

MESSAGE *from the*

PRESIDENT *and the* CHAIRMEN



(L-R) R. Lawrence Bacon, Chairman of NIAC, NANI and AMS, Pamela E. Davis, President and CEO and Wilson M. Jones, Chairman of ANI-RRG.

From our modest beginning, we have steadfastly kept the focus on our mission to serve the nonprofit sector, and we have operated as a group open to innovation instead of accepting the conventional way. Year by year, as we balanced affordable risk coverage for our members with prudent financial management, our original thesis that nonprofit organizations are good risks has been borne out.

The achievements of the Nonprofits Insurance Alliance Group (NIA Group) in 2003 were rewarding. We held prices steady for policyholders; attracted a significant number of new members; expanded the national coverage outside California from 10 states and the District of Columbia to 17 states and D.C.; realized outstanding financial results; broadened the use of loss prevention tools by members; and enhanced productivity with new technology programs.

Once again, Nonprofits' Insurance Alliance of California (NIAC) renewed 93% of members during 2003, despite a difficult funding environment for nonprofits in which many merged with others or ceased operations. NIAC has 1,497 members that have been continuously insured by us for five or more years and 555 that have been with us for 10 or more years. Said another way, 60% of those that were NIAC members in 1993 are still insured with us. NIAC ended the year with 4,303 members, welcoming 927 new members during 2003. Putting that into perspective, it took NIAC 10 years to reach 2,000 members, and only another five years to more than double in size.

During 2003, its second full year of operation, Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG) entered seven new states: Iowa, Kansas, Missouri, Nebraska, Oregon, Utah and Washington. This year, ANI-RRG renewed 94% of members and welcomed 472 new members, ending the year with 820 members.

On a combined basis, the NIA Group welcomed 1,399 new members and closed the year with 5,123 members. Gross written premium totaled \$49.1 million, an increase of 39% over the prior year. Of that total, NIAC wrote \$37.4 million, ANI-RRG wrote \$10.3 million, and the Group's reinsurance captive retained \$1.4 million on a net basis. Also, we provided all policyholder services on an additional \$8.4 million

in premium for our companion property program, bringing the total business administered by the Group in 2003 to \$57.5 million.

The Group's surplus was increased by \$7.4 million, comprising net income of \$8.6 million less a return of premium to NIAC members and a reduction of unrealized gains in the investment portfolios. At year-end, the NIA Group's balance sheet showed total equity of \$45.7 million and total assets of \$119.9 million. Of the combined net income, \$8.2 million was contributed by NIAC and \$364 thousand by ANI-RRG.

NIAC's net income was favorably impacted by a \$1.6 million reduction in incurred losses related to prior years and current year results which developed more favorably than anticipated. NIAC and the other companies in the Group rely on the advice of outside actuaries to estimate expected claims experience. Actual experience is evaluated annually and compared with these estimates, and NIAC's actual claims experience was substantially better than anticipated. Consequently, NIAC is in the enviable position of being able to release reserves because of favorable claims experience.

During 2003, our driver training program kicked into high gear, training nearly 1,500 employee and volunteer drivers, more than twice the number trained in 2002. In addition, nearly 200 members took advantage of our

free pre-termination legal consultations. Thousands more borrowed from our free video lending library, read our publications, and benefited from our free risk management hotline.

Last year was a time of remarkable technology advances for the NIA Group and brought recognition of the way we do business, not just our financial achievements. In August of 2003, CIO magazine recognized us as one of its 100 award winning organizations around the world that excel in positive business performance through resourceful information technology management and practices.

As part of our technology strategy, we began emailing policies to brokers early in the year. Not only does this save trees, postage and staff time, it enables us and brokers and members to maintain a permanent record of policies with little effort. Toward the end of the year, a few brokers began testing our secure web site which will be made available to all brokers during 2004. With this secure site, brokers will be able to manage many key business functions with us online. Also, early in 2004, we will launch a secure portion of our web sites for members, making available an extensive list of loss control resources.

In recognition of ANI-RRG's significant growth and increasing presence across the country, Wilson Jones was elected Chairman of ANI-RRG's Board of Directors in March of 2003,

succeeding Larry Bacon, the founding Chairman. All Board members serve without compensation and are to be commended for their diligence and commitment in service to the nonprofit community and the NIA Group.

In 1987, in the preface to a report on the topic of nonprofits and the difficulties they were having finding affordable liability insurance, the California Community Foundation offered these words:

"With greater awareness of the nature of the present dilemma and, most importantly, with increased options to improve what the nonprofit community can do to help itself, perhaps the day will come when what is now seen as a crisis will be referred to as an opportunity realized."

Sixteen years and more than 5,000 members later, we think that comment was right on point. Sometimes those clouds really do have silver linings!

As always, it is a pleasure and a privilege to serve you.



Pamela E. Davis, President and CEO



R. Lawrence Bacon, Chairman of NIAC, NANI and AMS



Wilson M. Jones, Chairman of ANI-RRG

The Nonprofits Insurance Alliance Group

Four distinct companies comprise the Nonprofits Insurance Alliance Group (NIA Group).

- Nonprofits' Insurance Alliance of California (NIAC)
- Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG)
- National Alliance of Nonprofits for Insurance (NANI)
- Alliance Member Services (AMS)

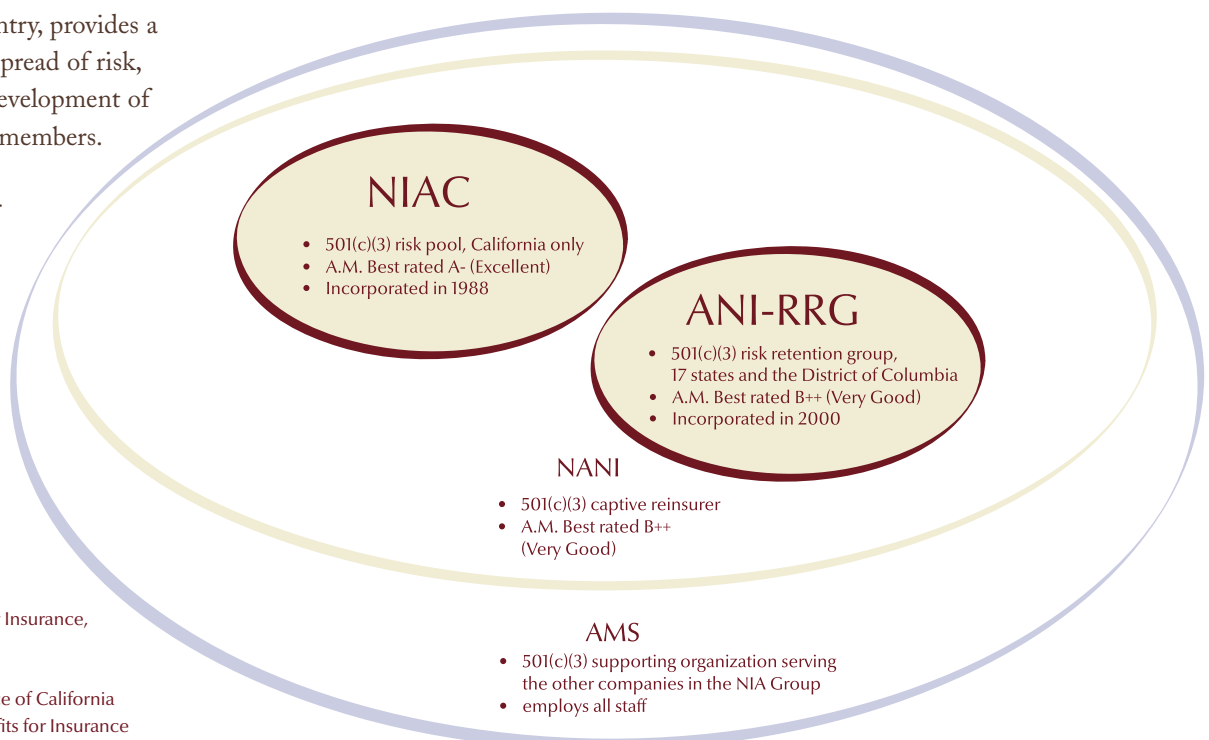
All of these organizations are 501(c)(3) tax-exempt nonprofits governed by their nonprofit members.

