEO

We also were able to repay \$848,000 of the \$1.3 million lent by six foundations to start NIAC in 1989. The remaining balance of \$155,600 is scheduled for repayment in 2001. These original supporters risked funding a novel venture for the benefit of California's nonprofit community, and we are grateful for their vision and foresight and proud to have met their expectations.

As for other states, we were honored to be awarded a \$5 million grant in July by the David and Lucile Packard Foundation, one of NIAC's original supporters. This grant, together with \$5 million granted in 1999 by the Bill & Melinda Gates Foundation, provided the members' equity needed to fund the new 501(c)(3) companies to cover risks for nonprofits outside of California. Because NIAC's enabling legislation limits the company to writing coverage only in California, we sponsored the formation of a new insurance company, Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG). We also created a captive reinsurer, National Alliance of Nonprofits for Insurance, to enable NIAC and ANI-RRG to benefit from a national spread of risk. To provide services to these new companies as well as NIAC, we created a nonprofit supporting organization, Alliance Member Services (AMS). All NIAC employees were transferred to AMS in January 2001.

Initial plans call for ANI-RRG to start writing insurance this year in Colorado, Delaware, the District of Columbia region and Nevada. In affiliating NIAC with the new group of companies, members can expect to benefit from access to new services, more efficient operations, and enhanced financial resources. NIAC, of course, will continue to offer its services throughout California with undiminished zeal.

In anticipation of future growth, we bought a vacant store property in downtown Santa Cruz last May and had it renovated into a two-story office building for our headquarters. The total cost for the project is about $4.7 million, and the funding was largely provided by a tax-exempt bond issue. We moved to the new premises in January 2001 and now occupy the second floor. Until the company requires additional space, we are leasing the first floor to other nonprofits. The project was finished on schedule, and we expect the property to be a rewarding investment.

After two years of development by our IT department, we launched our new computer application for insurance operations. In addition to allowing us to serve NIAC's members and brokers more efficiently, this new application gives us the ability to manage multiple companies and will support underwriting rules based on individual states and products. Phase one, underwriting policy processing, was successfully launched this past year. In early 2001, the claims handling module will be added.

Lastly, it is worth mentioning our investment in expanding our risk management and loss control resources for our members. Exerting "an ounce of prevention" will continue to be a top priority for us. In conjunction with the Nonprofit Risk Management Center, we developed and distributed a new interactive CD-Rom risk assessment tool—Nonprofit CARES, NIAC Edition. We also developed two new educational booklets, *Managing Volunteers: Balancing Risk and Rewards* and *Supervision of Children and Teens Never Includes Sex.* Copies of both booklets and the CD-Rom were distributed free of charge to members.

We are keenly aware that we would not have achieved our successes in 2000 without the support of our members, brokers, employees, foundations, directors and other friends. We thank you for your confidence in us and look forward to another exciting year serving you.

Pamela E. Davis

Pamela E. Davis, President and CEO

R. Lawrence Bacon

R. Lawrence Bacon, Chairman

Board of Directors

Back row, left to right:

Roger Gilbert, *President, Retired*
Great American West, Orange

John Christensen, *Vice President*
Hope Rehabilitation Services, Santa Clara

William R. Ahern, *Board Member*
East Bay School for Girls, Oakland

Richard J. Welch, ARM
Director, Risk Management and Safety
City of Los Angeles

Phillip Kimble, *Executive Director*
Friendship Center for the Blind, Fresno

Front row, left to right:

Nancy Johnston-Bellard, *Assistant Risk Manager*
City and County of San Francisco

Janice L. Stout, *Human Resources Director*
E Center, Ukiah

Pamela E. Davis, *President and CEO*
NIAC, Santa Cruz

R. Lawrence Bacon, *President*
Bacon and Company, Carmel

Not Pictured:

Rocky A. Burks, *CEO*
Independent Living Services of Northern California, Chico

Meredeth Clark, *President, CIS, a subsidiary of California Association of Nonprofits, Santa Cruz*

Jude Kaye, *Senior Staff Consultant*
CompassPoint, San Francisco

Audrey D. Harrison, JD, ARM
Director, Risk Management
Watts Health Systems, Inglewood

NIAC Staff

Back row (l–r):

Dottie Lechtenberg
Abraham Panicker
Jan Kirschner
Michael Pramuk
Sarah Burns
Melissa Anderson
Michele Thomas
Dusti McKeown
Paul Roman
Fred Rodriguez

Middle row (l–r):

Vikki Sanders
Sherri East
Heather Nagel
Angela Rasbeary
Shaneen Takaki
Randy Gorman
Kathleen Palmer
Cindy Marshall
Harmony Adams

Front row (l–r):

Kimberly Aday
Stephanie Villarreal
Leah Price
Sandra Cornell
Claudia Weeks

Not pictured:

Vicki Campbell
Chris Wafford

NIAC Management Team

Back row (l–r):

Pamela E. Davis,
President and CEO

James H. Westbrook, CPCU,
Senior Vice President
and CFO

Susan Bradshaw,
Vice President
Member Services

Front row (l–r):

John S. Touchstone, CPCU
Vice President
Insurance Operations

Betty Johnson,
Vice President
Information Technology

Lola Hogan, CPCU ARM
Vice President
Claims

NIAC's New Home

333 FRONT STREET, SANTA CRUZ, CALIFORNIA—*The NIAC Building, housing Nonprofits' Insurance Alliance of California (NIAC), Alliance of Nonprofits for Insurance (ANI-RRG), Alliance Member Services (AMS) and National Alliance of Nonprofits for Insurance (NANI).*

In 2000, we celebrated the purchase of our new headquarters in Santa Cruz, California. A vacant former furniture store, 333 Front Street has been completely renovated and a second floor added. This renovation has stimulated a redevelopment effort of this area of downtown Santa Cruz. We are proud to be in a leadership role in supporting the community that has been so good to us. We moved into the second floor in January 2001 and are leasing the first floor to other 501(c)(3) nonprofits.

NIAC's Board of Directors was particularly supportive throughout the complex and complicated process of issuing a tax-exempt bond and managing the design and construction. With the escalating real estate prices throughout the Bay Area, the decision to purchase this property is expected to be a prudent long-term investment. We are grateful to have a place to grow, and to own a facility at a stable cost and of increasing value to NIAC.

