Alliance of Nonprofits for Insurance
Risk Retention Group

A HEAD FOR INSURANCE...A HEART FOR NONPROFITS

Annual Report

The Nonprofits Insurance Alliance Group

2004

The Nonprofits Insurance Alliance Group is comprised of 501(c)(3) nonprofit organizations governed by their nonprofit members

Nonprofits' Insurance Alliance of California
A HEAD FOR INSURANCE . . . A HEART FOR NONPROFITS

WWW.INSURANCEFORNONPROFITS.ORG

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.

Throughout 2004 the Nonprofits Insurance Alliance Group continued its commitment to sensible prices and exceptional service to meet the insurance needs of our nonprofit members and their insurance brokers. As a result, all companies in the Group experienced strong growth, lower than expected claims, and financial results that exceeded targets.

On a combined basis, the Group welcomed 1,285 new members and closed the year with 5,894 members. Gross written premium totaled $57.0 million, an increase of 15.5 percent over the prior year. Of that total, Nonprofits' Insurance Alliance of California (NIAC) wrote $42.1 million, Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG) wrote $13.1 million, and the Group's reinsurance captive retained $1.8 million on a net basis. Also, we provided all policyholder services on an additional $9.0 million in premium for our companion property program, bringing the total business administered by the Group in 2004 to $66.0 million.

At year-end, the Group's balance sheet showed total equity of $55.9 million and total assets of $149.7 million. Of the $10.6 million in combined net income for the Group, $8.5 million was contributed by NIAC, $1.4 million by ANI-RRG, and $0.7 million by the Group's reinsurance captive. These financial results reflect prior year reserve redundancies as well as favorable loss experience for ANI-RRG and NIAC in 2004. As a result, most NIAC members will receive price reductions this year. While ANI-RRG's claims experience in its first three years has been favorable, it is premature to institute price decreases at this early stage in its growth.

In September, NIAC's financial strength rating was upgraded to A (Excellent). According to A.M. Best, "The rating reflects NIAC's sound capitalization, excellent operating performance driven by underwriting profitability and strong market presence in California." In its 15th year, NIAC welcomed 820 new members and closed the year with 4,697 members. We experienced a 90 percent renewal rate of existing members and, of those we insured in 1994, 60 percent are still with us.

Having completed its third full year, we can say with confidence that ANI-RRG is handily executing NIAC's successful model in its national expansion. During 2004, ANI-RRG extended its services to Vermont nonprofits, grew its operating territory to 18 states and the District of Columbia, renewed 89 percent of members and welcomed 465 new members, ending the year with 1,197 members.

In recognition of the company's growing service to nonprofits, MBNA committed $2 million as a low-cost long-term loan to enhance ANI-RRG's surplus to enable it to provide liability insurance for hundreds more nonprofit organizations. The company drew $1 million during 2004 to enhance surplus and expects to request an additional $1 million during the second quarter of 2005.

In 2004, we continued our drive to reduce expenses and increase effectiveness by launching our secure website to all members and brokers. Presently brokers can retrieve quotes, policies and endorsements and auto-renew smaller accounts via their secure portion of the website. On their secure site, members can update contact information and access an extensive list of loss control resources.

Another initiative undertaken during 2004 was the PRIDE Initiative. Our culture encourages all employees to provide continuing input regarding operational efficiency and quality. Four staff-led teams tackled targeted areas of organizational focus: broker and member services; data integrity; marketing; and internal communication. The teams made a number of important operational recommendations that have been implemented. One delightful benefit of the PRIDE Initiative was witnessing the dedication of staff to assuring the delivery of our best work for our nonprofit members.

The reciting of accomplishments and numbers that go with those achievements is the stuff of annual report messages, but it doesn't effectively describe the soul of our work or how we contribute to the health of the greater nonprofit sector. The excerpt below from a volunteer of one of our nonprofit member-insureds who was named personally in a lawsuit speaks volumes in just a few words:

> *"I appreciate having your support in this very difficult episode of my volunteer activities. Without it, I fear that John F. Kennedy's call for volunteers would find itself with no one listening."*

Millions of volunteers give freely of their time and talents to serve causes that are dear to them. We believe these volunteers ought to be able to serve without fear that a frivolous lawsuit could bankrupt them. We see our role in service to the nonprofit sector as significantly deeper and broader than merely providing insurance. If we do our job well, we enable our nonprofit members and their staff and volunteers to focus on their missions and carry out their services to their communities with confidence, knowing that they can count on us to be their ally and their advocate in tough times.

While the Nonprofits Insurance Alliance Group operates on the precept that trust is key to lasting relationships, the insurance industry's reputation has been tarnished this year by charges of undisclosed kickbacks and price-fixing. In our case, we believe that fees and commissions should be fully disclosed and agreeable to all parties. We work with more than 800 insurance brokers across the nation, and our approach to commissions and our commission structure is openly posted on our websites. We pay no contingent commissions.

During 2005 our commitment to our nonprofit member-insureds is to stay true to our mission to serve this diverse sector, large and small organizations alike, at prices that are sensible and fairly reflect the risk of the individual nonprofit. Our goal continues to be to bring stability and responsible pricing to the insurance purchase for nonprofits, while providing them and their brokers with inspired service that prompts comments like the one we received recently from a broker.

> *"I made a request for an endorsement via email today at 4:01p.m. I received the endorsement at 4:11p.m. Absolutely amazing! If we ignored all the other positives—your people, products, resources, experience, etc., getting an endorsement in 10 minutes places you head and shoulders above the rest all by itself. Thanks!"*

We certainly can't promise that all endorsements will be issued in 10 minutes, but we intend to achieve standards for products and services that delight our members and their insurance brokers.

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

Pamela E. Davis

Pamela E. Davis, President and CEO

R. Lawrence Bacon

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

Wilson M. Jones

Wilson M. Jones, Chairman of ANI-RRG

The

Nonprofits Insurance Alliance

Group

In 1989, the Nonprofits' Insurance Alliance of California was founded to provide liability insurance to nonprofits in one state, California. Fast forward to 2004, and there are now four distinct companies that comprise the Nonprofits Insurance Alliance Group, serving non-profits in 19 states plus DC, insuring nearly 5,900 nonprofits and writing $57 million in premium. And this is still just the beginning of what we can accomplish together. The four distinct companies that comprise the Nonprofits Insurance Alliance Group are:

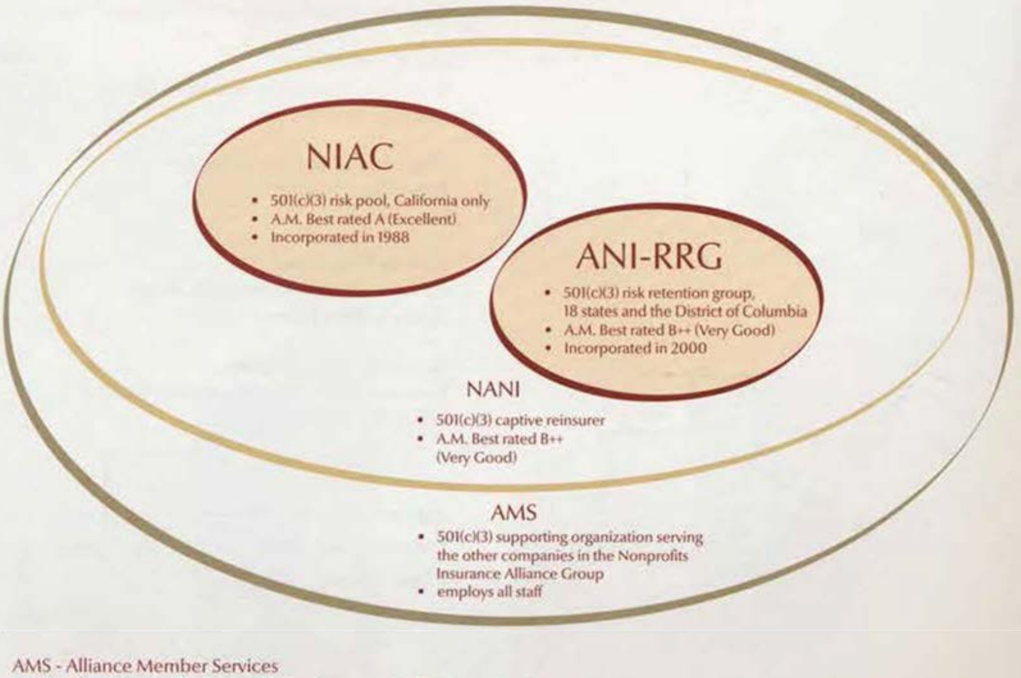
- Alliance Member Services (AMS)
- Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG)
- National Alliance of Nonprofits for Insurance (NANI)
- Nonprofits' Insurance Alliance of California (NIAC)

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

An illustration is provided here 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 Nonprofits Insurance Alliance Group has four independent, but related, boards of directors which share financial information, but which retain governance authority for their individual organizations in the Nonprofit Insurance Alliance Group.

MANAGEMENT TEAM FOR THE NONPROFITS INSURANCE ALLIANCE GROUP

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



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

NIAC Board of Directors

Back row (l-r):

Norris Clark [1]
Financial and Regulatory Specialist
Lord, Bissell & Brook LLP

Ellis Kirschenbaum
Senior Vice President of Administration
Children's Institute, Inc.

John M. Christensen, Secretary
Senior Vice President
Hope Services

Thomas P. Tenorio [2]
Executive Director, Community Action Agency of Butte County

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

[1] *Appointed December 2004*
[2] *Elected February 2005*
[3] *Elected February 2005*

Middle row (l-r):

John E. McCue
Executive Director and Chief Executive Officer
Becoming Independent

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

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

Phillip Kimble
Board Historian
Valley Center for the Blind

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

Front row (l-r):

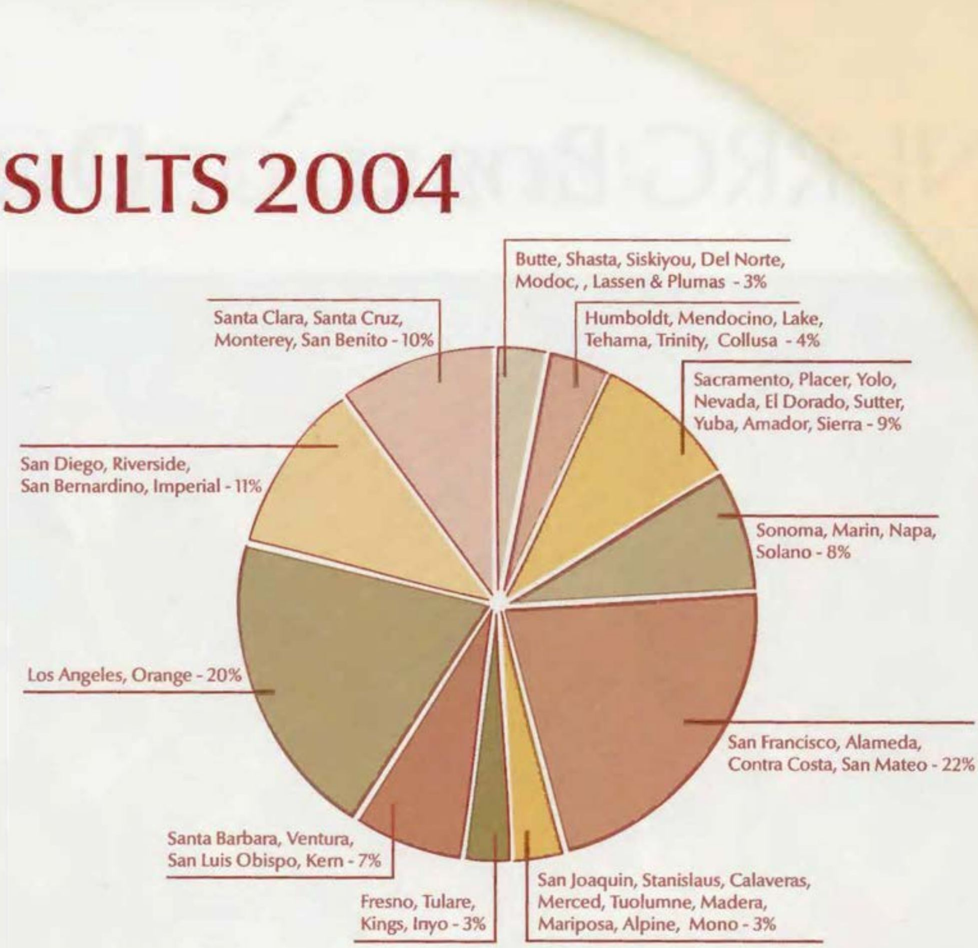
Pamela E. Davis, President
Chief Executive Officer, NIAC

Kathleen Adamson [3]
President and Chief Executive Officer
Gateway Center of Monterey County

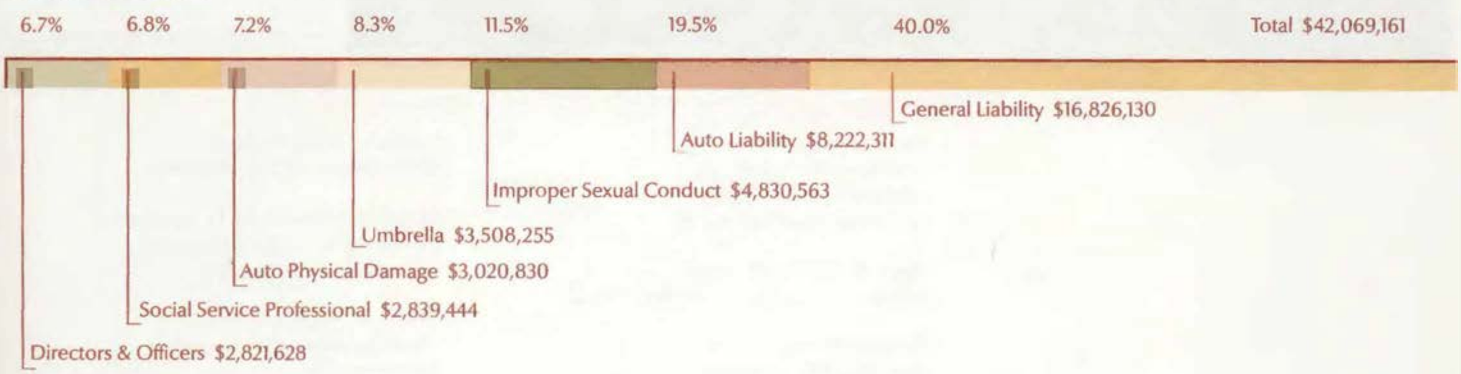
R. Lawrence Bacon, Chairman
President, Bacon & Company