An illustration is provided below to help you understand how this group works together. This structure enables one group of staff and management to serve nonprofits across the country, provides a vehicle for a nationwide spread of risk, and allows the efficient development of loss control resources for members.

The NIA Group has four independent, but related, boards of directors which share financial information, and which retain governance authority for their individual organizations in the NIA Group.



MANAGEMENT TEAM FOR THE NIA GROUP—Back Row (L-R) Steven Moody, Vice President Insurance Operations; Susan Bradshaw, Vice President Marketing and Member/Broker Services; Charles C. Hewitt, Vice President Claims. Front Row (L-R) Betty Johnson, Vice President Information Technology; Pamela E. Davis, President and CEO; Timothy P. Demetres, CPA, Chief Financial Officer.



ANI-RRG - Alliance of Nonprofits for Insurance, Risk Retention Group

AMS - Alliance Member Services

NIAC - Nonprofits' Insurance Alliance of California

NANI - National Alliance of Nonprofits for Insurance

NIAC BOARD OF DIRECTORS



BACK ROW (L-R):

Ellis Kirschenbaum
*Senior Vice President of Administration
Children's Institute International*

Phillip Kimble
*Board Historian
Valley Center for the Blind*

John E. McCue
*Executive Director
& Chief Executive Officer
Becoming Independent*

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

FRONT ROW (L-R):

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

Pamela E. Davis, President
Chief Executive Officer, NLAC

R. Lawrence Bacon, Chair
President, Bacon and Company

NOT PICTURED:

Rocky A. Burks

MIDDLE ROW (L-R):

Roger W. Gilbert, Treasurer
President, Retired, Great American West

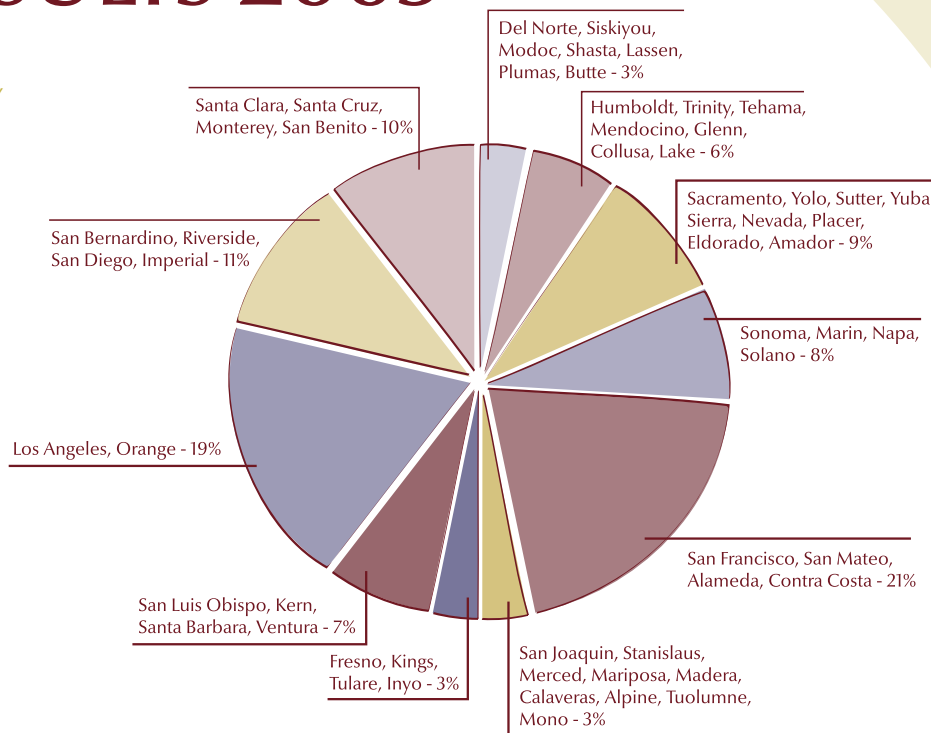
Richard J. Welch, ARM
*Director, Retired, Risk Management and Safety
City of Los Angeles*

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

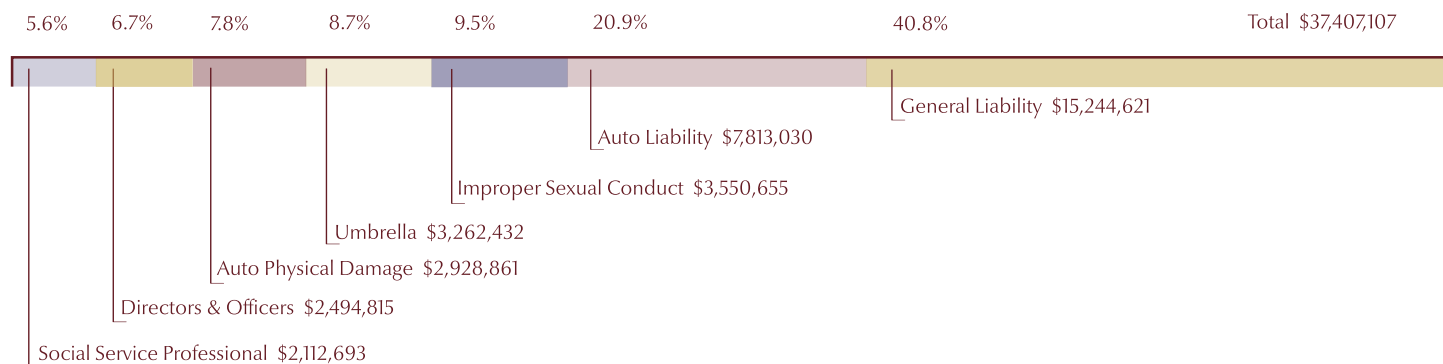
John M. Christensen, Secretary
*Senior Vice President
Hope Services*

