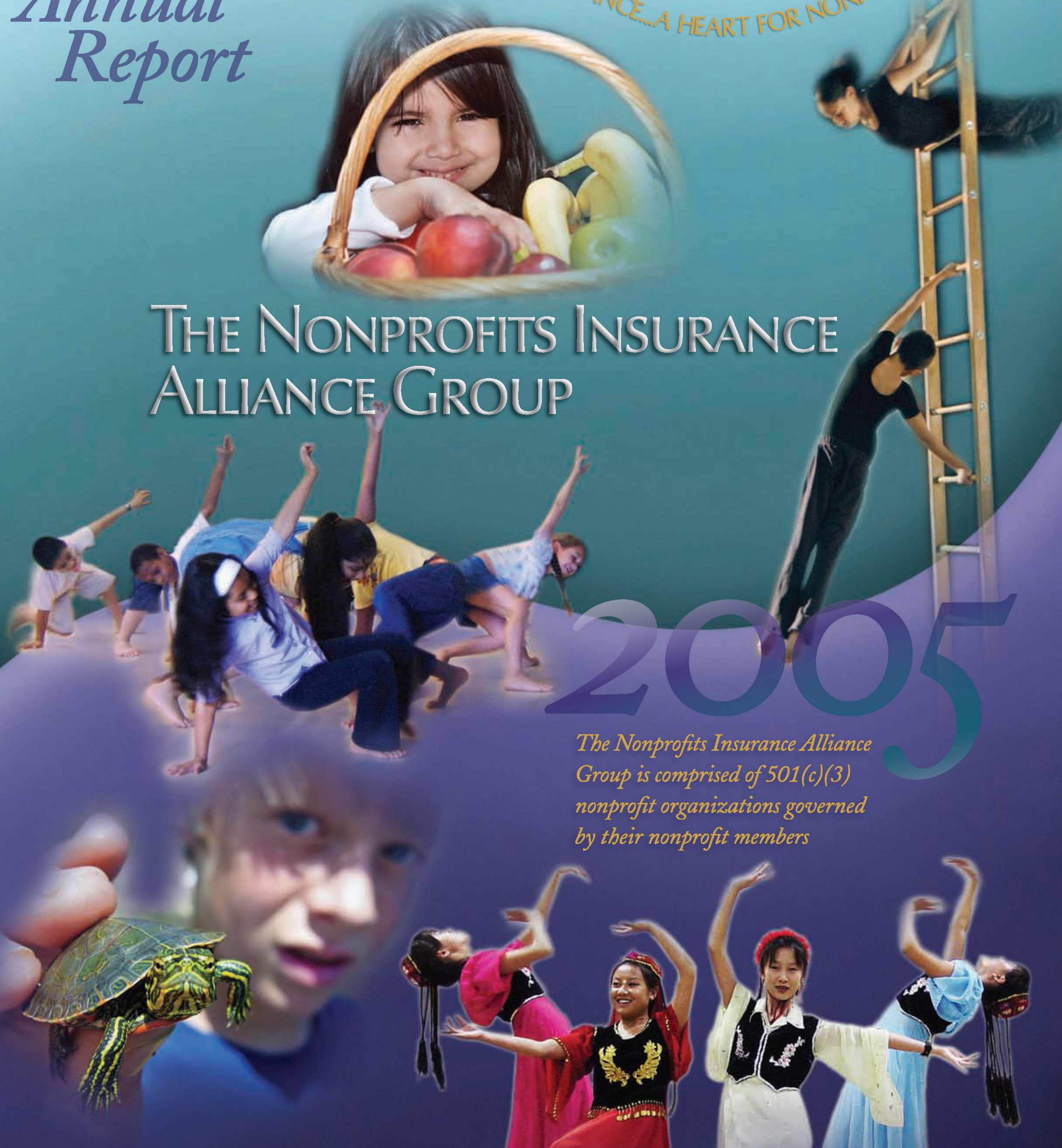
Annual Report

A HEAD FOR INSURANCE...A HEART FOR NONPROFITS



THE NONPROFITS INSURANCE ALLIANCE GROUP

2005

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

Alliance of Nonprofits for Insurance
Risk Retention Group

On the Cover

Clockwise from top, left:

Westside Food Bank , Santa Monica, CA

Westside Food Bank provides emergency food supplies to more than 65 social service agencies with food assistance programs on the Westside of Los Angeles County. Providing a variety of fresh fruits and vegetables helps to meet the needs of the 80,000 people who receive food each year, including more than 40,000 children. Find out more at www.westsidefoodbankca.org.