NIAC Results 2004

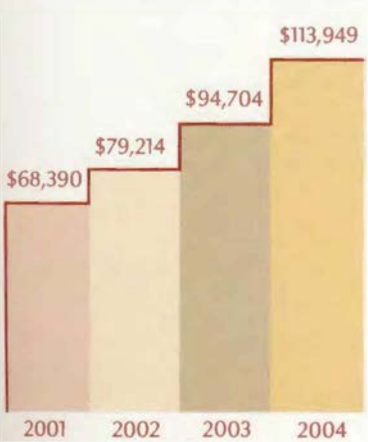
Members by County



Premium by Line

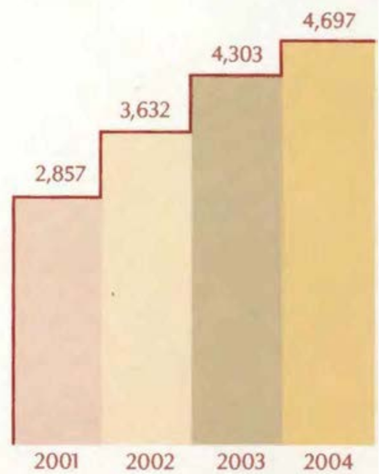


Assets (in Thousands)



Premiums (in Thousands)

Members



ANI-RRG Board of Directors

Back row (l-r):

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

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

Alison Coolbrith [1]
Principal, A&B Enterprises
Bloomfield, CT

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

R. Lawrence Bacon
President, Bacon & Company, CA

[1] *Appointed December 2004*
[2] *Elected February 2005*

Front row (l-r):

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

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

Wilson M. Jones, Chairman
Chief Operating Officer, Retired
BoardSource, DC

Not Pictured:

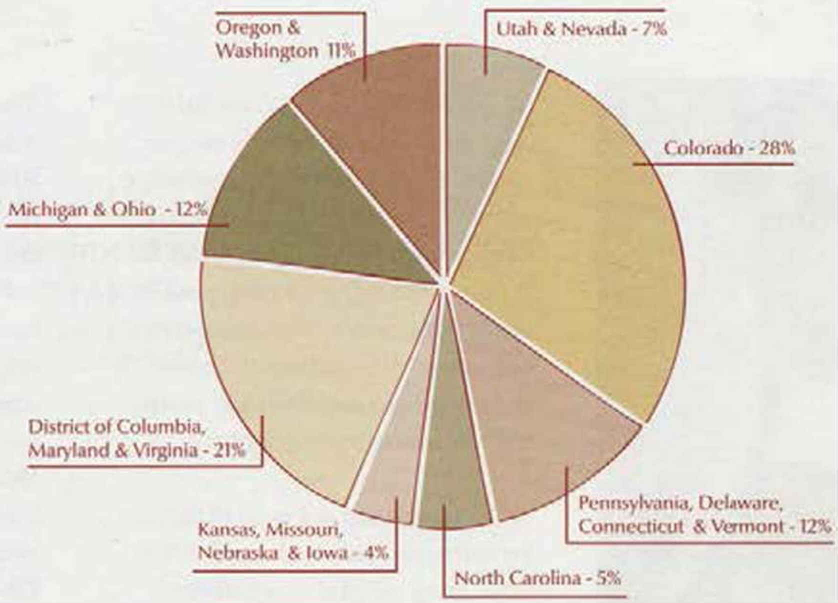
Joseph M. Dell'Olio
Executive Vice President, CHILD, Inc., DE

John Lara [2]
Chief Financial Officer
Albertina Kerr Centers, Portland, OR

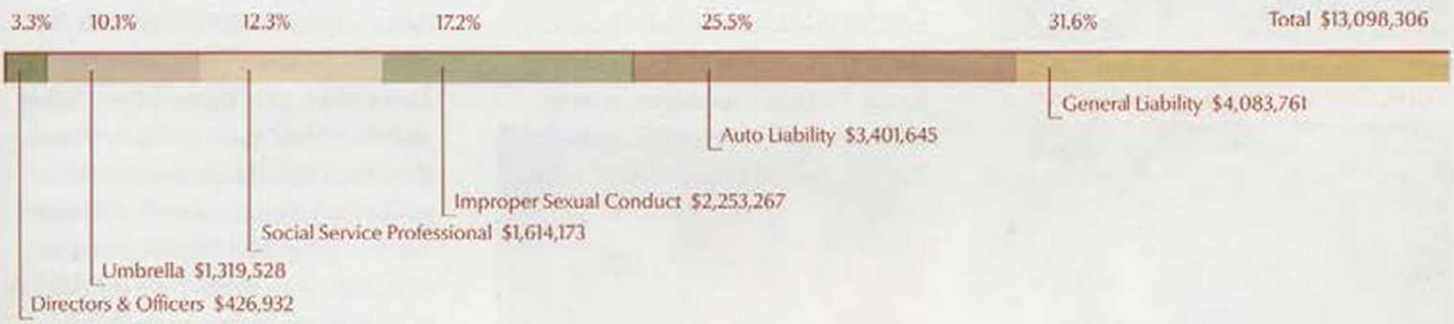
Andrew Sargeant, Assistant Secretary
President, USA Risk Group of Vermont, VT

ANI-RRG Results 2004

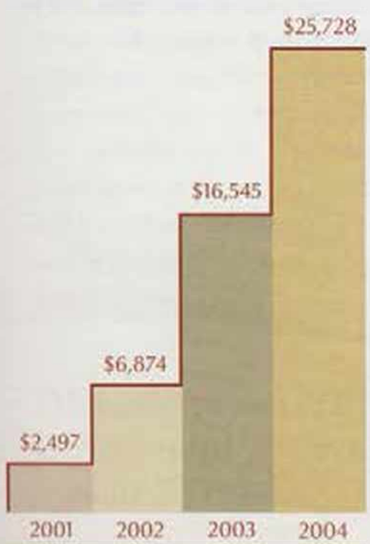
Members by State



Premium by Line

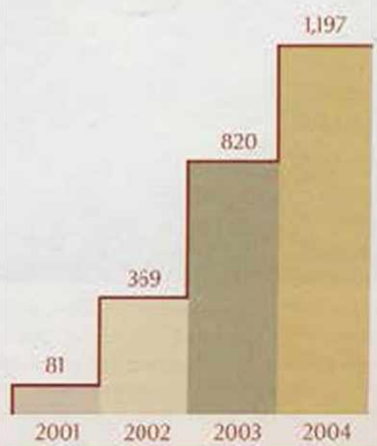


Assets (in Thousands)