NIAC RESULTS 2003

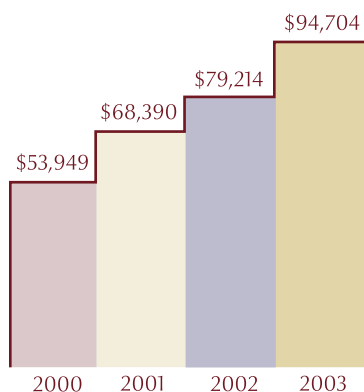
2003 NIAC MEMBERS BY COUNTY



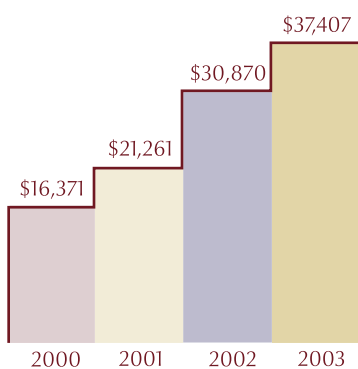
2003 NIAC PREMIUM BY LINE



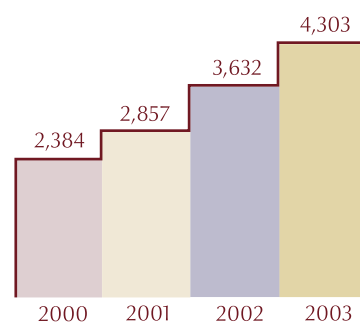
2003 NIAC ASSETS
(IN THOUSANDS)



2003 NIAC PREMIUMS
(IN THOUSANDS)



2003 NIAC MEMBERS



ANI-RRG BOARD OF DIRECTORS



BACK ROW (L-R):

Joseph Breyer
*Chief Operating Officer
Colorado West Regional Mental
Health, CO*

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

Robert D. Ridgeway
*Executive Director
Providers' Resource Clearinghouse, CO*

Roger W. Gilbert, Treasurer
President, Retired, Great American West, CA

NOT PICTURED:

Audrey R. Alvarado, Ph.D., Secretary
*Executive Director, National Council
of Nonprofit Associations, DC*

Joseph M. Dell'Olio
Executive Vice President, Child, Inc., DE

Steven Richard
*Chief Operating Officer
& Chief Financial Officer
SUN Home Health Services, PA*

Andrew Sargeant, Assistant Secretary
President, USA Risk Group of Vermont, VT

FRONT ROW (L-R):

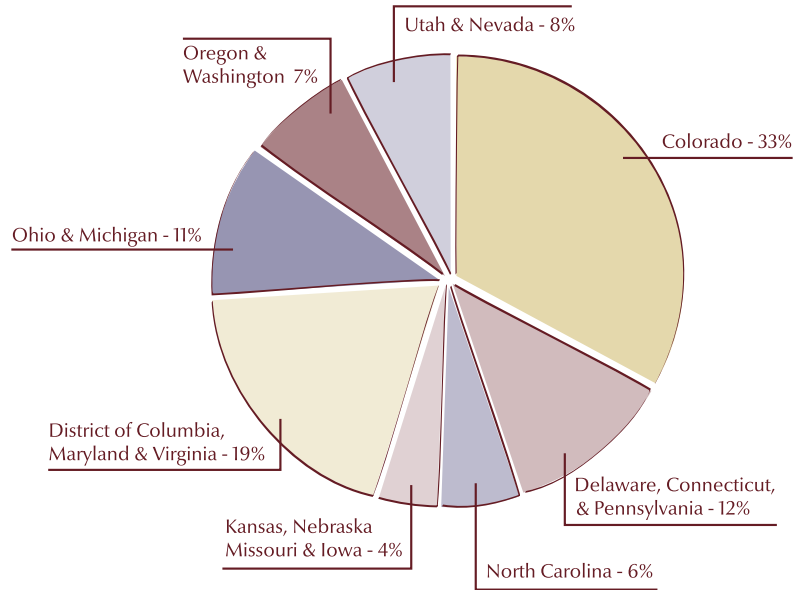
R. Lawrence Bacon
President, Bacon and Company, CA

Pamela E. Davis, President
Chief Executive Officer, ANI-RRG

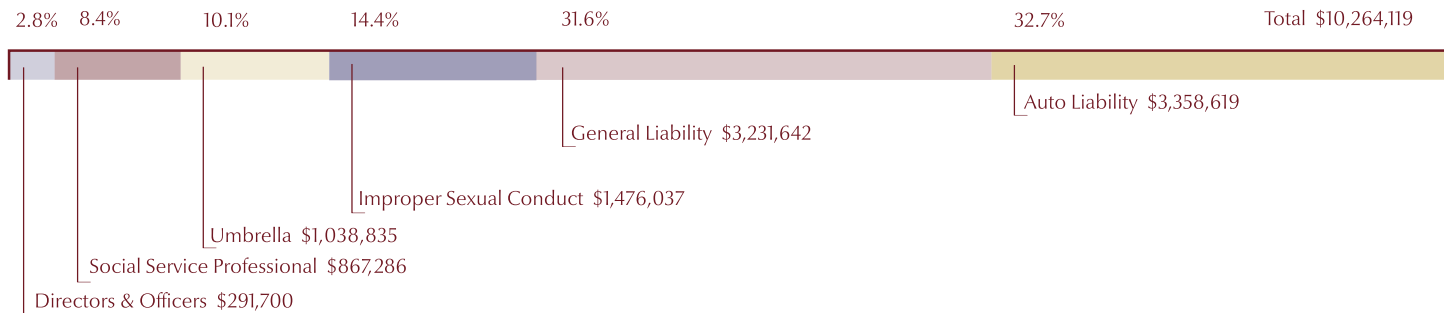
Wilson M. Jones, Chair
*Chief Operating Officer, Retired
BoardSource, DC*

ANI-RRG RESULTS 2003

2003 ANI-RRG MEMBERS BY STATE

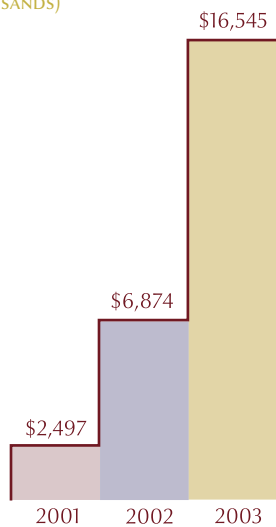


2003 ANI-RRG PREMIUM BY LINE



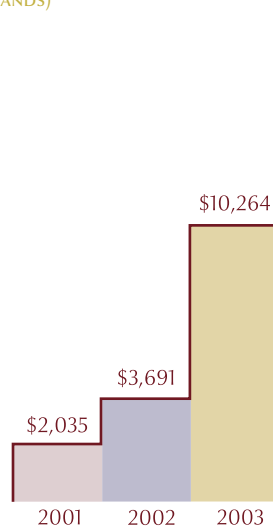
2003 ANI-RRG ASSETS

(IN THOUSANDS)

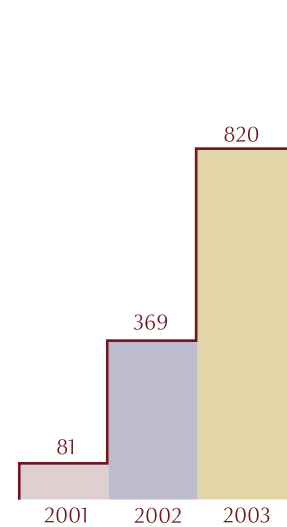


2003 ANI-RRG PREMIUMS

(IN THOUSANDS)



2003 ANI-RRG MEMBERS



NONPROFITS SERVING NONPROFITS...