Project Spera, San Francisco, CA

Project Spera educates youth about international affairs and builds their skills for global citizenship to enable them to become well-informed and responsible citizens. Pictured here, youth dancers in an original aerial dance performance at Project Spera's Global Youth Media and Arts Festival. Find out more at www.projectspera.org

Grand Design, Aurora, CO

Grand Design presents original performing arts programs for the community featuring established artists and budding local talents. Pictured here, group folk dancers from one of their programs which teaches the Chinese language and culture to youth and adults. Find out more at www.grandbydesign.com.

Thorne Ecological Institute, Boulder, CO

The Thorne Ecological Institute, founded in 1954, builds Earth stewardship by connecting kids to nature through hands-on environmental education experiences. This mission comes to life through field-based natural science classes for children, in-school environmental education programs, seminars, field workshops, teacher training sessions, and partnerships on environmental education concepts. Find out more at www.thorne-eco.org.

Homowo African Arts and Cultures Portland, OR

Homowo African Arts and Cultures brings African music, dance and culture to life by presenting high quality performances and workshops to people across the nation. Pictured here, a workshop in African dance stressing cultural dialogue at Peninsula Elementary School in Portland, Oregon. Find out more at www.homowo.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, 50% 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
35 saved	7,617 gallons saved	16 million BTUs	1,666 pds recycled	2,816 pds saved

MESSAGE *from the* PRESIDENT *and the* CHAIRMEN

By any measure, 2005 was a year of unprecedented catastrophes around the globe. For the insurance industry in general, it was a year of significant challenges. However, the Nonprofits Insurance Alliance Group was spared exposure to these events and experienced strong financial performance.

In November, A.M. Best recognized our financial strength by upgrading the rating of ANI-RRG and NANI to A- (Excellent) and affirmed NIAC's rating of A (Excellent). According to A.M. Best, "Despite a significant growth phase in recent years, the companies have been able to maintain conservative leverage measures. The companies' capitalization levels are protected by solid reinsurance protection from a leading global reinsurance group. They are also supported by conservative reserving and investment approaches. ANI-RRG and NANI also benefit from their nonprofit, tax-exempt status and from the experience and success of NIAC, which has a leading market position serving California nonprofits. Reflecting the group's expertise, strong customer focus and commitment to the nonprofit sector, member retentions are very high."

On a combined basis, the Group welcomed 1,348 new members and closed the year with 6,696 members, renewing 90 percent of existing members. Gross written premium totaled $57.6 million, an increase of 1.5 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 $13.7 million, and the Group's reinsurance captive retained $1.8 million on a net basis. Also, we provided all policyholder services on an additional $10.7 million in premium for our companion property program, bringing the total business administered by the Group in 2005 to $68.3 million.

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

At year-end, the Group's balance sheet showed total equity of $65.6 million and total assets of $173.2 million. Of the $10.4 million in combined net income for the Group, $9.2 million was contributed by NIAC and $1.2 million by ANI-RRG. As a result of prior favorable claims experience, most NIAC members received price reductions in 2005. While ANI-RRG's claims experience in its first four years has been favorable, it is premature to institute broad-based price decreases at this early stage in its growth.

During 2005 we evaluated our work since 1989. By selecting what has worked best in service to members and their brokers, we developed a strategic plan to guide our decision-making over the coming years. We distilled our thinking into the following strategic principle:

Inspired service and sensible products at the right prices, effectively and dependably delivered.

We realize that our strategic principle is simple and straightforward and not particularly flashy. But, we think it fits us very well.

Importantly, our guiding principle begins with "inspired service." Before we were in a strong financial position, and had the track record we have today, we gained our foothold in the nonprofit marketplace through an unwavering commitment to service. Today we continue to have an almost fanatical desire to delight our customers with our service. By delight we mean to cheer, thrill, and, yes, even "tickle pink" those on the receiving end of our service. Frankly, we are somewhat addicted to the many letters of appreciation we receive containing comments like those listed below.

"I wish I had this prompt service with all of our carriers." (broker)

"Thanks for the prompt settlement. While no one wants to have to deal with insurance claims, at least I am very pleased with the courtesy and promptness with which you handled the whole thing." (claimant)

"Working with ANI-RRG is a breath of fresh air compared to other markets who claim to be nonprofit experts." (broker)

The word "sensible" took a big hit when people started pairing it with the word "shoes." To say someone wears "sensible shoes" is tantamount to saying they have no sense of style. We think "sensible" has gotten a bad rap. Sensible also means practical, prudent, down-to-earth, and well-reasoned. We listen to what members and brokers tell us about the insurance coverages and loss control resources that are important to them and provide "sensible products" as appropriate to fit the special, and changing, needs of nonprofits. In response to member needs in 2005, we developed a bridge policy to help nonprofits transition from commercial insurers' claims-made policies and made available a new D&O policy form designed for small nonprofits.