If you're ever in the neighborhood, please drop by and visit.

OPEN HOUSE RIBBON CUTTING CEREMONY AT NIAC'S NEW HEADQUARTERS
Participants in photo (l-r):

Larry Bacon, Chairman of the Board, NIAC

Jim Westbrook, Senior Vice President and CFO, NIAC

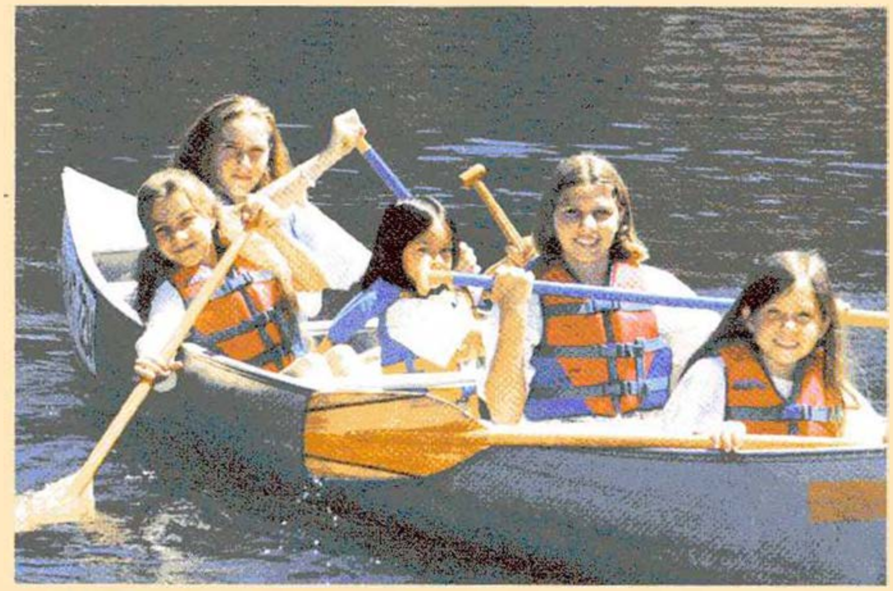
Pamela Davis, Founder, President and CEO, NIAC

Santa Cruz Mayor Tim Fitzmaurice

Peter Eberle, President, Downtown Association of Santa Cruz

More Than Insurance

Every day, we are mindful of the importance of our byline, *"A head for insurance, a heart for nonprofits."* Our satisfaction comes from offering the best possible products and services to the greatest clients in the world—our nonprofit members. We listen to our members and brokers and learn from them about how to better serve them. We still have lots of ideas about how we can be faster, better and smarter in serving our members, but judging from the comments below, we are on the right track.



Camp Fire Boys and Girls, Sacramento County—A NIAC member since 1998. Campfire Boys and Girls offers a variety of programs for youths in an eight county area throughout Central California. Pictured above, some girls enjoy canoeing at Camp Minaluta in Nevada City. All the activities at this week-long resident camp, which include horseback riding, biking, archery and singing around a camp fire, are designed to build caring, confident youth and future leaders.

The following are some testimonials from NIAC member nonprofit organizations:

"We have been with NIAC for all of our seven years of operation. During that time, we have received superior service on our claims, with insurance provided at a competitive (or better rate). For once, the low-cost provider of service also provides the best service. That's a combination that is hard to top."

Peter Behr, Administrator
Guardian Adult Day Health Center,
Contra Costa County
A NIAC member since 1994.

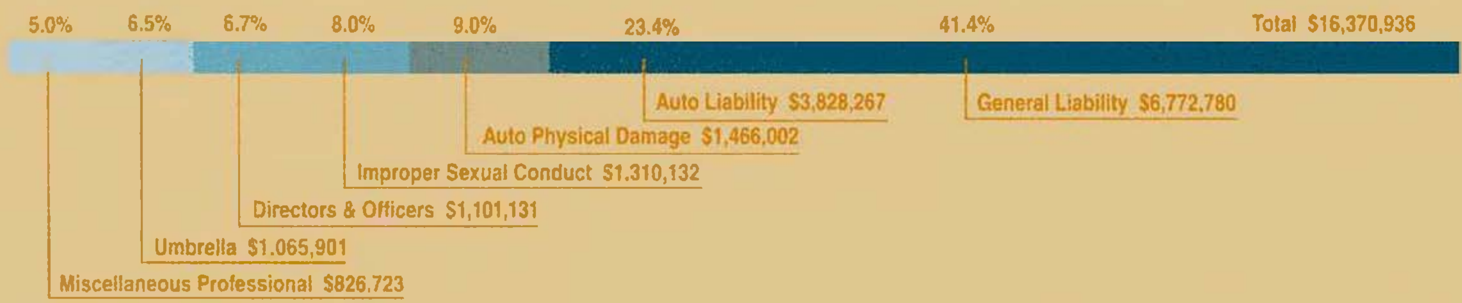
"We thank you for leading the way with innovative and comprehensive coverage for nonprofits."

Diane Strachan, Executive Director
Upper Sacramento River Exchange,
Sacramento County
A NIAC member since 1997.

"NIAC continues to be a great resource to our organization! The folks at NIAC are available for any insurance-related question, and their free pre-termination attorney consultant service is an exceptional and invaluable benefit for their not-for-profit members."

Jeff Sherman, Deputy Director
Episcopal Community Services,
San Francisco County
A NIAC member since 1993.

2000 Premium by Line



"Green Pastures, having lived through the insurance crisis in the 80's, has been insured by NIAC since NIAC's inception. We are very pleased with the services and support we receive. They are consistently pro-active to engage and assist us in risk management by providing free training tools. We have used their video library and safe driver program for our staff in-services.

NIAC has also been very responsive to all my inquires, and efficiently handled any claims, while providing wise counsel regarding the handling of similar future claims."

Jeff Marks, Director
Green Pastures,
Santa Clara County
A NIAC member since 1990.