Photo by Martha Garcia

BUILDING FUTURES WITH WOMEN AND CHILDREN, ALAMEDA, CA—*Building Futures serves women in Alameda County who are struggling with homelessness and domestic violence by helping them build new lives for themselves and their children. They provide a 24-hour hotline, two shelters, a safe house and a transitional and permanent housing site.*

Nonprofits serving nonprofits—that is what we are all about. NIAC and ANI-RRG are 501(c)(3) nonprofits whose mission are to serve 501(c)(3) tax-exempt nonprofit organizations by providing stable sources of reasonably priced liability insurance tailored to the specialized needs of the nonprofit sector, and to assist these organizations to develop and implement successful loss control and risk management programs.

NIAC was created as a result of the liability insurance crisis in the mid-1980s when many nonprofits in California could not obtain insurance at any price. NIAC now insures more than 4,300 nonprofit members and in 2003 wrote in excess of \$37 million in premium.

In 1999 a feasibility study, underwritten by the David and Lucile Packard Foundation, was conducted to determine what it would take to expand NIAC's concept nationwide.

The results of that study yielded the Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG). ANI-RRG was incorporated in 1999 and began operations in September 2001. ANI-RRG is an insurance company domiciled in Vermont. As a Risk Retention Group, it has filed to do business in most states, but is currently writing in Colorado, Connecticut, Delaware, District of Columbia, Iowa, Kansas, Maryland, Michigan, Missouri, Nebraska, Nevada, North Carolina, Ohio, Oregon, Pennsylvania, Utah, Virginia and Washington. In 2004, ANI-RRG will begin writing in Vermont as well. At year-end 2003, ANI-RRG insured 820 nonprofits and wrote \$10.2 million in premium.

Initial capital for ANI-RRG was provided by generous grants from the David and Lucile Packard Foundation and the Bill & Melinda Gates Foundation. Each foundation contributed \$5 million in grants for a total of \$10 million in capital for ANI-RRG and

"Finding ANI-RRG has been a real blessing for our agency. We get all the insurance products we need from one vendor that not only understands the challenges and issues facing a nonprofit, but is one themselves."

*Bob Ridgeway, Executive Director
Providers' Resource Clearinghouse
Denver, CO*

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

*Diane Strachan, Executive Director
Upper Sacramento River Exchange
Sacramento, CA*

Our Founding Vision Remains Our Only Mission



its affiliated company, the National Alliance of Nonprofits for Insurance (NANI), a captive reinsurer. NANI provides reinsurance for both liability and property coverages and is itself reinsured by SwissRe, A.M. Best rated A+. All of these affiliated companies of the Nonprofits Insurance Alliance Group (NIA Group) are 501(c)(3) tax-exempt organizations governed by their nonprofit member-insureds. All have boards elected annually by member nonprofits and all exist only to serve 501(c)(3) nonprofits.

As nonprofits ourselves, we understand the unique needs of the sector and strive to provide services that help them better manage their organizations and accomplish their missions. Continue reading to see just how different we are from traditional insurance carriers. The following pages describe the variety of member services that we provide as well as highlighting a few of our valued member-insureds.

"As the liability insurance industry is going through so many changes, it is wonderful to work with a carrier that understands nonprofits needs, issues, and can be supportive of our goals."

*Nancy Nicholas, Executive Director
Jeffco Action Center
Lakewood, CO*

"The underwriting staff is very knowledgeable, willing to work with us to write a policy and responsive to our needs. Their support makes our job much easier. We work as a team with the goal of helping as many nonprofits as possible."

The product enhancements available through ANI-RRG allow us to do a better job of covering the risks for nonprofit organizations. We're proud to be able to have this product available for CANPO members."

*Betsy Jansen, CEO
CANPO ASI (Broker)
Denver, CO*

"Sungate has been working with ANI-RRG for the past two years, and has been extremely satisfied with the services provided. It has made all the difference for us to have an insurer who not only understands the nature of our business and the services we provide, but also the nature of nonprofits in general... Thank you, ANI-RRG, for all that you do!"

*Diana Goldberg, Executive Director
Children's Advocacy & Family
Resources, Inc./Sungate
Denver, CO*



STRIVE (FLINT AREA SPECIALIZED EMPLOYMENT SERVICE), FLINT, MI—Flint STRIVE provides a free, three-week course to anyone interested in developing the skills necessary to get and keep a good job. The organization focuses on skills like resume writing and interview techniques, but it doesn't stop there. "Soft skills" such as flexibility, honesty, attentiveness and patience are also stressed. Pictured above: a recent class of graduates show off their certificates.

MEMBER SERVICES... *Resources to Help*



CASA TERESA, ORANGE, CA—Casa Teresa provides a temporary loving home environment for single, pregnant women 18 years of age and older. Casa Teresa provides a transition environment of shared responsibility and rehabilitation for these women who have decided to keep their babies or place them for adoption.

"I Have A Dream® Foundation of Colorado has come to trust not only the ANI-RRG liability insurance services, but we also rely on the leadership of a nonprofit dedicated to serving the needs of other nonprofits. It makes a difference!"

*Mary Hanewall, Executive Director
I Have A Dream® Foundation
Denver, CO*

Part of our mission is to provide practical and user-friendly risk management and loss control tools to assist our members to be well managed organizations. Our proactive approach is much more satisfying and cost-effective than paying claims for preventable accidents and injuries. In conjunction with this strategy, we provide a variety of risk management resources to our member-insureds. In most cases these resources are provided free or highly subsidized.

Resources provided in 2003 include:

Educational Booklets

Eight booklets are currently available covering the following topics: special events, directors and officers insurance, what nonprofits need to know about lawsuits, managing volunteers, tips for vehicle safety programs, avoiding sexual abuse, managing collaboration risks and surviving a crisis. These booklets are all available free on the web site and in print. Additionally, an online book which describes managing technology risks is available on the web site only. Each booklet explores liability issues faced by most nonprofits and has been written specifically for the nonprofit reader. Many case studies and sample forms are available in each booklet. These booklets are also available to nonprofit resource centers libraries.

Driver Training

Driver training is offered free to members that have auto fleets insured through NIAC or ANI-RRG. During 2003, more than 1,100 drivers were trained in California for NIAC, and in only the second year of offering this service to ANI-RRG members, 375 drivers were trained. Two new classes were introduced in 2003: Coaching the Van Driver and Transporting People with Special Needs.

Vehicle Monitoring Program

This free member program provides bumper decals with a toll free number to solicit both positive and critical comments from motorists about how vehicle operators are driving. More than 1,800 vehicles were monitored in 2003 using the Safetrak® Program.

Attorney Advice

This resource offers free pre-termination consultation with a labor law attorney for members with a directors and officers policy with NIAC or ANI-RRG. In 2003, 178 members took advantage of this service. These consultations helped our members avoid the most common errors in terminating employees, and as a result, helped avoid many expensive and time-consuming lawsuits.

THE COMMUNITY MUSIC CENTER (CMC), SAN FRANCISCO, CA—Students of all ages, incomes and abilities come to CMC programs weekly to study one of 26 instruments, play in an ensemble or sing in a chorus. More than half of all students receive financial aid based on need, or participate in free programs.



Safeguard Your Nonprofit

Video Lending Library

To complement their internal training programs, members can take advantage of our video lending library. This valuable resource includes topics ranging from driver safety and employment practices to the prevention of sexual abuse. New titles are being added to the library on a regular basis.