Another component of our strategic principle is "the right prices." Although insurance is a data driven business, there is a surprising level of judgment involved in determining the correct risk premium. We take seriously our commitment to be fair to all members, large and small. Unlike commercial insurers whose prices often reflect what the market will bear, we focus on assuring pricing equity across our membership. Ours is a more complex decision-making process, but essential to our core commitment to stability and fairness.

And, to complete our strategic principle, we are driven by our duty to deliver products and services "effectively and dependably." For us, effectiveness means selecting the most appropriate and efficient means of delivery and changing those methods in step with the needs of members and brokers. It means choosing wisely how we spend members' premium dollars. Delivering dependably means that our decisions and follow-through will be consistent and responsible, and that we will be accountable for our actions. Our members have expressed how important our support is to them during difficult times more eloquently than we ever could.

"Your never-ending patience and kindness, along with the very professional manner in which you conducted your business affairs, never ceased to amaze me. There are many horror stories out "there" regarding insurance companies and to enjoy the complete opposite at this very difficult time in my life leaves me truly grateful." (Executive Director of nonprofit member-insured)

"On behalf of my organization, and especially myself, I would like to thank you for staying with us in this ordeal…This trial was really hard on me and my family, but Jerry [the attorney you hired for us] kept assuring us that he and you [NIAC claims examiner] were with me all the way. That gave me confidence…I couldn't have made it without you and Jerry. We were fortunate to have both of you behind us." (Executive Director of nonprofit member-insured)

With our relatively small staff, we know that delivering on our strategic principle means that every employee has to be a top performer. Once a week, on average, we receive an unsolicited note of appreciation, about the "above and beyond" service provided by our staff. Fully 40 percent of our staff members were mentioned by name in at least one of these notes this year. We know, that to keep those "kudos" coming, we must nurture an environment that makes it fun to find ways to exceed customers' expectations. Some of the comments made about the team this year include:

"After meeting your team we are more than impressed. It is as if you have hand picked the cream of the crop." (broker)

"NIAC is simply the best insurance organization of any kind that I have ever worked with and we are thrilled to work with your people and represent your products." (broker)

"The professionalism and expertise within your organization is something rarely found today." (reinsurance representative)

We thoroughly enjoy this work of serving nonprofit organizations, and we hope it shows.

It continues to be our privilege to serve this hard-working and worthy group as we maintain our head for insurance and heart for nonprofits,

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

CONGRATULATIONS...to Pamela Davis from the Boards of Directors and staff of the Nonprofits Insurance Alliance Group for being named one of the fifteen FORTUNE Small Business and Winning Workplaces Best Bosses for 2005. (Front Row, third from left.)

NIAC Board of Directors

Back row (l-r):

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

Roger W. Gilbert
President, Retired, Great American West

John E. McCue
Chief Executive Officer
Becoming Independent

John M. Christensen, Secretary
Senior Vice President
Hope Services

Phillip Kimble
Board Historian
Valley Center for the Blind

Front row (l-r):

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

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

Pamela E. Davis, President
Chief Executive Officer, NIAC

R. Lawrence Bacon, Chairman
President, Bacon & Company

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

Not Pictured:

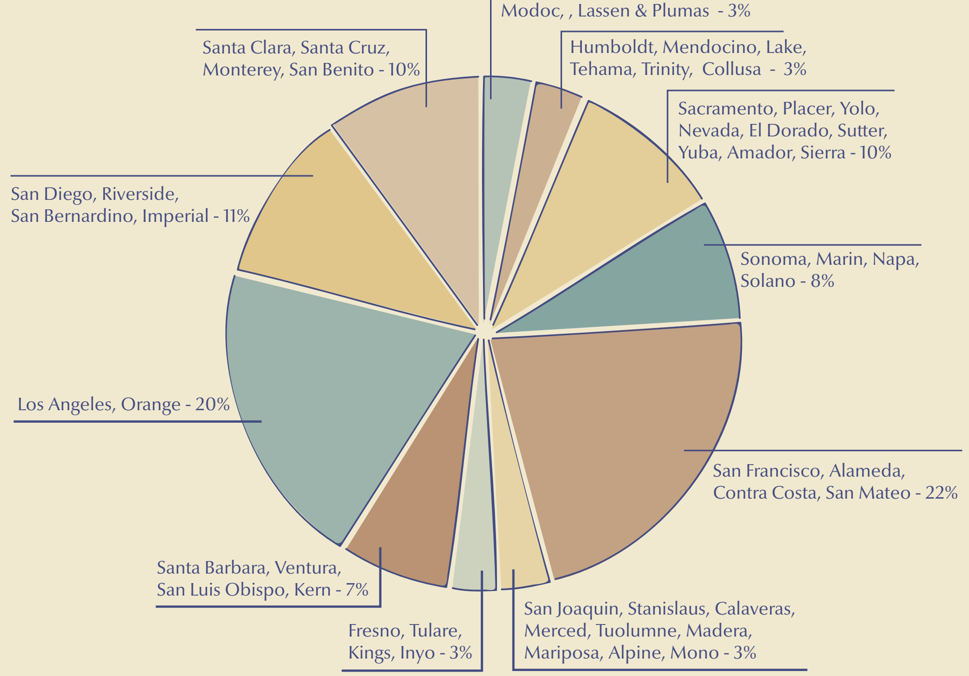
Norris Clark
Financial and Regulatory Specialist
Lord, Bissell & Brook LLP