"I just wanted to thank NIAC for their prompt service and support. NIAC is much more than an insurance company! Our agency has benefited tremendously from driver training courses that have been provided free of charge! Angela Rasbeary is always right on top of things when it comes to assisting with questions and scheduling training. Additionally, our staff has greatly enjoyed the talent and skill of their defensive driving instructor. Thanks again for all you do for us!"

Amber Damme,
Training and Recruitment Coordinator
Stanford and Lathrop Memorial Home,
Sacramento County
A NIAC member since 1996.

Assets

Premiums

Member Services

Photo by Elizabeth

Community Environmental Council, Santa Barbara County —A NIAC member since 1990. The Council's "Green Schools" program assists schools with information about what to plant and when, how to compost, and how to integrate the garden into every aspect of the curriculum, from science to math to art.

At NIAC, we know that better managed nonprofits have fewer claims. We much prefer providing practical and user-friendly risk management and loss control resources than paying claims for preventable accidents and injuries.

One of our greatest challenges is getting word to our members of the free resources we have and helping them incorporate basic risk management strategies into their day-to-day routines. Some of the products and services provided in 2000 include:

Newsletters

Three newsletters were distributed to members in 2000. Topics included avoiding sexual harassment in the workplace, establishing a risk management program, transportation issues and claims information.

Nonprofit CARES *(Computer Assisted Risk Evaluation System)* —NIAC Edition

In cooperation with the Nonprofit Risk Management Center, we developed an interactive CD-Rom risk assessment tool. Six modules include the following topics: Introduction to Risk Management, Transportation, Contracts, Harm to Clients, Special Events and Employment Practices.

Web Site

In 2000 we re-designed and updated content on our web site to be more user friendly with improved navigation tools. Members can order publications and videos on-line, and much of the loss control material may be downloaded. Plans in 2001 include a member only secure area and e-commerce capabilities. Visit our web site at www.niac.org.

Video Lending Library

To compliment their internal training programs, NIAC members can take advantage of NIAC's video lending library, a valuable resource for our members. Topics range from driver safety and employment practices to the prevention of sexual abuse. New titles are always being added to the library.

Driver Training

Just take reverse out of those vehicles! Not practical, we know, so NIAC offers free driver training. During 2000, more than 700 drivers were trained throughout California.

On-site Visits

Member visits are a very important element of our services to members here at NIAC. In 2000 NIAC staff visited more than 100 members to learn more about the issues that they are facing.

Workshops

NIAC continues to sponsor educational events, and to serve as a resource for insurance and risk management information for nonprofits throughout California. In 2000 NIAC staff made many presentations in conjunction with the Nonprofit Risk Management Center, California Association of Nonprofits, Boys and Girls Clubs, CompassPoint, and Nonprofit Support Center of Santa Barbara.

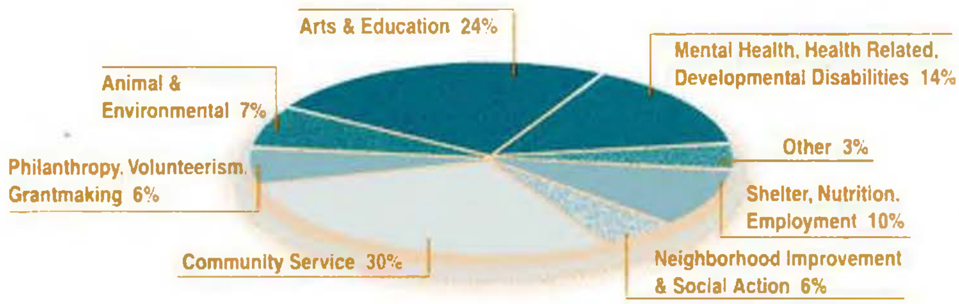
"NIAC's commitment to helping our members avoid costly claims is demonstrated by the many loss prevention resources available either free or at a highly subsidized cost"

—R. Lawrence Bacon, NIAC Board Chair

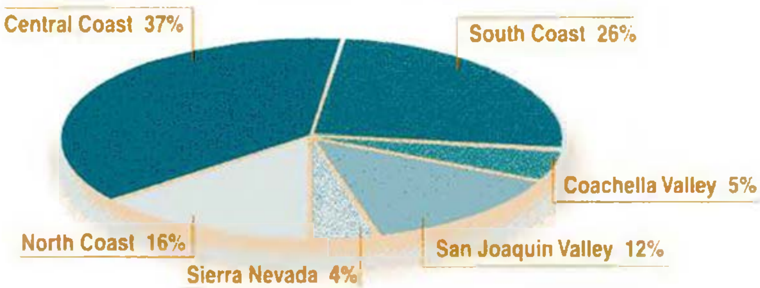
Kids Konnected, Orange County—A NIAC member since 2000. Kids Konnected is dedicated to providing friendship, education, understanding and support to kids who have a parent with cancer or who have lost a parent to cancer. All services are provided free of charge to kids, including summer camps, monthly support group meetings, a 24-hour hotline, grief workshops, Teddy Bear Outreach and a Children's Resource Library. Pictured above, Teen Summer Camp 2000 included activities such as barrel races, horseback riding, fishing and fireside entertainment.

Meet Our Members

2000 Member Composition



2000 Member Locations



NIAC members throughout California are accomplishing amazing things! Numbering nearly 2,400, NIAC members are located in every major city and in virtually every county in California. They range from small volunteer only nonprofits to large nonprofits with hundreds of staff and multiple locations. Approaching community problems with persistence and imagination, our members successfully serve the physical, emotional and cultural needs of Californians statewide. As a 501(c)(3) nonprofit ourselves, we are proud to be associated with so many agencies working for positive change in their communities.

The charts on this page illustrate the many services provided by our members as well as their geographic spread. NIAC's membership grew by 17% in 2000, but the general composition of the members stayed the same.

To learn more about the diverse group of nonprofits which comprise NIAC, take a few moments to read the following member profiles. A complete list of NIAC members (as of 12/31/2000) is furnished in the front pocket of this report.

Kids on the Block of San Diego,
San Diego County

Kids on the Block of San Diego got its start in 1984 by two San Diego moms of children with physical disabilities. They heard about the puppets, which were introduced in 1977 to assist the mainstreaming of disabled children into general education classrooms, and decided to team with the Easter Seal Society of San Diego to bring eight of the puppets to their area.