Web Sites

Members may download publications and videos online, and much of the loss control material may be downloaded. Visit our web sites at www.InsuranceforNonprofits.org. During 2004, a members-only secure area will be introduced with additional risk management resources.

Workshops/Conferences

In 2003, we continued to sponsor educational events and to serve as a resource for insurance and risk management information for nonprofits. Staff made many presentations for nonprofit support organizations such as the Nonprofit Risk Management Center, the Nonprofit Support Center of Santa Barbara County, the Volunteer Center of Orange County, the Nonprofit Center in Tacoma, WA, and the Kansas Nonprofit Association. In total, we attended 20 conferences in 2003.

Claims Handling

We never consider the claims process routine. We understand that a poorly handled lawsuit can have a negative impact on a nonprofit's standing in the community and its ability to raise funds.

We aggressively investigate claims made against our nonprofit members. While we strongly resist paying frivolous or inflated claims, we also avoid needless legal wrangling when liability is clear and the demand is reasonable. We believe these practices save our members money and preserve their good names.

"The Defensive Driving Course has been very beneficial to our organization and has contributed to keeping down the accident rate."

*Vincent Young
Transportation Director
Ardmore Enterprises
Mitchellville, MD*

ANI-RRG's 500th Member:



THE FOOD BANK OF NORTH CAROLINA, RALEIGH, NC—The Food Bank of North Carolina serves 34 counties in central and eastern North Carolina and provides food to more than 375,000 people through an 861 partner agency network. During the 2002-03 fiscal year, the Food Bank distributed more than 22 million pounds of food.

MEET OUR MEMBERS

Nonprofits are accomplishing great things in our local communities. From feeding the hungry to providing services to the elderly, to programs for our young people, to animal rescue groups—nonprofits work to make our communities better places to live.

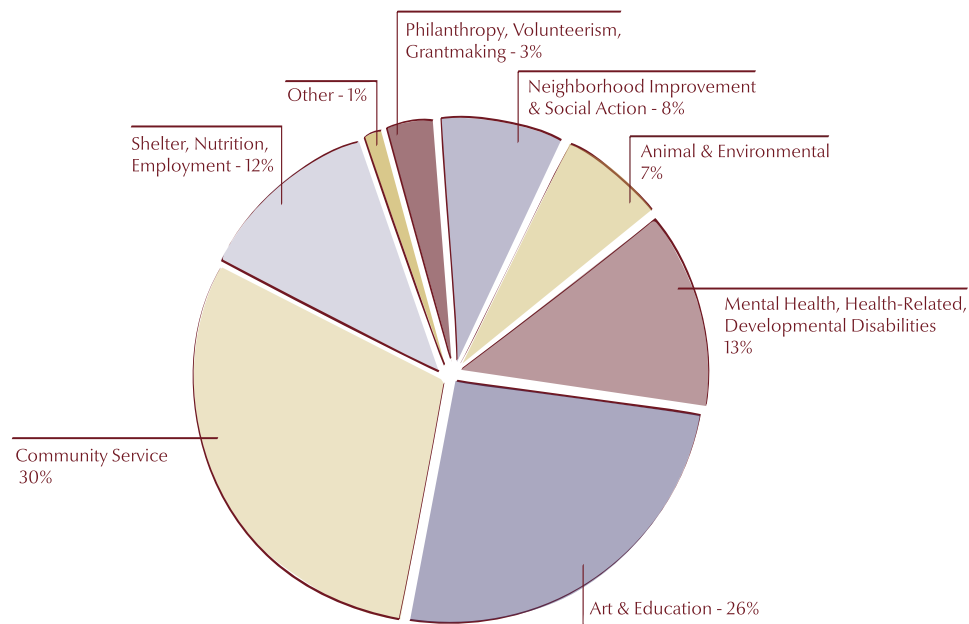
We are proud to be associated with the organizations that make up this important sector and do our best to support their efforts by providing them with appropriate insurance coverages and risk management tools to protect their organizations and their clients.

To learn more about the diverse group of nonprofits that comprise our membership, take a few moments to read the following member profiles. A complete list of our members (as of 12/31/2003) is furnished in the back pocket of this report.

The NIA Group has members in:

- CALIFORNIA
- COLORADO
- CONNECTICUT
- DELAWARE
- DISTRICT OF COLUMBIA
- IOWA
- KANSAS
- MARYLAND
- MICHIGAN
- MISSOURI
- NEBRASKA
- NEVADA
- NORTH CAROLINA
- OHIO
- OREGON
- PENNSYLVANIA
- UTAH
- VIRGINIA
- WASHINGTON

2003 Member Composition



UPLAND COMMUNITY PARTNERSHIP, UPLAND, CA—A neighborhood-based afterschool program with two locations where children in low-income areas can go after school to receive homework help, arts and crafts activities, and interact with other kids and adults in a positive and productive way.

MEMBER PROFILES

Heroes and Hope

—*Cabin John, MD*



Heroes and Hope (H&H) produces films and educational programs that tell human stories about heroes to inspire positive change.

Their Young Filmmakers Program (pictured above) teams children with adult mentors from film schools and the film industry to create short films about heroes in their lives.

Through another program, local heroes are profiled by H&H staff and volunteers, then the short film clips are distributed to local media outlets. In addition, H&H produces feature-length documentaries about heroes and seemingly hopeless situations throughout the world.

H&H also sponsors film festivals and offers educational programs which teach technology, leadership and creative skills to students of all ages.

Breaking Barriers

—*Sacramento, CA*

Breaking Barriers Community Services Center assists in the early diagnosis and prevention of catastrophic illnesses and provides assistance and care for people living with them.

Services are directed primarily toward homeless and lower-income individuals who may not have other resources. These services include transportation to medical appointments, food delivery, housing assistance, household help and emotional support.

Breaking Barriers also provides education and prevention programs to raise awareness in the community and to identify resources and recruit volunteers.

Since 1995, Breaking Barriers has served more than 900 individuals and their families, and coordinated more than 22,000 volunteer hours.



MEMBER PROFILES

San Diego Performing Arts League —San Diego, CA



The San Diego Performing Arts League's membership includes more than 140 theater, music and dance companies throughout San Diego County.

Since 1983, the League has developed and implemented cost-effective, collaborative programs that bring new audiences to the arts and strengthen San Diego's performing arts with new sources of earned income and management support.

Programs include ARTS TIX, San Diego's half-price ticket booth; What's Playing on Stage in San Diego, a comprehensive listing of music, theatre and dance events; Arts and Business Programs including Business Volunteers for the Arts, Technology for the Arts, Lawyers for the Arts, OnBoard and the National Arts Marketing Project; a variety of services available to members; and Star Awards, an annual tribute to volunteers in the arts.

National Association of African Americans for Positive Imagery —Philadelphia, PA

The National Association of African Americans for Positive Imagery (NAAAPI), was formed in 1991 to help end the excessive marketing of alcohol, tobacco, and other harmful products to communities of color.

A monumental victory was the defeat of Uptown Cigarettes in 1990, the first cigarette brand specifically designed for African American smokers.