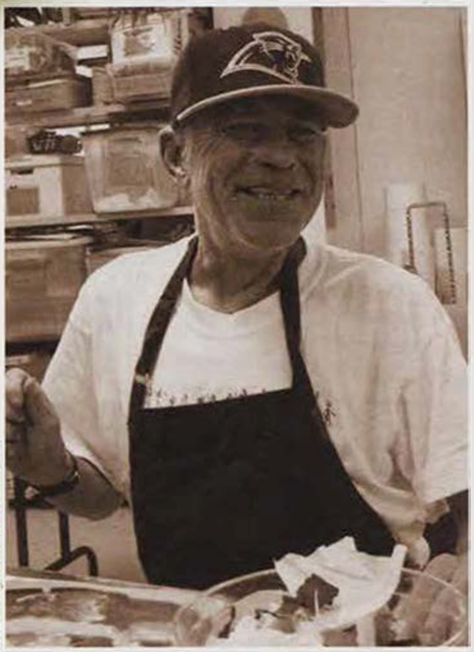


Premiums (in Thousands)

Members



SERVING 501(c)(3) NONPROFITS...



NEIGHBORHOOD CENTER OF THE ARTS, GRASS VALLEY, CA—*Since 1984, the Neighborhood Center of the Arts has provided developmentally disabled adults a place where they can make friends, explore their abilities, and gain a sense of accomplishment. Find out more at www.neighborhoodcenterofthearts.com.*

ANI-RRG and NIAC are 501(3)(c) nonprofits whose only mission is 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.

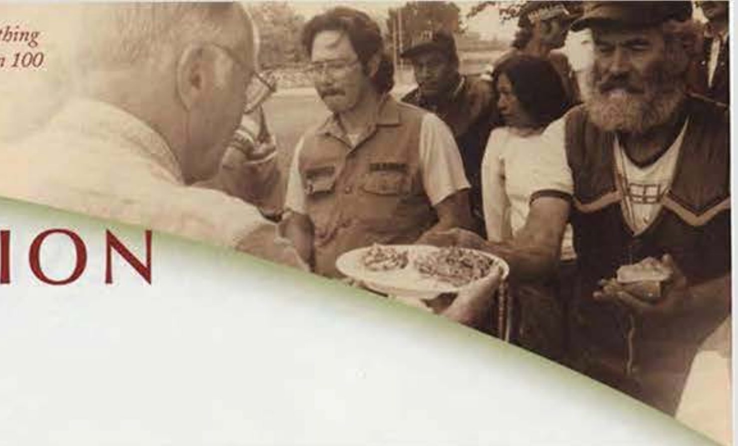
In 1999 NIAC conducted a feasibility study, underwritten by the David and Lucile Packard Foundation, to determine what it would take to expand NIAC's concept nationwide.

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, Vermont, Virginia and Washington.

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 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+.

We are delighted that a nonprofit insurance company is available to nonprofit agencies. We are also very pleased with your proactive services. – ANI-RRG Member
Survey Participant

The responsiveness of EVERYONE at ANI-RRG is head and shoulders above any other carrier I have ever worked with. – ANI-RRG Broker
Survey Participant



HOMELESS CARE FORCE, SANTA CLARA, CA—*Homeless Care Force is a hot meal and clothing distribution organization which serves homeless individuals in Santa Clara County. More than 100 volunteers help serve an estimated 50,000 meals per year at Columbus Park in San Jose.*

OUR ONLY MISSION

In this age of six second sound bits and bait and switch sales strategies, it is comforting to know that there is one company with integrity. – NIAC Member
Survey Participant

Great job! Great coverages! Love doing business with you! – NIAC Broker
Survey Participant

All of these affiliated companies known as the Nonprofits Insurance Alliance Group are 501(c)(3) tax-exempt organizations governed by their nonprofit member-insureds. All have boards of directors 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 coverages and services to help them better manage their organizations and accomplish their missions. Continue reading to see just how different we are. The following pages describe the variety of member and broker services that we provide as well as highlighting a few of our valued member-insureds.

GLENBROOK COOPERATIVE NURSERY SCHOOL, BETHESDA, MD—*Glenbrook Cooperative Nursery School offers half-day sessions for two to five year-olds in classes that range from two days per week to five days per week. All parents participate in three ways: working in their child's classroom, holding a job at the school, and attending school meetings. This cooperative setting stresses the relationship between teacher and parent, as well as teacher and child, and this type of support system builds a sense of community for all participants. Find out more at www.glenbrookschool.org.*

Broker & Member Services

SACNAS, Santa Cruz, CA—*SACNAS (Society for Advancement of Chicanos/Latinos and Native Americans in Science) is a community of scientists who encourage students in science careers with similar ethnic backgrounds. Pictured above, an educator is conducting an experiment in the "Bringing Biotechnology into the Middle & High School Curriculum Workshop" at the SACNAS National Conference. Find out more at www.sacnas.org.*

Insurance brokers look to us to provide outstanding service to them and their nonprofit clients. Whether it is in the area of underwriting, claims management or loss control and risk management, they count on us to work with them to deliver the products and services their nonprofit clients deserve.

The most successful brokers understand our mission to be a stable source of specialized liability coverages for the nonprofit sector. They understand that another part of our mission is to provide practical and user-friendly isk management and loss control tools to assist nonprofits to be well managed organizations. These brokers encourage their nonprofit clients to use our resources in conjunction with other resources they provide. This cooperative approach is much more satisfying and cost-effective than paying claims for preventable accidents and injuries. Our goal is to work closely with brokers to assure that they have the tools to communicate our mission and coordinate the delivery of our products and services.

In keeping with our goal to provide superior service to brokers and nonprofits, in 2004 we conducted on-line member and broker satisfaction surveys. We are gratified that less than one percent of the respondents expressed any dissatisfaction with us. This data will serve as a baseline as we continue our efforts to continuously improve our service levels and resources.

The following is a summary of services provided in 2004:

Claims

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. In 2004, our claims staff handled nearly 2,500 new claims for ANI-RRG and NIAC.

Secure Broker/Member Websites

In 2004, we introduced a new member and broker only secure area on our websites. Brokers can now access quotes, endorsements and policies on-line. Member-insureds have access to more risk management tools including easy to use checklists and publications. Visit our websites at *www.*Insurance*for*Nonprofits*.org*.

Driver Training

Driver training is offered free to members that have autos insured through NIAC or ANI-RRG. During 2004, more than 1,100 drivers were trained for NIAC members and more than 535 drivers were trained for ANI-RRG members.

ELDERGARDEN, GREENLEY, CO—*Each year Eldergarden provides daytime care to 75 to 100 seniors who need socialization or who cannot be left at home alone during daytime hours. This program allows their caregivers to remain employed and increases the stamina of the seniors, while enhancing their quality of life. Find out more at www.eldergarden.org.*

D&O Attorney Advice

Free pre-termination consultation with a labor law attorney for members with a directors and officers policy with NIAC or ANI-RRG is one of our most valuable services.

In 2004, nearly 150 members took advantage of this resource. These consultations helped our nonprofits avoid the most common errors in terminating employees, and as a result, helped avoid many expensive and time-consuming lawsuits.