Since then, Kids on the Block of San Diego has been an independent nonprofit with volunteer puppeteers making presentations throughout San Diego County. The puppets represent children with a variety of physical and learning disabilities, medical conditions and social problems. The skits address specific issues, such as what it's like to have a disability, be abused, or have other cultural and social challenges.

Kids on the Block of San Diego has been a NIAC member since 1994.

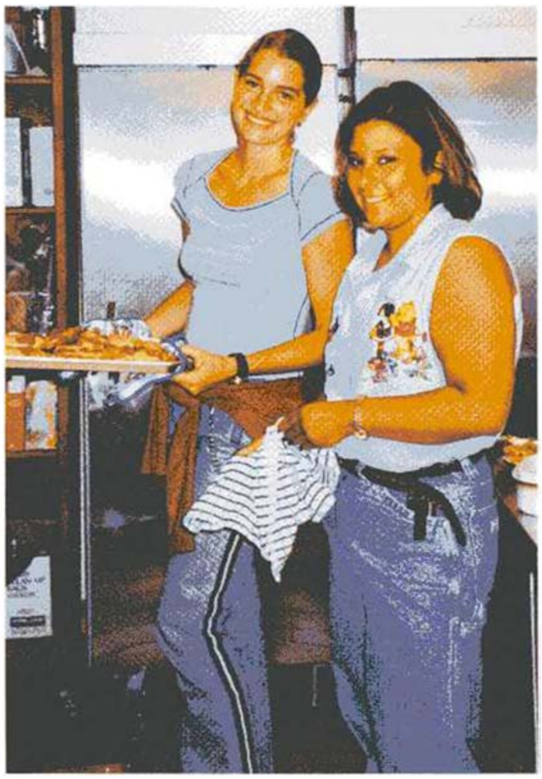
Above the Line, Santa Cruz County

Above the Line's mission is to end homelessness for minors in Santa Cruz County who are willing and able to change the circumstances of their lives. They provide 13 through 17 year old youth a variety of services needed to effectively transition to a healthy lifestyle.

These services include 18 months of transitional housing, emotional and substance abuse counseling, educational tutoring and an onsite school, art, drama and sports programs, job training, employment assistance, legal aid, medical and dental care, and an opportunity for social reintegration, including community service positions.

By providing these services in addition to a stable home life, the kids have a better chance to turn their lives around and make the changes needed to lead successful lives.

Above the Line has been a NIAC member since 1994.



Cornerstone House of Santa Barbara offers long-term, 24-hour care for developmentally disabled young adults in a residential neighborhood. Each client's needs are assessed, including medical, sensory-motor, social, emotional, behavioral and recreational, and programs are created to meet their individual needs.

Most of Cornerstone House's clients do not speak, but they enjoy music therapy as a means of communicating that all can share. They also enjoy physical therapy, structured outings in the community, and adult education at their level of comprehension.

Happy Adventure Summer Camp is a three week-long summer day camp which includes daily field trips to places like the beach, amusement parks, a petting zoo (pictured at right), and arts and crafts and music programs.

Cornerstone House has been a NIAC member since 1997.

Cornerstone House of Santa Barbara,

Santa Barbara County

Senior Center of Elk Grove, Sacramento County

The Senior Center of Elk Grove provides activities and special events for seniors to help encourage continued learning, growing and socialization for this vital population.

Fitness classes offered daily include low impact aerobics, Tai Chi, gentle yoga and reflexology treatment. The center also offers a variety of creativity classes such as ceramics, painting and drawing, quilting and crafts, and creative writing. Monthly events such as tea dances (pictured at left) and seasonal parties are also very popular with the seniors.

A "low to no-cost" lunch is also offered daily at the center, a food distribution is offered monthly for those who need assistance, and the van program provides transportation to appointments for just $1 per ride.

Senior Center of Elk Grove has been a NIAC member since 1997.

Mendocino Food and Nutrition Program, Mendocino County

The Mendocino Food and Nutrition Program has a variety of programs to help provide food to those in need in Mendocino County. The program receives, stores and distributes USDA commodities to 20 food pantries and soup kitchens throughout the county. They also contract with America's Second Harvest to provide low cost food to 15 agencies, which make it available in their communities.

Volunteers pack groceries (pictured at left) for 850 low income households each month. Some clients pick up the food, but delivery is also available for the elderly and disabled.

Other programs include a cardboard collection program, "More Milk for Kids" program, demonstration worm bin and composting, and the "Plant-A-Row" program, where home gardeners help grow food for the food bank.

Mendocino Food and Nutrition Program has been a NIAC member since 1997.

Match Two, Solano County

Match Two is a program that matches community volunteers with inmates in California prisons. The organization recruits volunteers to visit the 30 percent of prisoners who get few or no visitors. The program matches female volunteers with female inmates and male volunteers with male inmates, and they try to match people with compatible interests and hobbies.

Volunteers come from all walks of life, but all share a desire to make a difference in the life of someone who needs their help. They write letters, send birthday cards and visit their matches at least once a month. Since its founding in 1971, the organization has paired more than 53,000 volunteers and prisoners. Corrections officials state that the rate of return to prison is much lower for prisoners who participated in the program.

Match Two has been a NIAC member since 1990.

For 19 years, the Little Tokyo Service Center has served people in need, particularly those with language or cultural gaps, financial need or physical disabilities.

Currently, LTSC sponsors more than a dozen different community and social service programs, with 40 paid staff persons and hundreds of volunteers. These programs include counseling, support groups, transportation and translation services, an emergency caregiver program, student help lines, crisis hotlines and consumer education. They also assist in community development with various affordable housing programs.

LTSC's biggest fundraising event of the year is the annual "Tofu Festival" (pictured at right). Local chefs and restaurants showcase their tofu recipes, and the event also features a health fitness expo and street art festival.

Little Tokyo Service Center has been a NIAC member since 1991.

Little Tokyo Service Center,

Los Angeles County

Norcal Golden Retriever Rescue, San Mateo County

Norcal Golden Retriever Rescue is an entirely volunteer-run organization that locates and rescues golden retrievers throughout California which have been displaced from their homes.