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

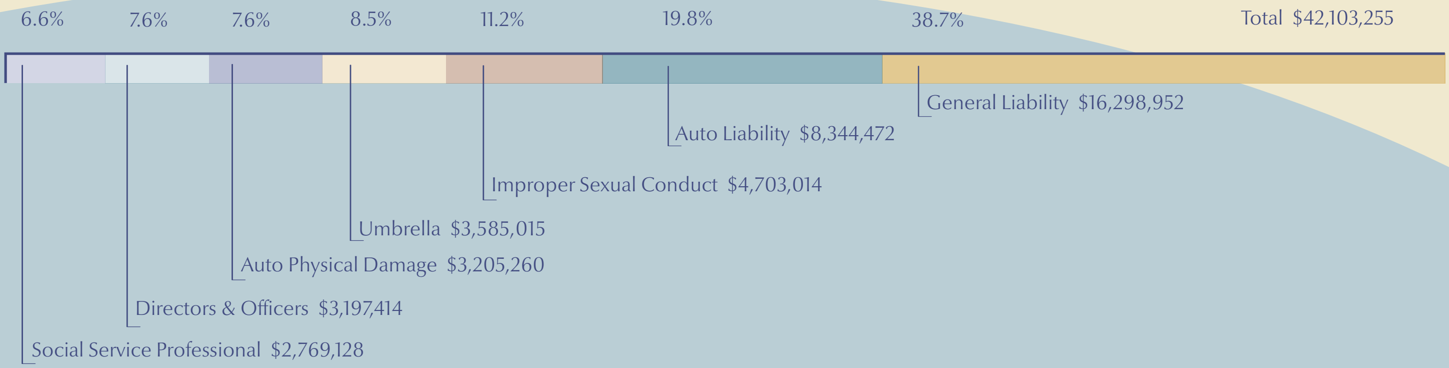
Richard J. Welch, ARM
Director, Retired, Risk Management and Safety, City of Los Angeles

NIAC Results 2005

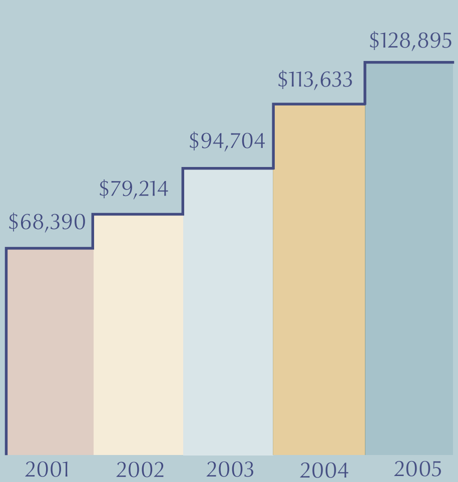
Members by County



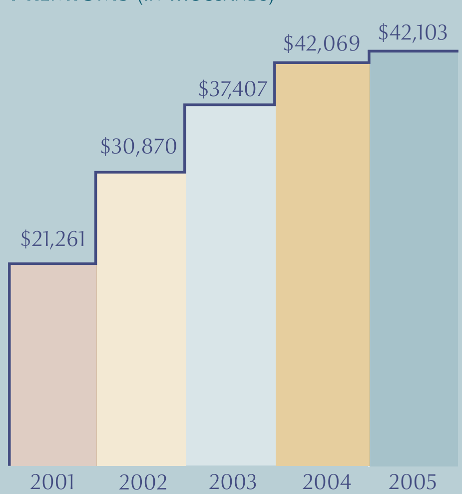
Premium by Line



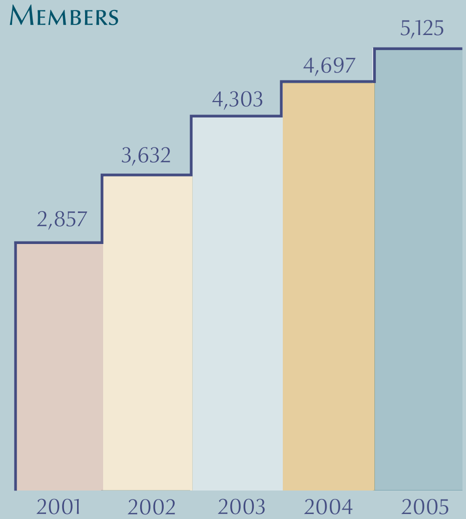
Assets (in Thousands)