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 insured vehicles were monitored in 2004 using the Safetrak™ Program.

Educational Booklets

Eight booklets (available free on the website and in print) are currently available, covering topics such as 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 managing technology risks. Each booklet has been written specifically for the nonprofit reader. Many case studies and sample forms are available in each booklet.

Video Lending Library

To complement their internal training programs, members can take advantage of our video lending library. Topics range from driver safety and employment practices to the prevention of sexual abuse. New titles are being added to the library on a regular basis. More than 90 videos were loaned in 2004.

Workshops/Conferences

In 2004 we continued to sponsor educational events, and to serve as a resource for insurance and risk management information for nonprofits. Staff made more than 20 presentations for nonprofit support organizations and attended and exhibited at 20 conferences.

OAKLAND LEAF, OAKLAND, CA—*Oakland Leaf develops creative educational programs for children, youth, families and elders in the city of Oakland. Topics of focus include social justice, sustainable ecology, youth empowerment and the arts. Oakland Leaf also manages Oakland Peace Camp, a summer arts and nonviolence program for children. Pictured above are first grade students in an Oakland Leaf afterschool program. Find out more at www.oaklandleaf.org.*

Meet Our Members

From feeding the homeless to providing services to the elderly, to programs for our young people, to animal rescue groups—nonprofits work to make our communities a better place to live. Continuously challenged with funding cuts and budget constraints they continue to find creative ways to fulfill their missions.

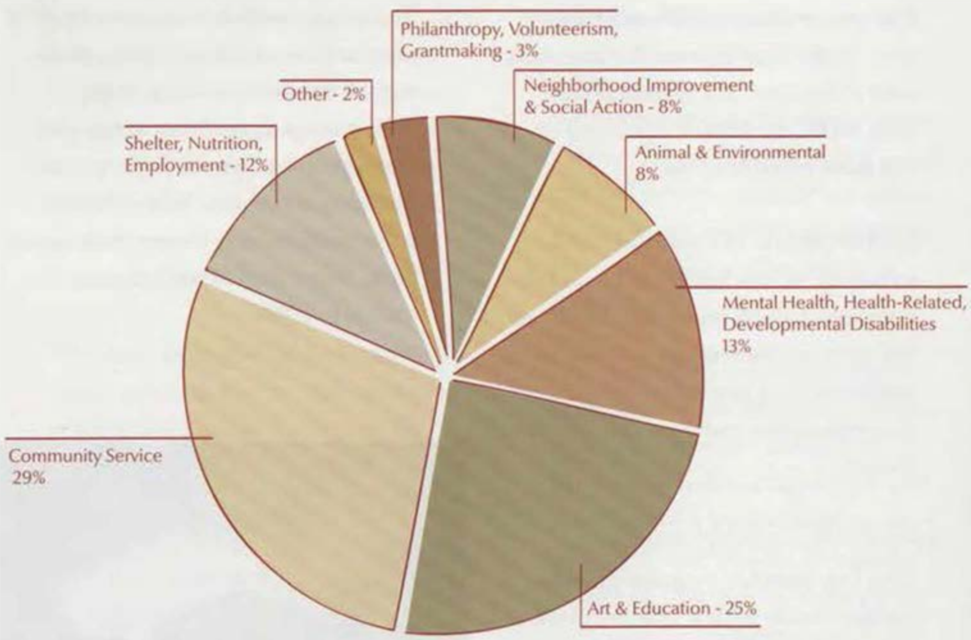
We are proud to be associated with the organizations that make up this important sector and do our best to support their efforts by providing them with appropriate insurance coverages and risk management tools to protect their organizations and their clients.

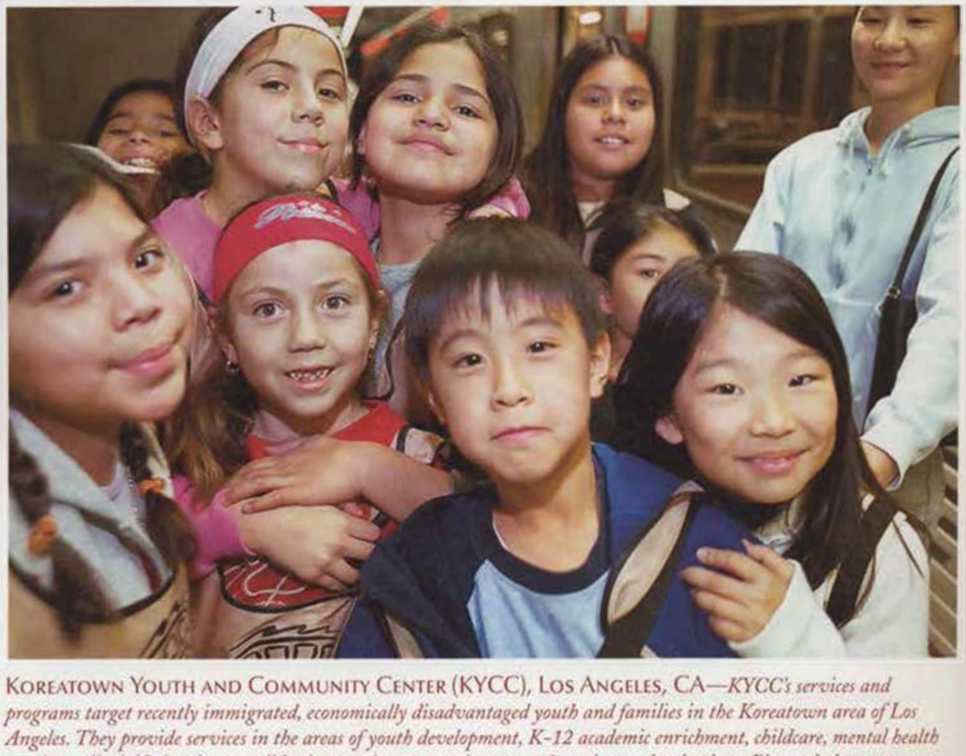
To learn more about the diverse group of nonprofits that comprise our membership, take a few moments to read the following member profiles. A complete list of our members (as of 12/31/2004) is furnished in the back pocket of this report.

The Nonprofits Insurance Alliance Group actively writes business in:

- California
- Colorado
- Connecticut
- Delaware
- District of Columbia
- Iowa
- Kansas
- Maryland
- Michigan
- Missouri
- Nebraska
- Nevada
- North Carolina
- Ohio
- Oregon
- Pennsylvania
- Utah
- Vermont
- Virginia
- Washington

2004 Member Composition





Koreatown Youth and Community Center (KYCC), Los Angeles, CA—*KYCC's services and programs target recently immigrated, economically disadvantaged youth and families in the Koreatown area of Los Angeles. They provide services in the areas of youth development, K-12 academic enrichment, childcare, mental health services, affordable housing, small business assistance, environmental services and technology. Pictured above are some of KYCC's academic program students on a field trip to the Long Beach Aquarium. Find out more at www.kyccla.org.*

Member Profiles

AfricAid
—*Golden, CO*

AfricAid began in 1996 when Ashley Shuyler, then only 11 years old, went on safari to Kenya and Tanzania. After witnessing poverty for the first time, she realized how fortunate most of us are in America. Her dream was to help those who had no access to educational opportunities to get the tools they needed to better their lives.