Many of the referrals come from SPCA's animal shelters when they have an "unadoptable" golden retriever which would otherwise be euthanized. Some of the dogs have been mistreated by their owners, others are sick or old, or just abandoned by families who were unable to keep them. All of these dogs are valued by the dedicated corps of about 100 volunteers who go and pick up these dogs throughout the state, often bringing them into their own homes until an adoptive family can be located. Last year, approximately 300 golden retrievers were saved and placed in adoptive homes.

Norcal Golden Retriever Rescue has been a NIAC member since 1998.

Independent Auditors' Report

We have audited the accompanying consolidated balance sheets of Nonprofits' Insurance Alliance of California (the Company) as of December 31, 2000 and 1999 and the related consolidated statements of income, members' equity and cash flows for the years then ended. These consolidated 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

San Jose, California
March 9, 2001

Consolidated Balance Sheets

December 31, 2000 and 1999

ASSETS	2000	1999
Investments:		
Restricted investments at market	$1,232,710	$1,898,451
Investments at market	32,275,800	26,503,627
Total investments	33,508,510	28,402,078
Cash	93,077	202,224
Premiums receivable, net of allowance for doubtful accounts of $4,259 in 2000 and $6,309 in 1999	2,738,885	2,096,858
Interest receivable	468,678	372,464
Receivable from affiliates	148,356	-
Prepaid expenses and deposits	81,212	59,035
Reinsurance recoverable	8,084,180	10,697,254
Prepaid reinsurance premium	1,456,440	1,143,367
Deferred acquisition costs	1,463,671	1,167,887
Assets held in trust	820,172	-
Property and equipment, net of accumulated depreciation of $225,117 in 2000 and $284,507 in 1999	5,086,108	548,596
TOTAL	$53,949,289	$44,689,763
LIABILITIES AND MEMBERS' EQUITY		
Loss and loss adjustment expense reserves	$22,924,752	$27,715,014
Loans payable	4,560,000	-
Payable to affiliates	123,065	-
Unearned premiums	7,555,794	6,061,326
Reinsurance payable	1,272,266	1,128,326
Accounts payable and other accrued liabilities	2,218,545	1,707,587
	38,654,422	36,612,253
Subordinated debt	155,600	1,003,600
Commitments (Note 10)		
Members' equity:		
Members' contributions	900,507	873,513
Retained earnings	13,881,237	6,508,175
Accumulated other comprehensive income (loss)	357,523	(307,778)
Total members' equity	15,139,267	7,073,910
TOTAL	$53,949,289	$44,689,763

See notes to consolidated financial statements.

Consolidated Statements of Income

Years Ended December 31, 2000 and 1999

	2000	1999
REVENUES:		
Gross written premium	$16,370,936	$13,931,292
Ceded premium	(3,208,603)	(2,840,786)
Net written premium	13,162,333	11,090,506
Increase in unearned premium	(1,181,396)	(528,948)
Net earned premium	11,980,937	10,561,558
Net restricted investment income	98,697	88,976
Net investment income	1,730,529	1,316,564
Net realized gain (loss) on sales of investments	48,373	(123,137)
Other income	542,811	395,017
Total revenues	14,401,347	12,238,978
EXPENSES:		
Losses and loss adjustment expenses incurred:		
Amount incurred during current year	7,937,984	7,962,726
Change in claims reserve	(5,090,011)	(1,830,142)
Salaries and employee benefits	2,213,727	1,674,560
Commission expense	1,886,574	1,604,275
Other expense	80,011	332,782
Total expenses	7,028,285	9,744,201
NET INCOME	$7,373,062	$2,494,777

See notes to consolidated financial statements.

Consolidated Statements of Members' Equity

Years Ended December 31, 2000 and 1999

	Members' Contributions	Retained Earnings	Comprehensive Income	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
BALANCES, January 1, 1999	$827,702	$4,013,398		$323,924	$5,165,024
Comprehensive income:					
Net income		2,494,777	$2,494,777		2,494,777
Other comprehensive income					
Unrealized loss on securities			(631,702)	(631,702)	(631,702)
Other comprehensive income			(631,702)		
Comprehensive income			$1,863,075		
Members' contributions	45,811				45,811
BALANCES, December 31, 1999	873,513	6,508,175		(307,778)	7,073,910
Comprehensive income:					
Net income		7,373,062	$7,373,062		7,373,062
Other comprehensive income					
Unrealized (loss) gain on securities			665,301	665,301	665,301
Other comprehensive income			665,301		
Comprehensive income			$8,038,363		
Members' contributions	26,994				26,994
BALANCES, December 31, 2000	$900,507	$13,881,237		$357,523	$15,139,267

	2000	1999
Disclosure of reclassification amount, net of tax:		
Net unrealized holding gains (losses) arising during period	$713,674	$(754,839)
Less reclassification adjustment for (gains) losses included in net income	(48,373)	123,137
Net unrealized gains (losses) in securities	$665,301	$(631,702)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 2000 and 1999

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$7,373,062	$2,494,777
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized (gains) losses on sales of investments	(48,373)	123,137
Depreciation and amortization	(76,919)	170,096
Loss on disposal of property and equipment	31,889	
Deferred income tax benefit		-
Changes in assets and liabilities:		
Premiums receivable	(642,027)	(345,112)
Interest receivable	(96,214)	(17,671)
Receivable from affiliates	(148,356)	
Prepaid expenses and deposits	(22,177)	38,715
Reinsurance recoverable	2,613,074	(2,538,863)
Prepaid reinsurance premium	(313,073)	110,082
Deferred acquisitions costs	(295,784)	(98,270)
Assets held in trust	(820,172)	
Income tax receivable		865,917
Loss and loss adjustment expense reserves	(4,790,262)	5,485,784
Unearned premiums	1,494,468	418,866
Reinsurance payable	143,940	(585,851)
Accounts payable and other accrued liabilities	510,958	275,346
Payable to affiliates	123,065	-
Net cash provided by operating activities	5,037,099	6,396,953
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(98,002,651)	(46,817,114)
Sales and maturities of investments	93,765,555	41,129,576
Purchases of property and equipment	(4,648,144)	(462,375)
Proceeds on sale of property and equipment		350
Net cash used in investing activities	(8,885,240)	(6,149,563)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from members' contributions	26,994	45,811
Subordinated debt principal repayment	(848,000)	(296,400)
Proceed from issuance of bonds	4,560,000	
Net cash provided by (used in) financing activities	3,738,994	(250,589)
NET INCREASE (DECREASE) IN CASH	(109,147)	(3,199)
CASH, Beginning of year	202,224	205,423
CASH, End of year	$ 93,077	$ 202,224
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid (received) during the year for:		
Federal income taxes	$ -	$ (942,737)
Interest expense	$20,072	$21,624

See notes to consolidated financial statements.