Premiums (in Thousands)



Members



ANI-RRG Board of Directors

Back row (l-r):

Steven Richard
Executive Vice President Operations/Finance
SUN Home Health Services, PA

R. Lawrence Bacon
President, Bacon & Company, CA

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

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

Front row (l-r):

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

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

Linda L. Harrington [1]
Families First of Grant County, OR

Not Pictured:

Alison Coolbrith
Principal, A&B Enterprises
Bloomfield, CT

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

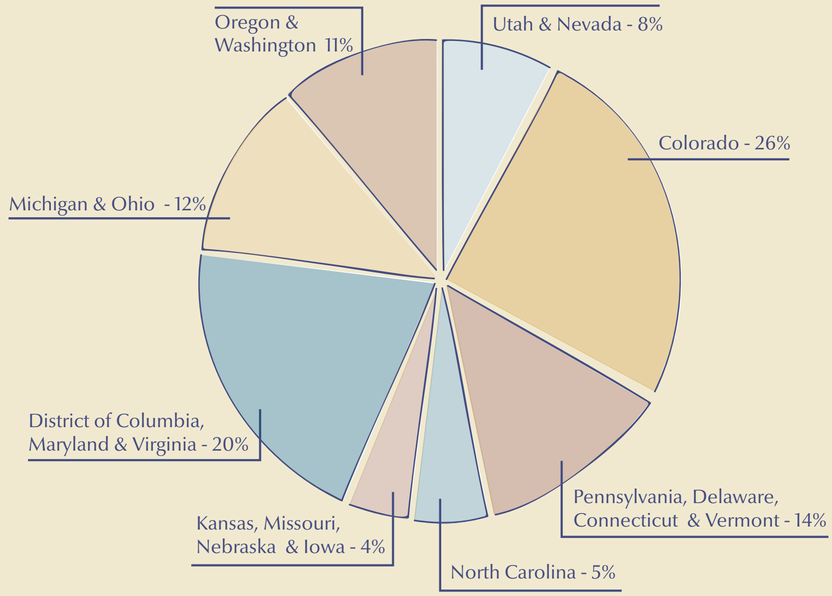
Andrew Sargeant, Assistant Secretary
President, USA Risk Group of Vermont, VT

Phillip Shumway [2]
Executive Director
TURN Community Services, UT

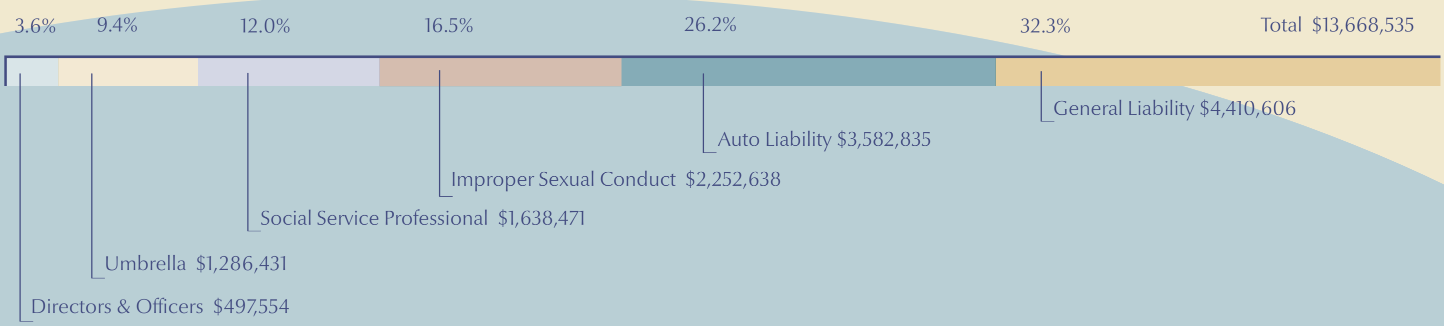
[1] *Elected February 2006*
[2] *Appointed March 2006*