In recent years, NAAAPI has mobilized against underage drinking and the introduction of specific tobacco and alcohol products which target African American communities. NAAAPI is currently spearheading a new campaign to encourage parents and other adults to avoid exposing children to the dangers of secondhand tobacco smoke.



MEMBER PROFILES

South Central Kansas Area Agency on Aging—*Arkansas City, KS*

Ecology Action —*Santa Cruz, CA*

Ecology Action delivers educational services and technical assistance to promote environmentally responsible programs throughout the community.

Environmental programs and services include the following: Energy Efficiency, RightLights (small business lighting efficiency program), P2! Pollution Prevention, Zero Waste, Recycling Resources, Public School Resource Conservation Program (pictured below), composting programs, environmentally-safe packaging research, sustainable transportation, electric bike program, bike to work program and an annual coastal cleanup day.

Ecology Action is the 2003 recipient of the Governor's Environmental and Economic Leadership Award.



The South Central Kansas Area Agency on Aging plans, coordinates and advocates for the over-sixty population in their area. Hundreds of volunteers work together with staff to improve the quality of life for older Kansans, and to help them live as independently as possible.

Some of the services available include advocacy representation, attendant care, case management, congregate and home delivered meals, health insurance counseling, home repair, housing and rent assistance, legal services and transportation.

The Agency also provides respite care services for caregivers, and operates several senior centers for social and educational activities.

MEMBER PROFILES

Nevada Humane Society —*Sparks, NV*



Since 1932, the Nevada Humane Society has been promoting animal welfare and providing for the relief and prevention of all animal suffering.

Services include the rescue of wild and domestic animals in distress or danger, adoption of owner-surrendered pets, pet education and advocacy, a clinic for low cost spay/neuter surgeries and vaccinations, and emergency veterinary assistance. In addition, three humane officers respond to and investigate reports of animal abuse and cruelty.

Through their PUP's Program (Puppies Up for Parole), "at risk" dogs are placed at the Nevada State Penitentiary where they are taught obedience, house-training and manners. Upon successful completion of the program, these dogs are graduated back into the community.

Youth Mentoring Connection —*Los Angeles, CA*

Youth Mentoring Connection (YMC) is dedicated to transforming the lives of "at-risk" youth through mentoring relationships with caring adults, supported by life skills and empowerment programs.

Since its inception in 2000, YMC has directly served more than 1,023 at-risk youth in Los Angeles. Most are from South Central Los Angeles where 70% of family incomes are at or below the poverty level and high school drop-out rates are high. Without positive role models, many of these kids get involved with gangs, drugs and alcohol, and become teen parents.

YMC specializes in "Worksite Mentoring", where youth are brought to the corporate environment to be mentored by employees (pictured below).



INDEPENDENT AUDITORS' REPORT



**To the Board of Directors of
Nonprofits Insurance Alliance Group:**

In our opinion, the accompanying combined balance sheets as of December 31, 2003 and 2002 and the related combined statements of income and changes in total equity and cash flows present fairly, in all material respects, the financial position of Nonprofits Insurance Alliance Group (the "Group") at December 31, 2003 and 2002, and the changes in its total equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Group's management; our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

March 12, 2004

COMBINED BALANCE SHEETS

	2003	2002
Assets		
Cash and investments		
Cash	\$ 2,273,005	\$ 2,445,915
Investments (cost: 2003- \$73,718,948; 2002 - \$59,974,541)	74,082,979	61,117,252
Total cash and investments	76,355,984	63,563,167
Premiums receivable, net of allowance for doubtful accounts of \$1,280 in 2003 and \$1,133 in 2002	13,090,703	7,975,296
Interest receivable	576,257	484,381
Other receivable	516,542	260,990
Prepaid expenses and other assets	201,043	143,631
Reinsurance recoverables	12,010,146	8,104,202
Prepaid reinsurance premium	5,811,877	4,054,673
Deferred acquisition costs	3,469,657	3,136,653
Property and equipment, net of accumulated depreciation of \$1,476,834 in 2003 and \$966,156 in 2002	7,839,725	6,848,193
Total assets	<u>\$ 119,871,934</u>	<u>\$ 94,571,186</u>
Liabilities and Equity		
Liabilities		
Loss and loss adjustment expense reserves	\$ 41,363,165	\$ 31,922,530
Accounts payable and other accrued liabilities	2,628,154	1,404,233
Unearned premiums	24,914,167	17,260,092
Reinsurance payable	1,157,585	1,403,006
Loan payable	4,075,734	4,240,734
Total liabilities	74,138,805	56,230,595
Total equity - unrestricted		
Members' contributions	900,507	900,507
Capital contributions	10,000,000	10,000,000
Accumulated earnings	34,468,591	26,297,373
Unrealized gains on investments, net	364,031	1,142,711
Total equity - unrestricted	45,733,129	38,340,591
Total	<u>\$ 119,871,934</u>	<u>\$ 94,571,186</u>

The accompanying notes are an integral part of these financial statements.

COMBINED STATEMENTS OF INCOME AND CHANGES IN TOTAL EQUITY

	2003	2002
Revenues		
Gross written premium	\$ 49,136,703	\$ 35,370,170
Ceded premium	(11,271,975)	(6,802,461)
Net written premium	37,864,728	28,567,709
Increase in unearned premium, net	(5,896,871)	(5,180,136)
Net earned premium	31,967,857	23,387,573
Net investment income	1,942,765	2,091,750
Net realized gain on sales of investments	620,209	1,405,560
Other income	1,810,970	1,668,115
Total revenues	36,341,801	28,552,998
Expenses		
Losses and loss adjustment expenses incurred, net	16,080,880	14,148,063
Salaries and employee benefits	3,548,980	2,858,648
Commission expense	5,584,189	2,783,099
Other expense	2,509,867	2,158,011
Total expenses	27,723,916	21,947,821
Net income	8,617,885	6,605,177
Other changes in total equity		
Return of premiums	(446,667)	(598,165)
Change in net unrealized gains on investments	(778,680)	359,108
	7,392,538	6,366,120
Total equity - unrestricted, beginning of year	38,340,591	31,974,471
Total equity - unrestricted, end of year	\$ 45,733,129	\$ 38,340,591

COMBINED STATEMENTS OF CASH FLOWS

	2003	2002
Cash flows from operating activities		
Net income	\$ 8,617,885	\$ 6,605,177
Adjustments to reconcile net income to net cash provided by operating activities		
Net realized gains on investments	(620,209)	(1,405,560)
Depreciation and amortization	541,186	485,921
Amortization of premium of debt securities	700,609	44,294
Changes in assets and liabilities		
Premiums receivable	(5,115,407)	(3,356,901)
Interest receivable	(91,876)	45,751
Other receivable	(255,552)	(260,990)
Prepaid expenses and other assets	(57,412)	(32,310)
Reinsurance recoverable	(3,905,944)	598,557
Prepaid reinsurance premium	(1,757,204)	(2,307,243)
Deferred acquisitions costs	(333,004)	(1,305,150)
Assets held in trust	-	35,043
Loss and loss adjustment expense reserves	9,440,635	6,384,329
Unearned premiums	7,654,075	7,487,379
Reinsurance payable	(245,421)	(1,495,488)
Accounts payable and other accrued liabilities	1,223,921	(803,031)
Net cash provided by operating activities	15,796,282	10,719,778
Cash flows from investing activities		
Purchase of investments	(89,946,991)	(246,784,957)
Sales and maturities of investments	76,122,184	239,387,492
Purchases of property and equipment	(1,532,718)	(837,270)
Net cash used in investing activities	(15,357,525)	(8,234,735)
Cash flows from financing activities		
Return of premiums	(446,667)	(598,165)
Repayment of loan payable	(165,000)	(164,266)
Net cash used in financing activities	(611,667)	(762,431)
Net (decrease) increase in cash	(172,910)	1,722,612
Cash, beginning of year	2,445,915	723,303
Cash, end of year	\$ 2,273,005	\$ 2,445,915
Supplemental disclosure of cash flow information		
Cash paid for interest expense	\$ 90,533	\$ 106,328