Notes to Consolidated 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).

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, SCC Reinsurance Limited (SCC Re) and NIAC Member Insurance Services (NMISI). SSC Re was incorporated in December 1996 however, in 1999 and 2000, SCC Re was an inactive subsidiary of the Company. NMISI was incorporated in 1999 to assume control of underwriting management services previously provided by NIAC related to workers' compensation.

All intercompany balances and transactions have been eliminated.

Organizations which meet the following requirements may become members of the Company: (1) nonprofit organizations which are incorporated in California or qualified to do business in 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 coverage to its members. Coverage is provided on an occurrence basis. Typical limits are an annual aggregate of \$1,000,000 and \$1,000,000 per occurrence. An annual aggregate of \$3,000,000 is available. A special claims-made coverage with limits available up to a \$1,000,000 aggregate including defense and indemnity is available for improper sexual conduct claims. Directors' and officers' liability is available to members on a claims-made basis. The typical limit of coverage is \$1,000,000. The Company also offers umbrella coverage for general liability policies up to \$10 million in excess of \$1 million, directors and officers policies up to \$5 million in excess of \$1 million, and improper sexual conduct policies up to \$1 million in excess of \$1 million. In 1999, the Company introduced the "Nonprofits' Own" (NPO) form, which provides enhanced general liability and auto coverage and "event trigger" coverage for directors' and officers' and improper sexual conduct policies.

The Company receives one-time contributions from each new member in the form of a nonrefundable membership contribution, which are recorded as an addition to members' equity. Effective July 1, 1998, the contribution amount decreased to 5% of the commercial general liability premium from the prior rate of 10%. In July 2000 the membership fee requirement was suspended indefinitely.

2. *Summary of Significant Accounting Policies*

Financial Statement Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition - Premiums are recognized as earned on a pro rata basis over the terms of the policies, usually twelve months. Unearned premiums represent the difference between premiums written and premiums earned.

Deferred Acquisition Costs - Policy acquisition costs incurred are deferred and amortized over the period of premium recognition. These costs generally include commissions, underwriting, policy issuance and marketing costs. Amortization of acquisition costs was $2,625,148 for 2000 and $2,264,788 for 1999. Anticipated investment income is not considered in determining if a premium deficiency exists.

Property and Equipment - Data processing equipment, purchased software and office furniture and equipment are stated at cost, net of accumulated depreciation, and depreciated over five years using the straight-line method. Building is stated at cost, net of accumulated depreciation, and depreciated over 40 years using the straight-line method. Land is stated at historical cost. Upon retirement or disposition of property and equipment, any gain or loss is included in income.

Cost for internal-use software are capitalized in accordance with Statement of Position (SOP) 98-1, "Accounting for the Costs of Software Developed or Obtained for Internal Use." Development of internal-use software is not expected to be complete until April 2001.

Investments - The Company has classified all of its investment portfolio as "available-for-sale securities." Investments that are classified as "available-for-sale securities" are reported at market value, with unrealized gains and losses excluded from earnings and reported as a separate component of members' equity. Net realized investment gains or losses are recognized based upon the specific identification of investments sold. Gross realized gains and (gross realized losses) on those sales were $218,781 and $(170,408), respectively, in 2000 and $88,117 and $(211,254), respectively, in 1999.

The Company has investments in commercial paper. Although such investments meet the criteria for cash equivalents, the Company has elected to include commercial paper in investments.

Liability for Losses and Loss Adjustment Expenses ("LAE") - The liability for losses and LAE consists of estimated costs of each unpaid claim reported prior to the close of the accounting period, as well as those incurred but not yet reported. Management and the Company's consulting actuary believe that the reserve for losses and LAE at December 31, 2000 and 1999 is appropriately established in the aggregate and adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had occurred by that date. The establishment of appropriate reserves is an inherently uncertain process.

Such reserves are necessarily based on estimates and the ultimate net cost may vary from such estimates. These estimates are regularly reviewed and updated using the most current information available. Any resulting adjustments, which may be material, are reflected in current operations.

Reinsurance - Reinsurance recoverables (including amounts related to claims incurred but not reported) and prepaid reinsurance premiums are reported as assets. Estimated reinsurance recoverables are recognized in a manner consistent with the liabilities relating to the underlying insured contracts.

Income Taxes - The Company was previously granted tax-exempt status by the state of California. Effective January 1, 1997, the Company became tax-exempt for federal tax purposes under Section 501(c)(3) of the Internal Revenue Code.

Recent Accounting Pronouncements - In June 1999, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The Company is required to adopt SFAS No. 133 effective January 1, 2001. The Company has determined that there will be no material impact on its earnings or statement of financial position upon adoption of SFAS No. 133.

Reclassifications - Certain prior year amounts have been reclassified to conform with the current year presentation.

Notes to Consolidated Financial Statements

3. *Restricted Investments*

The proceeds from the issuance of subordinated debt (see Note 8) 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 related to the subordinated debt. Funds in the restricted accounts may not be used for operating expenses of the Company. To date, funds have been used only for interest and principal payments on the subordinated debt. Such interest expense was $20,072 and $21,624 in 2000 and 1999, respectively.