ANI-RRG Results 2005

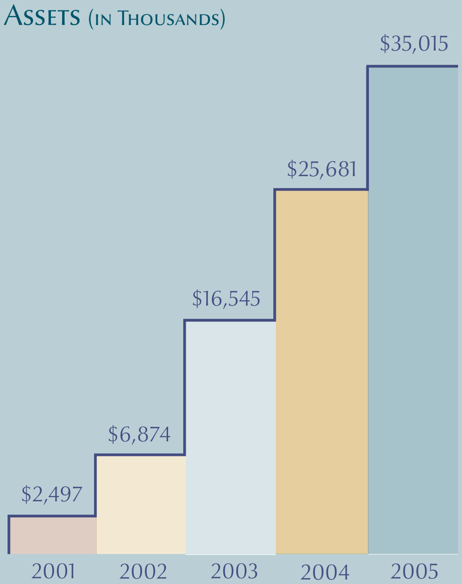
Members by State



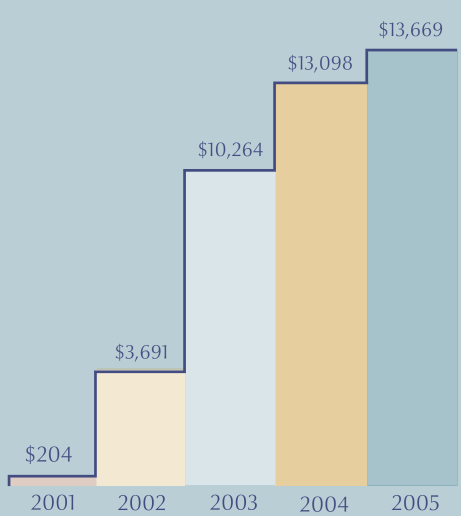
Premium by Line



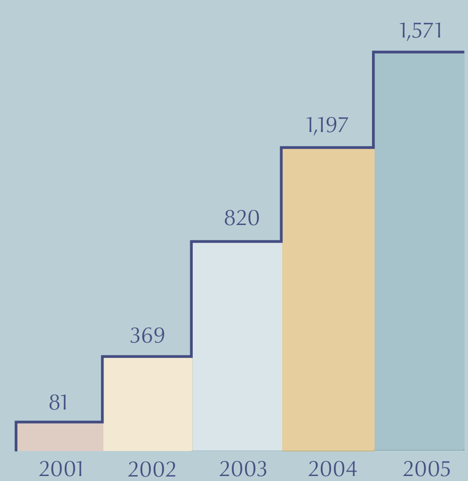
Assets (in Thousands)



Premiums (in Thousands)



Members

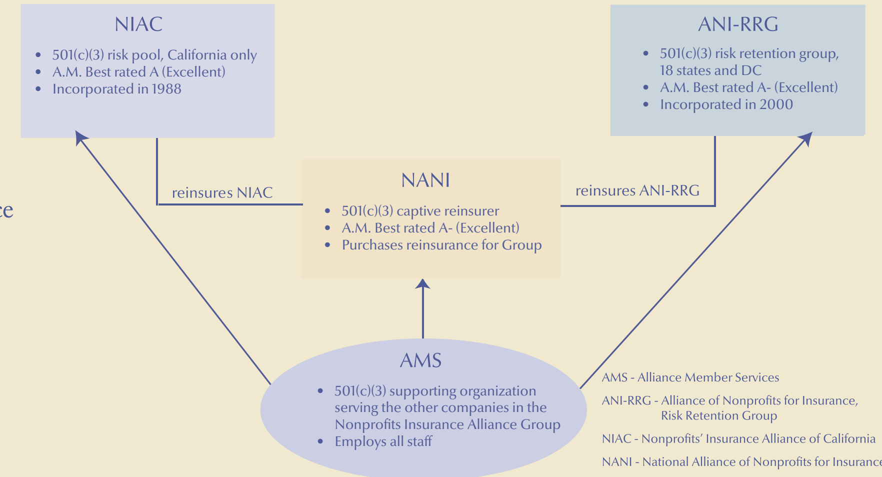


Vision

A Head for Insurance…A Heart for Nonprofits, encapsulates the vision which launched the Nonprofits' Insurance Alliance of California (NIAC) in 1989. At that time, the goal was to address the insurance crisis facing nonprofits in California by building an innovative and financially stable nonprofit insurer focused on the unique needs of the nonprofit sector. Today, the Nonprofits Insurance Alliance Group is composed of four distinct 501(c)(3) nonprofit organizations that insure 6,700 nonprofits in 19 states and DC. The Group has influenced the insurance marketplace for nonprofits by modeling fairness and pricing stability. The vision set out in 1989 is now a reality.

The complete history of the Nonprofits Insurance Alliance Group can be found on our web site at www.InsuranceforNonprofits.org

The Nonprofits Insurance Alliance Group



"…you have not lost touch with what most nonprofits experience (at least initially), and that is…'the dream'."

Cindy Burger
Grace in Action, Inc.

Lifeschool

Bodega, CA

Founded in 1999 in Bodega Bay, California, Lifeschool has led 1,200 youth from four countries and eight states on wilderness learning trips. From short overnight trips for beginners to far-off and exotic three week odysseys for more experienced travelers, Lifeschool combines amazing wilderness destinations with a multiple-intelligence learning model that brings kids back home with new and resourceful ways of living in their everyday world.