Four years later, after much research and planning, AfricAid officially began functioning as a fundraising organization for this cause. Through a variety of events, money is collected in the United States for scholarships and educational materials. It is distributed through other nonprofit organizations or individuals on the African continent.

Pictured above is Ashley on a recent trip to Tanzania. Find out more at www.africaid.com.

WiLDCOAST
—*Imperial Beach, CA*

WiLDCOAST is a conservation team, dedicated to the preservation of endangered species and threatened coastal wildlands of the Californias. Through community outreach, activism and media campaigns, they combat threats to imperiled beaches, bays, lagoons and islands and develop reserves to protect them into the future.

WiLDCOAST has spent the last decade building partnerships and professional friendships with critically situated conservationists, fishermen, community activists, ranchers and the families who inhabit these endangered places.

Pictured below, elementary school children learn the importance of protecting the endangered marine life of California. Find out more at www.wildcoast.net.

Member Profiles

Canine Partners for Life
—Cochranville, PA

Canine Partners for Life (CPL) trains and places assistance dogs with individuals with mobility impairments to help increase their independence and quality of life. CPL has several types of assistance dogs in its program including service dogs, seizure alert dogs, home companions and residential companions.

CPL assistance dog recipients have a wide variety of physical disabilities including muscular dystrophy, multiple sclerosis, cerebral palsy, spinal cord injuries, seizure disorders and more. The one thing they all have in common is a drive to become more independent and a commitment to do what is necessary to have an assistance dog in their life.

Training for the dogs at the CPL facility takes about a year. Once a dog and applicant are matched, additional training is provided tailored to the specific needs of the applicant. Find out more at www.k94life.org.

The Friendship Club
—Nevada City, CA

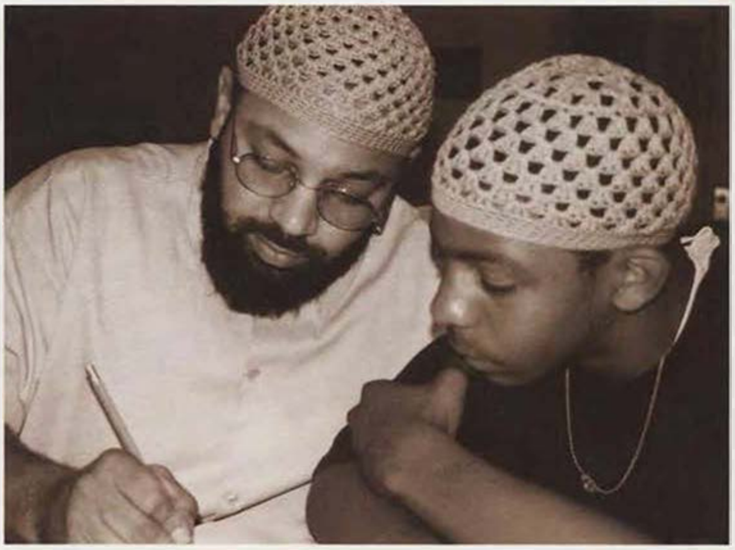
The Friendship Club provides programs and services for at-risk adolescent girls in the rural community of Nevada County, California. Their focus is to teach the girls important life skills and empower them to complete their education and lead responsible lives.

The Friendship Club accepts referrals from social service agencies, middle schools, and families. Criteria for referrals include the following: single parent or grandparent home, low academic achievement, economic need, emotional problems, and/or social isolation.

The Friendship Club staff works with more than 150 volunteers to offer after school tutoring, cultural field trips, summer camp and mentoring. Pictured below, two new friends share a craft project at an assisted living facility. Find out more at www.friendshipclub.org.

Member Profiles

Hope House —*Washington, DC*



Hope House was founded to meet a need created when, in 2001, Lorton prison in Washington, DC was closed and the nearly 10,000 District inmates incarcerated there were transferred to federal prisons across the United States.

Hope House offers programs to these prisoners who are incarcerated far from home, and for their families. The programs work to decrease recidivism and keeping incarcerated fathers connected to their families and the community.

One program sends young children of inmates a children's book with an audio tape recording of their father reading it to them. Other programs include video internet connections between fathers and children and a summer camp where kids can spend time visiting their dads in person, with structured time and support from counselors. Hope House also provides resources to kids and moms, and does outreach and education in the community. Find out more at www.hopehousedc.org.

Door Dog Music Productions —*San Francisco, CA*

Door Dog Music Productions supports and promotes the diversity of cultures of the world through the rich music within each culture.

Door Dog international music programs include the San Francisco World Music Festival, world music concerts, educational programs, master classes, national tours and recording resources. Quality performances from a variety of cultures range from traditional music to contemporary explorations.

By providing resources for musicians and educators, Door Dog Music Productions seeks to make the performers' music and culture more accessible, and to promote an understanding and appreciation of the music and the associated cultures. Find out more at www.doordog.org.

Member Profiles

The Ride Connection
—Portland, OR

Ride Connection links individuals with accessible transportation. Since 1988, Ride Connection has coordinated door-to-door transportation for older adults and people with disabilities in Clackamas, Multnomah and Washington counties.

Beginning in 2000, Ride Connection began to coordinate rural general public service in Washington County, and service to low-income individuals for job skills training and employment opportunities. In 2003, Ride Connection extended its services into Clark County, Washington.

Pictured above, these seniors are taking advantage of the RideAbout Shuttle program, which offered special evening tours of the area's holiday lights displays. Find out more at www.rideconnection.org.

Cardiovascular Disease Foundation—*Carlsbad, CA*

The Cardiovascular Disease Foundation strives to lessen human suffering from cardiovascular disease (CVD) and improve the quality of life for those who have it. It also serves as a resource for research and information on CVD prevention, treatment and diagnosis. One in three people in the United States die from CVD, and it is our country's leading cause of death.

The Foundation offers a variety of programs and services to teach people of all ages how to prevent and recognize CVD and its many risk factors. These include health screenings, the Healthy Heart Nutrition Program, classroom presentations, support groups and community events. Pictured below, some volunteers participate in the annual Run/Walk for Life and Health Fair, which is their primary annual fundraiser. Find out more at www.cvdf.org.