Restricted investments, carried in the accompanying balance sheets at estimated market value, consist of the following as of December 31, 2000 and 1999:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Market Value
2000:				
Corporate obligations	$199,776	$2,295	$ -	$202,071
U.S. government and agency obligations	366,049	2,833	-	368,882
Money market account	49,863			49,863
Mortgage-backed securities	363,150	207	-	363,357
Asset-backed securities	246,751	1,786	-	248,537
	$1,225,589	$7,121	$ -	$1,232,710
1999:				
Corporate obligations	$620,557	$ -	$(5,152)	$615,405
U.S. government and agency obligations	423,461	-	(24,209)	399,252
Money market account	35,394	-	-	35,394
Mortgage-backed securities	561,183	-	(6,355)	554,828
Asset-backed securities	295,349	-	(1,777)	293,572
	$1,935,944	$ -	$(37,493)	$1,898,451

The amortized cost and estimated market value of restricted investments at December 31, 2000, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Market Value
Due in 1 year or less	$49,863	$49,863
Due after 1 year through 5 years	356,754	358,283
Due after 5 years	209,071	212,670
Mortgaged-backed securities	363,150	363,357
Asset-backed securities	246,751	248,537
Total	$1,225,589	$1,232,710

In 2000 and 1999, gross realized gains and (losses) on sales of fixed maturity securities were $9,275 and $(8,772), and $6,713 and $(1,128), respectively.

4. *Investments*

Unrestricted investments, carried in the accompanying balance sheets at estimated market value, consist of the following as of December 31, 2000 and 1999:

	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Market Value
2000:				
Corporate obligations	$8,428,885	$ 155,342	$ -	$8,584,227
U.S. government and agency obligations	8,301,201	213,073	-	8,514,274
Money market account	50,540	-	-	50,540
Mortgage-backed securities	5,307,719	-	(9,979)	5,297,740
Asset-backed securities	4,739,570	50,362	-	4,789,932
Other debt securities	3,986,650	-	-	3,986,650
Total debt securities	30,814,565	418,777	(9,979)	31,223,363
Equity securities	1,110,182		(57,745)	1,052,437
Total investments	$31,924,747	$ 418,777	$ (67,724)	$32,275,800
1999:				
Corporate obligations	$10,633,185	$ -	$(193,478)	$10,439,707
U.S. government and agency obligations	4,742,128	-	(159,197)	4,582,931
Money market account	90,339	-	-	90,339
Mortgage-backed securities	4,626,770	-	(61,449)	4,565,321
Asset-backed securities	2,693,805	-	(19,631)	2,674,174
Other debt securities	3,442,509	384	(35,800)	3,407,093
Total debt securities	26,228,736	384	(469,555)	25,759,565
Equity securities	545,176	198,886	-	744,062
Total investments	$26,773,912	$ 199,270	$ (469,555)	$ 26,503,627

The amortized cost and estimated market value of unrestricted investments at December 31, 2000, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or repayment penalties.

	Amortized Cost	Market Value
Due in 1 year or less	$4,237,118	$4,235,339
Due after 1 year through 5 years	9,714,372	9,907,371
Due after 5 years	6,815,786	6,992,781
Mortgage-backed securities	5,307,719	5,297,940
Asset-backed securities	4,739,570	4,789,932
Total	$30,814,565	$31,223,363

Notes to Consolidated Financial Statements

Gross realized gains and (losses) on sales of fixed maturity securities in 2000 and 1999 were $7,362 and $(66,899) and $8,341 and $(173,517), respectively. Gross realized gains (losses) on sales of equity securities in 2000 and 1999 were $202,144 and $(94,737) and $73,063 and $(36,609), respectively.

5. *Fair Value Disclosure Of Financial Instruments*

The fair value information for financial instruments that is provided below is based on the requirements of SFAS No. 107, "Disclosure About Fair Value of Financial Instruments." Much of the information used to determine fair value is subjective and judgmental in nature. Therefore, fair value estimates, especially for less marketable securities, may vary. In addition, the amounts actually realized or paid upon settlement or maturity could be significantly different.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is reasonable to estimate that value:

Restricted and Unrestricted Investment Securities - Fair value is estimated by using quoted market prices for most securities. Estimated market values of debt securities are based on average bid prices, or for newly issued securities, the average bid prices of similar issues with the same life and expected yields.

Assets Held in Trust - Fair value is estimated to be carrying value, due to the short term maturities of these instruments.

Accounts Receivable - Fair value is estimated to be carrying value, due to the short term maturities of these instruments.

Accounts Payable - Fair value is estimated to be carrying value, due to the short term maturities of these instruments.

Loans Payable - Fair value is estimated to be carrying value, as the loan has a variable interest rate.

Subordinated Debt - Due to the unique repayment features of this debt, it is not practicable to estimate the fair value of the subordinated debt.

The fair value of all financial instruments at December 31, 2000 and December 31, 1999 was equal to the carrying value.

6. *Property And Equipment*

Property and equipment at December 31 consist of:

	2000	1999
Computers and software	$432,537	$324,653
Furniture and fixtures	1,885	141,050
Leasehold improvements	-	30,302
Internal software	975,744	313,689
Land	900,000	
Construction-in-progress - building	3,001,059	23,410
Total	5,311,225	833,104
Accumulated depreciation	(225,117)	(284,508)
Property and equipment, net	$5,086,108	$548,596

Depreciation expense of $78,743 and $58,789, including amortization of leasehold improvements, was recognized for the years ended December 31, 2000 and 1999, respectively.

7. *Loss And Loss Adjustment Expense Reserves*

Activity in the loss and loss adjustment expense reserves is summarized as follows:

	2000	1999
Gross loss and loss adjustment expense reserves, January 1	$27,715,014	$22,229,230
Reinsurance recoverables	(10,697,254)	(8,158,391)
Net loss and loss adjustment expense reserves	17,017,760	14,070,839
Incurred related to:		
Current year	7,937,984	7,962,726
Prior years	(5,090,011)	(1,830,142)
Total incurred	2,847,973	6,132,584
Paid related to:		
Current year	1,531,223	1,044,644
Prior years	3,493,938	2,141,019
Total paid	5,025,161	3,185,663
Net loss and loss adjustment expense reserves, December 31	14,840,572	17,017,760
Reinsurance recoverables	8,084,180	10,697,254
Gross loss and loss adjustment expense reserves, December 31	$22,924,752	$27,715,014

As a result of changes in estimates of insured events in prior years, the loss and loss adjustment expense reserves decreased by $5,090,011 and $1,830,142 in 2000 and 1999, respectively. In evaluating its 2000 actuarial report, the Company determined that the actual experience in its general liability and auto liability business has developed more favorably than original estimates. As a result, Company management has determined that the reserve reduction for prior years is appropriate.