Parents and teachers appreciate the customized curriculum, dedication to risk management and personalized attention. Currently Lifeschool offers programs in California, Oregon, Washington, Alaska, Costa Rica and Hawaii. Find out more at www.lifeschooladventures.org.

Collective Strength

The Nonprofits Insurance Alliance Group owes much to the visionary foundations and nonprofit state associations that have lent their support over the years. Our success in bringing stability to the liability insurance marketplace for nonprofits is a testament to what the nonprofit sector can accomplish by working together. But this collaboration has resulted in much more than just stable pricing. After 17 years of handling more than 10,000 claims against nonprofits, the Nonprofits Insurance Alliance Group now has the data to demonstrate that nonprofits are good risk managers. This database is a powerful, stabilizing force to moderate commercial insurance prices. The Nonprofits Insurance Alliance Group is a strong voice for nonprofits in the world of insurance.

Join the Nonprofits Insurance Alliance Group in another new and exciting nonprofit sector collaboration, the Nonprofit Congress. For information visit www.nonprofitcongress.org.

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

A complete list of our member-insureds (as of 12/31/2005) is furnished in the back pocket of this report.

"God bless you and your co-workers for your courage and hard work, and for being there for us. You make it possible for us all to serve the public in so many ways. It is great to have you as a partner."

John Flippin
San Gorgonio Wilderness Association

Wild Iris Women's Services of Bishop

Bishop, CA

Wild Iris offers services in Inyo and Mono counties to those affected by domestic violence, child abuse and sexual assault. Programs include a 24 hour crisis line, counseling and support, information and resources, safe haven shelter and youth violence prevention program. Additionally, Wild Iris offers advocacy, community education and a library with a computer.

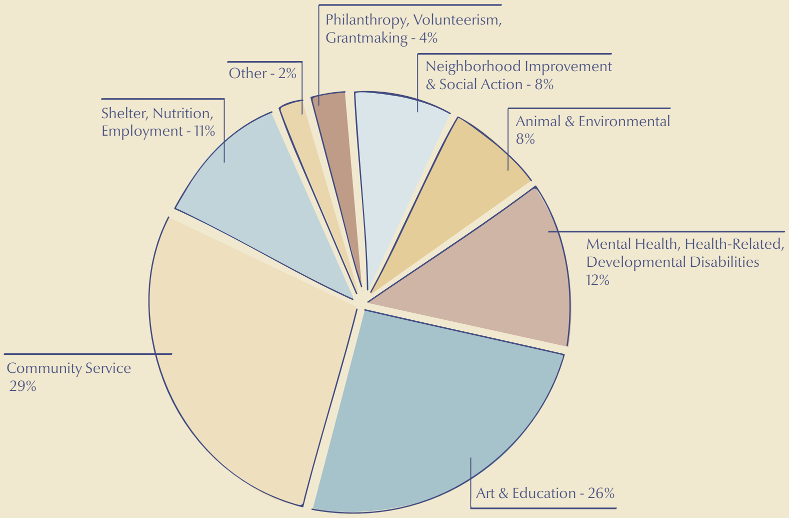
Since its founding in 1981, the prevention of child abuse has been one of Wild Iris's principle activities. Wild Iris provides youth violence prevention programs throughout the Eastern Sierra. Pictured above are a few of Wild Iris' young volunteers at the October 2005 Community Awareness Run. Find out more at www.wild-iris.org.

Stable and Affordable

Our commitment is to long-term stability, both in financial results and in product and service delivery. During 2005, commercial insurers once again cut prices to increase cash flow without regard to the impact on future instability. We broadly serve the nonprofit sector, including nonprofits and brokers of all sizes, by providing appropriate insurance at prices that are adequate and fair and that can be maintained over the long-term. Our prices reflect our best assessment of the lowest sustainable price for the individual risk involved, but not necessarily the lowest price during a soft market. We believe providing the nonprofit sector with a reliable, long-term solution takes precedence over short-term market pressures.

In November of 2005, A.M. Best upgraded the financial strength rating of ANI-RRG and NANI to A- (Excellent) and affirmed NIAC's A.M. Best financial strength rating of A (Excellent).

2005 Member Composition



"…there's something reassuring about your organization, something David and Goliath-like, the way you conduct business, and the accessibility and helpfulness of your staff when I call."

Steve Clare
Venice Community Housing Corporation

Central City Concern

Portland, OR

Central City Concern (CCC), founded in 1979, provides services to single adults and families affected by homelessness, poverty and addictions. CCC helps individuals move toward self-sufficiency through affordable housing options and direct services including primary and behavioral health-care, recovery support services and employment assistance.

Pictured here, The Letty Owings Center helps mothers overcome drug and alcohol addictions, and helps families stay together. Treatment is tailored to the specific needs of each woman, and includes parenting classes, domestic violence services, life skills and on-site mental health services. Find out more at www.centralcityconcern.org.