Independent Auditors' Report

PricewaterhouseCoopers

To the Board of Directors of Nonprofits Insurance Alliance Group

In our opinion, the accompanying combined balance sheets as of December 31, 2004 and 2003 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, 2004 and 2003, and the changes in their total equity and their 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. Those standards require that we plan and perform the audits 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 23, 2005

COMBINED BALANCE SHEETS

	2004	2003
Assets		
Investments		
Debt securities (amortized cost: 2004 - \$87,283,256; 2003 - \$65,215,236)	\$ 87,048,365	\$ 65,442,568
Equity securities (cost: 2004 - \$2,624,643; 2003 - \$623,553)	2,852,593	760,252
Total investments	89,900,958	66,202,820
Cash and cash equivalents	7,269,441	10,153,164
Premiums receivable, net	13,561,416	13,090,703
Interest receivable	748,896	576,257
Other receivable	528,407	516,542
Prepaid expenses and other assets	234,473	201,043
Reinsurance recoverables	19,175,780	12,010,146
Prepaid reinsurance premium	6,922,521	5,811,877
Deferred acquisition costs	3,886,509	3,469,657
Property and equipment, net of accumulated depreciation of \$1,974,117 in 2004 and \$1,476,834 in 2003	7,439,054	7,839,725
Total assets	\$ 149,667,455	\$ 119,871,934
Liabilities and Equity		
Liabilities		
Loss and loss adjustment expense reserves	\$ 56,666,399	\$ 41,363,165
Accounts payable and other accrued liabilities	2,772,108	2,628,154
Unearned premiums	27,894,785	24,914,167
Reinsurance payable	1,508,801	1,157,585
Loan payable	3,905,734	4,075,734
	92,747,827	74,138,805
Subordinated debt	1,000,000	-
Total liabilities	93,747,827	74,138,805
Total equity - unrestricted		
Members' contributions	900,507	900,507
Capital contributions	10,000,000	10,000,000
Accumulated earnings	45,026,062	34,468,591
Unrealized (losses) gains on investments, net	(6,941)	364,031
Total equity - unrestricted	55,919,628	45,733,129
	\$ 149,667,455	\$ 119,871,934

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

Combined Statements of Income
and Changes in Total Equity

	2004	2003
Revenues		
Gross written premium	$ 56,695,605	$ 49,136,703
Ceded premium	(13,848,650)	(11,271,975)
Net written premium	42,846,955	37,864,728
Increase in unearned premium, net	(1,869,974)	(5,896,871)
Net earned premium	40,976,981	31,967,857
Net investment income	2,145,151	1,942,765
Net realized gain on sales of investments	4,492	620,209
Other income	924,875	587,401
Total revenues	44,051,499	35,118,232
Expenses		
Losses and loss adjustment expenses incurred, net	21,240,574	16,080,880
Salaries and employee benefits	4,428,485	3,548,980
Commission expense, net	6,285,319	5,882,239
Other expense	1,539,650	988,248
Total expenses	33,494,028	26,500,347
Net income	10,557,471	8,617,885
Other changes in total equity		
Return of premiums	-	(446,667)
Change in net unrealized gains on investments	(370,972)	(778,680)
	10,186,499	7,392,538
Total equity - unrestricted, beginning of year	45,733,129	38,340,591
Total equity - unrestricted, end of year	$ 55,919,628	$ 45,733,129

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

Combined Statements of Cash Flows

	2004	2003
Cash flows from operating activities		
Net income	$ 10,557,471	$ 8,617,885
Adjustments to reconcile net income to net cash provided by operating activities		
Net realized gains on investments	(4,492)	(620,209)
Loss on disposal of property and equipment	5,775	-
Depreciation and amortization	606,633	541,186
Amortization of premium of debt securities	901,157	700,609
Changes in assets and liabilities		
Premiums receivable	(470,713)	(5,115,407)
Interest receivable	(172,639)	(91,876)
Other receivable	(11,865)	(255,552)
Prepaid expenses and other assets	(33,430)	(57,412)
Reinsurance recoverable	(7,165,634)	(3,905,944)
Prepaid reinsurance premium	(1,110,644)	(1,757,204)
Deferred acquisitions costs	(416,852)	(333,004)
Loss and loss adjustment expense reserves	15,303,234	9,440,635
Unearned premiums	2,980,618	7,654,075
Reinsurance payable	351,216	(245,421)
Accounts payable and other accrued liabilities	143,954	1,223,921
Net cash provided by operating activities	21,463,789	15,796,282
Cash flows from investing activities		
Purchases of investments	(78,642,915)	(82,926,837)
Proceeds from sales and maturities of investments	53,677,140	76,122,184
Purchases of property and equipment	(211,737)	(1,532,718)
Net cash used in investing activities	(25,177,512)	(8,337,371)
Cash flows from financing activities		
Return of premiums	-	(446,667)
Proceeds from subordinated debt	1,000,000	-
Repayment of loan payable	(170,000)	(165,000)
Net cash provided by (used in) financing activities	830,000	(611,667)
Net (decrease) increase in cash and cash equivalents	(2,883,723)	6,847,244
Cash and cash equivalents, beginning of year	10,153,164	3,305,920
Cash and cash equivalents, end of year	$ 7,269,441	$ 10,153,164
Supplemental disclosure of cash flow information		
Interest paid	$ 99,465	$ 90,533

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 and property 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 utomobile 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 accrual basis of accounting in accordance with 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 $7,123,699 for 2004 and $5,939,251 for 2003. 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.

Investments

Investments in debt and equity securities are classified as available-for-sale 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.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and money market mutual funds.

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 believes that the reserves for losses and LAE at December 31, 2004 and 2003 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.

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.

Capitalized Software

Costs incurred in developing information systems technology are capitalized and amortized over their useful lives from the dates the systems technology becomes operational not to exceed seven years.

Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year 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, 2004 and 2003:

2004	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Corporate obligations	$ 26,412,017	$ 321,798	$ 200,037	$ 26,533,778
U.S. government and agency obligations	24,354,118	128,027	195,808	24,286,337
Mortgage-backed securities	4,008,618	7,193	22,118	3,993,693
Asset-backed securities	29,671,159	30,289	281,253	29,420,195
Other debt securities	2,837,344	13,782	36,764	2,814,362
Total debt securities	87,283,256	501,089	735,980	87,048,365
Equity securities	2,624,643	254,552	26,602	2,852,593
Total investments	$ 89,907,899	$ 755,641	$ 762,582	$ 89,900,958

2003	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
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
Total investments	$ 65,838,789	$ 723,741	$ 359,710	$ 66,202,820

The amortized cost and estimated fair value of investments at December 31, 2004, 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.

	2004	
	Cost or Amortized Cost	Estimated Fair Value
Due in 1 year or less	$ 6,658,619	$ 6,643,683
Due after 1 year through 5 years	40,067,862	39,878,779
Due after 5 years	6,876,998	7,112,015
Mortgage-backed securities	4,008,618	3,993,693
Asset-backed securities	29,671,159	29,420,195
	$ 87,283,256	$ 87,048,365

Gross realized gains and losses on sales of debt securities were $136,056 and $141,977 in 2004, respectively, and $931,419 and $60,231 in 2003, respectively. Gross realized gains and losses on sales of equity securities were $12,426 and $2,013 in 2004, respectively, and $33,838 and $24,287 in 2003, respectively. In addition, in 2003 a realized loss of $260,530 was recognized on a fixed income security.

At December 31, 2004, 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	$ 451,025	$ 26,786,805	$ 6,559	$ 100,300
Less than 12 months	284,955	36,774,714	20,043	530,935
	$ 735,980	$ 63,561,519	$ 26,602	$ 631,235

4. Premiums Receivable

The Group includes in premiums receivable the unpaid balance of premiums due from policyholders that are payable in full on the effective date of the insurance policy or in installments under the Group's installment payment plan, including any related finance charges. The Group also includes amounts due from policyholders of property and auto physical damage policies issued pursuant to a property insurance program with a third party insurer and administered by AMS. The total premium receivable under the property program for the benefit of the third party insurer amounted to $2,095,697 and $2,052,640, as of December 31, 2004 and 2003, respectively.