8. *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
Total	$ 1,300,000

Notes to Consolidated Financial Statements

The Company pays 2% simple interest per year on these funds. Payment of interest is made in quarterly installments and amounted to $20,072 and $21,624 in 2000 and 1999, respectively.

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.

In October 2000, the Company's independent actuary concluded that the Company could repay up to $850,000 of the subordinated loans in fiscal year 2000 without jeopardizing the ability to meet current obligations or affecting the Company's ability to continue to grow. The Company repaid $848,000 of the subordinated debt in 2000. In March 2001, the Company's independent actuary concluded that the Company could repay the remaining $155,600 principal in fiscal year 2001 without jeopardizing the Company's ability to grow.

Recourse on the subordinated debt is generally limited to earned surplus. If any principal amount due in accordance with the payment schedule remains unpaid by the Company, such principal bears interest of 10% per annum. However, any principal amount not due according to the schedule of repayments, continues to bear interest at the rate of 2% per annum.

9. Bond Issuance

On May 1, 2000, the Company entered into an agreement with the California Statewide Communities Development Authority (the "Authority") to borrow $4,560,000, which represents all of the proceeds from the Authority's May 1, 2000, Series 2000A bond issuance.

Interest payments are due monthly. The interest rate is variable, dependent upon the current market rate as determined by an independent marketing agent named in the original agreement. The interest rate is assessed on a weekly basis.

Principle repayments are due annually on September 1, as follows:

2001	$ 155,000
2002	160,000
2003	165,000
2004	170,000
2005	180,000
Thereafter	3,730,000
Total	$ 4,560,000

The bond proceeds were used to finance the costs of the acquisition, construction, improvement and equipping of the Company's new administrative building. As of December 31, 2000, the Company had unspent loan proceeds of $820,172 which are being held by the Trustee.

Interest expense on the bonds totaled $95,841 for the year ended December 31, 2000. This amount, net of interest income on unspent funds of $57,825, was capitalized as part of the building construction-in-progress.

10. *Reinsurance*

In its normal course of business, the Company reinsures with other companies through contractual agreements. Such agreements serve to limit the Company's loss on large claims. Risks reinsured would become an expense of the Company in the event the reinsurer is unable to or will not fulfill the obligations assumed under the agreements.

For 1999 and 2000, the Company's reinsurance retention and coverage was as follows:

Company Retention	$0 - $150,000
First Excess	$150,000 - $1,000,000
Second Excess	$1,000,000 - $2,000,000
Umbrella	$1,000,000 - $10,000,000

These limits are on a "per occurrence" basis and "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. These policies are 100% ceded on a treaty basis. The Company received ceding commission on this business of $320,661 in 2000 and $260,084 in 1999, which is included as a reduction of commission expense and other expense in the financial statements.

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

Reinsurance Ceded	**2000**	**1999**
Premiums earned	$2,895,536	$3,027,252
Loss and loss adjustment expenses incurred	(793,578)	3,622,224

In 2000, 1999 and 1998, the Company paid a fixed reinsurance premium based on gross premium written, subject to a profit-sharing arrangement which could result in a refund of reinsurance premium as a result of favorable loss experience. As a result of experience to date, no provision has been made for potential profit sharing under this agreement. For the second layer, the Company pays a fixed reinsurance premium based on gross premiums written.

In 1994-1996, for the first layer of reinsurance, the Company paid a preliminary reinsurance premium based on gross premiums written, subject to additional premium in the event of unfavorable loss experience. Considerable judgment is involved in estimating the ultimate premium to be paid under this reinsurance agreement. Based on expected loss experience, the Company accrued the maximum possible premium in each year. Reinsurance payable at December 31, 2000 and 1999 includes $981,632 and $853,493, respectively, of additional premiums related to potential adverse loss experience. In the event of favorable loss experience, this premium would result in income to the Company. For the second layer, the Company pays a fixed reinsurance premium based on gross premiums written, subject to a profit-sharing arrangement which could result in a refund of reinsurance premium as a result of favorable loss experience. As a result of experience to date, no provision has been made for potential profit sharing under this agreement. For the third layer, the Company pays a fixed reinsurance premium based on gross premiums written.

During 1993, the Company received a $394,791 refund of reinsurance premiums due to favorable

Notes to Consolidated Financial Statements

loss experience in prior years and has subsequently received an additional refund of $628,773 and $17,722 in 1999 and 1998, respectively, and repaid to the reinsurer $38,123 and $172,785 in 1997 and 1996, respectively, due to subsequent development. In 1999 the Company repaid to the reinsurers $628,773. As future development of loss experience may require additional repayment, the Company is continuing to accrue the maximum liability. In 2000, the Company received $128,140 from the reinsurers.

Reinsurance recoverable includes $3,185,663 (39% of total reinsurance recoverable) and $3,096,900 (38%) at December 31, 2000 and $4,157,713 (39% of total reinsurance recoverable) and $4,157,713 (39%) at December 31, 1999, respectively, due from two reinsurance companies, both of which are rated A or better by A.M. Best.

11. 401(K) Profit Sharing Plan

As of January 1, 1999, the Company adopted a new safe harbor 401(k) plan. The employer contributions were limited to 4% of each employee's gross salary. Eligibility for the plan occurs on the first day of each quarter.

The amounts contributed to the Plan were $77,018 and $54,679 in 2000 and 1999, respectively.

12. Affiliated Parties

During 2000, several new tax exempt entities were formed to support expansion of a nonprofit insurance organization for states other than California. These companies are affiliated with NIAC through common board membership. Throughout the course of fiscal 2000, the Company paid certain expenses on behalf of these entities, for which they have recorded a receivable from affiliates of $148,356 at year end. Additionally, the Company held investment funds for affiliates. All investments were transferred prior to December 31, 2000. However, investment income totaling $123,065 had not yet been transferred and was recorded by the Company as a payable to affiliates at December 31, 2000.

Also during 2000, the Company entered into an agreement with an affiliate, Alliance Member Services (AMS), a tax-exempt nonprofit, to outsource all Company management effective January 1, 2001. Upon the effective date of the agreement, all NIAC employees will resign and become employees of AMS.