The accompanying notes are an integral part of these financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

1. ORGANIZATION

Nonprofits Insurance Alliance Group (the “Group”) consists of nonprofit companies whose primary activities include serving 501(c)(3) tax-exempt nonprofit organizations by providing a source of liability insurance coverage tailored to the specialized needs of the nonprofit sector, and assisting these organizations to develop and implement successful loss control and risk management programs. The Group includes Nonprofits’ Insurance Alliance of California, Inc. (“NIAC”), Alliance of Nonprofits for Insurance, Risk Retention Group, Inc. (“ANI-RRG”), National Alliance of Nonprofits for Insurance, Inc. (“NANI”), and Alliance Member Services, Inc. (“AMS”).

NIAC operates as a risk pool in California pursuant to authorization under Section 5005.1 of the California Corporations Code. NIAC provides commercial general liability, social service professional liability, business automobile liability, auto physical damage, employer’s non-owned and hired auto liability, improper sexual conduct, directors and officers liability and umbrella liability coverage to its members.

ANI-RRG and NANI operate as captive insurance companies in Vermont pursuant to authorization under Section 6002, Vermont Statutes Annotated, and are subject to the rules, regulation and supervision of the Vermont Department of Banking, Insurance, Securities, and Health Care Administration. ANI-RRG provides commercial general liability, social service professional liability, employee benefits liability, business auto liability, and non-owned and hired automobile liability, improper sexual conduct liability, directors and officers liability and umbrella liability coverage to its members. NANI provides reinsurance to affiliates in the Group and certain other carriers providing coverage for NIAC and ANI-RRG members.

The Group does not participate in insurance guarantee associations, which are state organizations that guarantee certain payments to claimants in the event of an insolvency of a regulated insurer.

AMS is a nonprofit company incorporated in Vermont to provide management services to affiliates in the Group and is responsible for their overall operation, including policy services, claim management, member services, reinsurance negotiations, marketing, accounting and financial management, and general and administration management.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying combined financial statements include the accounts of NIAC, ANI-RRG, NANI and AMS. The financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America. All balances and transactions between the companies have been eliminated in combination. The Group follows accounting and reporting policies for insurance enterprises.

Financial Statement Estimates

The preparation of combined 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 reserves are established to cover the unexpired portion of premiums written.

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 \$5,939,251 for 2003 and \$4,742,578 for 2002. Anticipated investment income is not considered in determining if a premium deficiency exists.

Property and Equipment

Data processing equipment, purchased software, costs for internal-use 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.

Investments

Investments are classified as available-for-sale securities and are reported at market value, with unrealized gains and losses excluded from operating earnings and reported as a separate component of total equity. Fair value of equity securities is estimated by using quoted market prices for most securities. Estimated fair 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. Declines in the fair value of investments which are determined to be other than temporary, are included in net investment income as a realized loss. Net realized investment gains or losses are recognized based upon the specific identification of investments sold. The Group has investments in money market mutual funds. Although such investments meet the criteria for cash equivalents, the Group has elected to include money market mutual funds in investments. Cash consists of cash deposits at banks.

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 Group's consulting actuary believe that the reserves for losses and LAE at December 31, 2003 and 2002 are 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 companies in the Group are tax-exempt for federal tax purposes under Section 501(c)(3) of the Internal Revenue Code.

Estimated Fair Value of Financial Instruments

The carrying value of cash, premiums receivable and reinsurance payable approximate their estimated fair value. Fair value of the loan payable is estimated to be carrying value, as the loan has a variable interest rate.

Reclassifications

Certain 2002 amounts have been reclassified to conform to 2003 presentation. These reclassifications have had no effect on net income or total equity.

3. INVESTMENTS

Investments carried in the accompanying balance sheets at estimated fair value, consist of the following as of December 31, 2003 and 2002:

	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
2003				
Corporate obligations	\$ 19,633,182	\$ 390,482	\$ 135,006	\$ 19,888,658
U.S. government and agency obligations	23,152,645	137,873	55,976	23,234,542
Mortgage-backed securities	4,103,145	7,118	25,602	4,084,661
Asset-backed securities	17,615,458	40,684	114,224	17,541,918
Other debt securities	710,806	-	18,017	692,789
Total debt securities	65,215,236	576,157	348,825	65,442,568
Equity securities	623,553	147,584	10,885	760,252
Money market accounts	7,880,159	-	-	7,880,159
Total investments	\$ 73,718,948	\$ 723,741	\$ 359,710	\$ 74,082,979
2002				
Corporate obligations	\$ 11,948,274	\$ 395,406	\$ -	\$ 12,343,680
U.S. government and agency obligations	25,621,979	595,085	429	26,216,635
Mortgage-backed securities	16,130,459	153,652	33,462	16,250,649
Asset-backed securities	4,222,786	39,957	6,752	4,255,991
Other debt securities	525,954	22,998	-	548,952
Total debt securities	58,449,452	1,207,098	40,643	59,615,907
Equity securities	665,084	15,425	39,169	641,340
Money market account	860,005	-	-	860,005
Total investments	\$ 59,974,541	\$ 1,222,523	\$ 79,812	\$ 61,117,252

The amortized cost and estimated fair value of investments at December 31, 2003, 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.

	2003	
	Cost or Amortized Cost	Estimated Fair Value
Due in 1 year or less	\$ 7,994,289	\$ 8,070,957
Due after 1 year through 5 years	32,581,011	32,759,837
Due after 5 years	2,921,333	2,985,195
Mortgage-backed securities	4,103,145	4,084,661
Asset-backed securities	17,615,458	17,541,918
	<u>\$ 65,215,236</u>	<u>\$ 65,442,568</u>

Gross realized gains and losses on sales of debt securities were \$931,419 and \$60,231 in 2003, respectively, and \$2,503,769 and \$362,839 in 2002, respectively. Gross realized gains and losses on sales of equity securities were \$33,838 and \$24,287 in 2003, respectively, and \$28,292 and \$217,379 in 2002, respectively. In addition, in 2003 and 2002, a realized loss of \$260,530 and \$500,000 was recognized on a fixed income security respectively, and in 2002 realized losses of \$46,283 were recognized on equity securities, that were considered other than temporarily impaired in value.

At December 31, 2003, unrealized losses on individual securities were as follows:

	Debt Securities		Equities	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Length of time in unrealized loss position				
12 months or greater	\$ 82,083	\$ 5,544,732	\$ 9,273	\$ 75,674
Less than 12 months	266,742	29,099,488	1,612	15,040
Total	<u>\$ 348,825</u>	<u>\$ 34,644,220</u>	<u>\$ 10,885</u>	<u>\$ 90,714</u>

Based on the requirement of the Vermont Department of Banking, Insurance, Securities, and Health Care Administration, ANI-RRG and NANI have maintained at least \$500,000 and \$750,000, respectively, of investments in U.S. Treasury Bills in 2003.