5. Property and Equipment

Property and equipment at December 31 consists of:

	2004	2003
Computers and software	$ 1,307,090	$ 1,330,205
Furniture and fixtures	179,126	177,976
Internal software	2,143,770	2,024,681
Land	1,481,423	1,481,423
Building	4,301,762	4,302,274
	9,413,171	9,316,559
Accumulated depreciation	(1,974,117)	(1,476,834)
Property and equipment, net	$ 7,439,054	$ 7,839,725

Depreciation and amortization expense of $606,633 and $541,186, including amortization of leasehold improvements, was recognized for the years ended December 31, 2004 and 2003, respectively.

6. Loss and Loss Adjustment Expense Reserves

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

	2004	2003
Gross loss and loss adjustment expense reserves, January 1	$ 41,363,165	$ 31,922,530
Reinsurance recoverables on unpaid loss and loss adjustment expenses	(11,833,238)	(8,104,202)
Net loss and loss adjustment expense reserves	29,529,927	23,818,328
Incurred related to:		
Current year	22,907,140	16,853,409
Prior years	(1,666,566)	(772,529)
Total incurred	21,240,574	16,080,880
Paid related to:		
Current year	4,236,309	3,116,858
Prior years	8,450,826	7,252,423
Total paid	12,687,135	10,369,281
Net loss and loss adjustment expense reserves, December 31	38,083,366	29,529,927
Reinsurance recoverables on unpaid loss and loss adjustment expenses	18,583,033	11,833,238
Gross loss and loss adjustment expense reserves, December 31	$ 56,666,399	$ 41,363,165

As a result of changes in estimates of insured events in prior years, the loss and loss adjustment expense reserves decreased in 2004 by a net $1,666,566 and by a net $772,529 in 2003. In evaluating its 2004 and 2003 actuarial reports, the Company 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.

7. 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 assessed on a weekly basis, and is dependent upon the current market rate as determined by an independent marketing agent named in the original agreement.

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

2005	$ 180,000
2006	185,000
2007	195,000
2008	200,000
2009	210,000
Thereafter	2,935,734
	$ 3,905,734

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 $96,187 and $90,533 for the years ended December 31, 2004 and 2003, respectively.

8. Subordinated Debt

In October 2004, ANI-RRG entered into a Surplus Note loan agreement with a bank to borrow up to $2 million. ANI-RRG borrowed $1 million under the Surplus Note and, after meeting certain conditions, may borrow up to an additional $1 million. The principal balance matures on October 15, 2024 and is payable to the bank with any unpaid interest. Interest is provided on the unpaid balance at an annual rate of 2%, payable in quarterly installments. Any payment of principal or interest is subject to prior written approval of the Insurance Commissioner of the State of Vermont and is subordinated to the prior payment of, or provision for, all general liabilities of ANI-RRG and the claims of policyholders and creditors of the ANI-RRG.

At December 31, 2004, ANI-RRG had $1 million outstanding under the Surplus Note. After receiving prior written approval from the Insurance Commissioner, ANI-RRG paid total interest of $3,278 in 2004.

9. Reinsurance

The Group purchases reinsurance protection through NANI on liability risks under excess-of-loss contracts. NANI retrocedes these risks with policy limits in excess of its own retention, between $175,000 to $300,000 in 2004 and in excess of $250,000 in 2003, up to a $1 million limit under the first excess of loss contract and up to $4 million and $3 million under the second excess of loss contract in 2004 and 2003, respectively. NANI also assumes a 10% quota share for property risks with maximum policy limits of $3 million in 2004 and 2003. In addition, NANI retrocedes umbrella policies on a 97.5% quota share treaty basis in 2004 and 2003.

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.

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

Reinsurance ceded

	2004	2003
Premium earned	$12,738,002	$ 9,514,771
Loss and loss adjustment expenses incurred	$ 8,912,641	$ 7,513,111
Commission expense	$ 7,742,493	$ 6,842,310
Deferred acquisition costs	$ 4,529,474	$ 4,033,865

For the years ended December 31, 2004 and 2003, NANI received ceding commission of $1,412,127 and $1,258,121, respectively. The ceding commission is recorded as a reduction to deferred acquisition costs, subject to amortization, in the financial statements.

Certain of these reinsurance contracts contained profit sharing provisions which could result in a refund of reinsurance premium based on favorable loss experience. Further, certain contracts provided for the payment of additional reinsurance premium in the event of unfavorable loss experience. NIAC has accrued additional reinsurance premium based on expected loss experience.

Reinsurance recoverable at December 31, 2004 and 2003 are due from two third-party reinsurance companies, both of which are rated A+ or better by A.M. Best.

10. 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 $163,746 and $198,265 in 2004 and 2003, respectively.

11. 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 $1,000,000 and $750,000, respectively, in cash, money market funds, and certificates of deposit and treasury bills with maturities of one year or less. Their ability to pay dividends is restricted and subject to prior regulatory approval. At December 31, 2004, 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.

On the Cover

Clockwise from top, left:

Trees for Life, Wichita, KS

Trees for Life empowers people in developing countries through programs in education, health, and environment. In this photo, two girls at a village school in Cambodia study an educational poster about the Sdao tree, which has medicinal value. Find out more at www.treesforlife.org.

Real Options for City Kids San Francisco, CA

Real Options for City Kids (ROCK) promotes the positive development and long-term success of the youth that it serves through a combination of in-school and after-school learning enrichment, sports and fitness, leadership training, outdoor adventure and summer camp opportunities. Find out more at www.rocksf.org.

Sunday Friends, San Jose, CA

Sunday Friends seeks to break the cycle of poverty for low income families in San Jose by giving them an opportunity to earn the things they need. Children and their parents may earn "tickets" by participating in everyday activities that emphasize education, healthy food choices and teamwork. Find out more at www.sundayfriends.org.

Speaking of Dance, Denver, Co

Speaking of Dance is a performing modern dance company with a mission to "bring dance to the community and the community to dance." Performing site-specific work is a hallmark of SOD's choreography, as seen in this photo by Jim Havey of "On Water," performed in Denver's City Park. Find out more at www.speakingofdance.org.

WEAVE, Inc., Sacramento, CA

WEAVE (Women Escaping a Violent Environment) provides services to survivors of domestic violence and their families as well as survivors of sexual assault in Sacramento County. Programs include crisis intervention, advocacy and legal services, counseling services and a shelter. Find out more at www.weaveinc.org

Through a special program with the printer, trees will be replanted to replace those used for this publication.

Environmental Savings Statement

This annual report was printed on paper made of 100% recycled fibers, 80% post-consumer waste, processed chlorine free. By using this environmentally-friendly paper, the Nonprofits Insurance Alliance Group has SAVED the following resources:

trees	water	energy	solid waste	greenhouse gases
31 fully grown	6,800 gallons	14 million BTUs	1,487 pounds	2,514 pounds