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31 consists of:

	2003	2002
Computer and software	\$ 1,330,205	\$ 1,092,633
Furniture and fixtures	177,976	150,500
Internal software	2,024,681	1,846,838
Land	1,481,423	900,000
Building	4,302,274	3,824,378
	<u>9,316,559</u>	<u>7,814,349</u>
Accumulated depreciation	<u>(1,476,834)</u>	<u>(966,156)</u>
Property and equipment, net	<u>\$ 7,839,725</u>	<u>\$ 6,848,193</u>

Depreciation expense of \$541,186 and \$485,921, including amortization of leasehold improvements, was recognized for the years ended December 31, 2003 and 2002, respectively.

5. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

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

	2003	2002
Gross loss and loss adjustment expense reserves, January 1	\$ 31,922,530	\$ 25,538,201
Reinsurance recoverables on unpaid loss and loss adjustment expenses	(8,104,202)	(8,702,759)
Net loss and loss adjustment expense reserves	23,818,328	16,835,442
Incurred related to		
Current year	16,853,409	16,211,256
Prior years	(772,529)	(2,063,193)
Total incurred	16,080,880	14,148,063
Paid related to		
Current year	3,116,858	2,531,173
Prior years	7,252,423	4,634,004
Total paid	10,369,281	7,165,177
Net loss and loss adjustment expense reserves, December 31	29,529,927	23,818,328
Reinsurance recoverables on unpaid loss and loss adjustment expenses	11,833,238	8,104,202
Gross loss and loss adjustment expense reserves, December 31	\$ 41,363,165	\$ 31,922,530

As a result of changes in estimates of insured events in prior years, the loss and loss adjustment expense reserves decreased in 2003 by a net \$772,529 and by a net \$2,063,193 in 2002. In evaluating its 2003 and 2002 actuarial reports, the Group determined that the actual experience in certain of its lines of business has developed more favorably than original estimates. As a result, management has determined that reserve reductions for prior years are appropriate.

6. LOAN PAYABLE

On May 1, 2000, NIAC 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. The bond matures in 2020.

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.

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

2004	\$ 170,000
2005	180,000
2006	185,000
2007	195,000
2008	200,000
Thereafter	3,145,734
	<u>\$ 4,075,734</u>

The bond proceeds were used to finance the costs of the acquisition, construction, improvement and equipping of NIAC's administrative building. Interest expense on the bonds totaled \$90,533 and \$106,328 for the years ended December 31, 2003 and 2002, respectively.

7. REINSURANCE

NANI retrocedes to a third party reinsurer as follows:

	2003	2002
First Excess of Loss	\$250,000 - \$1,000,000	\$250,000 - \$1,000,000
Aggregate Excess of Loss	\$1,000,000 - \$3,000,000	\$1,000,000 - \$3,000,000
Umbrella 97.5% Quota Share	\$1,000,000 - \$11,000,000	\$1,000,000 - \$11,000,000

These limits are on a "per occurrence" basis and "losses" for the purposes of these agreements include indemnity and allocated loss adjustment expenses. Risks reinsured would become an expense of the ceding companies in the event the reinsurer is unable to or will not fulfill the obligations assumed under the agreements.

Before January 1, 2001, NIAC maintained similar reinsurance coverages with third-party companies.

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

Reinsurance ceded

	2003	2002
Premium earned	\$ 9,514,771	\$ 4,445,141
Loss and loss adjustment expenses incurred	\$ 7,513,111	\$ 1,151,159

For the years ended December 31, 2003 and 2002, NANI received ceding commission of \$1,258,121 and \$885,064, respectively. The ceding commission is recorded as a reduction to deferred acquisition costs, subject to amortization, in the financial statements.

In 1994 - 1996, for the first layer of reinsurance, NIAC paid a provisional 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. NIAC accrued additional premium based on expected loss experience.

In 1997 - 2000, NIAC participated in a profit-sharing provision in the first layer of reinsurance. Based on expected loss experience NIAC has accrued provisional profit sharing payments received as a liability in its financial statements.

In 1994 - 1996, for the second layer, NIAC paid 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 1997 - 2000, for the second layer, NIAC pays a fixed reinsurance premium based on gross premiums written.

For 1994 - 2000, for the third layer, NIAC paid a fixed reinsurance premium based on gross premiums written.

Reinsurance recoverable at December 31, 2003 and 2002 are due from two third-party reinsurance companies, both of which are rated A+ or better by A.M. Best.

8. 401(k) PROFIT SHARING PLAN

Eligible employees of AMS may participate in a 401(k) plan. The employer contributes 4% of each employee's gross salary. Eligibility for the plan occurs on the first day of each quarter. The amounts contributed by the employer to the Plan were \$198,265 and \$107,536 in 2003 and 2002, respectively.

9. CAPITAL AND SURPLUS

ANI-RRG and NANI are required by the Vermont Department of Banking, Insurance, Securities, and Health Care Administration to maintain capital and surplus at minimums of \$500,000 and \$750,000, respectively. Their ability to pay dividends is restricted and subject to regulatory approval. At December 31, 2003, the reported capital of ANI-RRG and NANI was in excess of the minimum regulatory requirement.

Individual audited financials for Nonprofits' Insurance Alliance of California (NIAC) and Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG) are available on the web at www.InsuranceforNonprofits.org, or you may request a copy to be mailed to you by calling 1-800-359-6422.

IN MEMORY...

Leah Price joined our team in February of 2000. Her placement with us was arranged through Hope Rehabilitation Services, a member-insured which provides job training and placement for individuals with disabilities.

Leah's job responsibilities included filing, stuffing envelopes and making marketing packets. These tasks, however, were only a small part of what she did for us.

Despite her many physical challenges, Leah always greeted everyone with a big smile, and when asked how she was today, the response was always "Great!" She was very proud of her job with our company, and often told people about us on the bus on the way to work, or wherever she interacted with people. Leah made friends very quickly.

She was always first in line when we had bagels or doughnuts in the office, and she loved attending special events and parties with her co-workers. It was her nature to share with others, and she delighted in frequently refilling a jar of M&Ms in our office for all to enjoy.

In August of 2002, Leah was diagnosed with a second brain tumor. She had fought and won a battle with a similar tumor when she was only three years old. Although it left her with limited abilities, she surprised all the doctors by surviving 30 years after that first tumor. She and her family decided to fight this new tumor also.

Leah bravely faced surgery, radiation, chemotherapy and rehabilitation in the months that followed. Even when she could not speak, she would give her visitors a "thumbs up" and a big grin to let us know she was still staying positive.

For a long time, her cubicle at the office (which she had decorated with about 50 beanie babies!) remained as she had left it. But eventually it became apparent that Leah would not be returning to work. Our staff visited her in the hospital and later at home, where her family and friends surrounded her with love and attention during her final months.

Those of us who knew her well will always carry part of her with us. Her incredible optimism and determination, her gentle nature, and her joy in the little things of life have forever left their imprint on us. We miss you, Leah.