Timely and Efficient

During 2005, we continued to leverage technology to improve our productivity and efficiency. Our secure web sites provide 24/7 access to quotes and policies for our insurance brokers and resources for our nonprofit member-insureds and are an integral part of our business operations. As a cost-effective distribution channel, the web sites give us the capability to continue to expand our offerings of loss control and risk management products and services specifically for nonprofits. We continue to move toward a paperless work environment through automated work flows and online document management. Our brokers are amazed at, and we take pride in, our practice of routinely issuing policies within five days of inception.

"…the turnaround time is almost unbelievable it is so fast…the extraordinary service provided by your staff makes the jobs of brokers and customers much easier."

Greg Conners
Patterson Conners Insurance Services

National Disaster Search Dog Foundation

Ojai, CA

The mission of the National Disaster Search Dog Foundation (SDF) is to produce the most highly trained canine disaster search teams and to provide these trained dogs at no charge to fire departments and first responders nationwide. The job of these teams is to find people buried alive in the wreckage of natural disasters and terrorist attacks.

SDF rescues dogs from shelters and breed rescue groups, then gives them extensive professional training. Pictured here, search dogs take a break from their work in Biloxi, Mississippi, in the aftermath of Hurricane Katrina, where 26 SDF canine disaster search teams were deployed to assist in the rescue efforts. Find out more at www.ndsdf.org.

Exceptional Customer Focus

Specializing in liability coverages for the organizations that make up the nonprofit sector means understanding their unique needs and challenges. In 2005, using our claims data to support product development, we introduced a new flat-rate Directors and Officers (D&O) coverage form for small nonprofits without employees. Our data shows that most claims against the D&O policy are employment-related. Being sensitive to budget and funding issues that small nonprofits face, we introduced this product to ensure that small nonprofits could attract and protect board members without paying for unnecessary coverages. Also in 2005, we introduced Prior Acts coverage to help nonprofits transition from commercial claims-made policies. From coverage forms to risk management tools, to understanding new services and programs being offered by nonprofits, we support the sector as it changes and innovates.

"I appreciate your sensitivity to our needs and for your open communication. I can see that you have created more than an insurance company; a partner to us all."

Irma E. Velasquez
Wings Learning Center

Colorado Academy for Lifelong Learning

Englewood, CO

More than 400 Lifelong Learning Institutes across the nation provide rewarding opportunities for seniors to learn and volunteer. In Denver, the Academy for Lifelong Learning is a community of adults who band together to design and enjoy academic and cultural courses. Subjects include social sciences, history, fine arts, economics, global topics, literature, philosophy, religion, and the physical sciences.

Pictured here, participants in a Writing Your Life Stories workshop collaborate. Students in this class gain confidence to record their stories for future generations. The course philosophy is that all lives have interesting stories worth preserving. Find out more at www.academyll.org.

Service Exceeding Expectations

Inspired service and sensible products at the right prices, effectively and dependably delivered. We are guided by this strategic principle. We routinely hear from our insurance brokers and nonprofit members that the service they receive from our staff far surpasses that of other insurance carriers. While we never can rest on our laurels, we know that the ease of doing business with us differentiates us in the marketplace. Whether it is underwriting or claims processing time, scheduling training or responding to general inquiries, we pride ourselves on being responsive and exceeding expectations. Brokers and member-insureds know that our claims staff understands the impact a claim can have on a nonprofit's reputation in the local community and we work to ensure the claim is handled professionally and quickly. In 2005, our claims staff handled 2,400 new claims on behalf of our members.

"This is extraordinary service; it doesn't happen by accident, but is a product of a dedicated, results-oriented attitude towards work."

Micki Kindel
Interwest Insurance Services

Children's Institute, Inc.

Los Angeles, CA

Since 1906, Children's Institute, Inc. (CII) has been helping children who have been traumatized by violence in their homes or communities.

CII's therapeutic services include child and family mental health assessment and treatment services, in-home counseling, specialized sexual abuse treatment, emergency response and follow-up services for victims of domestic violence and their children, and comprehensive foster care services. The program also offers parenting education, counseling and support groups for fathers, and intervention at the middle school level to prevent bullying and provide youth with an alternative to gangs. Find out more at www.childrensinstitute.org.

Innovative Products

Helping our member-insureds implement loss control and risk management programs is a big part of our mission. In 2005, the Nonprofits Insurance Alliance Group teamed up with the Nonprofit Risk Management Center to hold a three day Risk Management and Finance Summit for Nonprofits. Held in San Francisco, more than 350 nonprofits attended. In conjunction with this conference, NIAC introduced the inaugural NIAC Risk Management Award recognizing three California nonprofits, Stepping Stones for Women, Butler Valley, Inc., and Paratransit, Inc. In 2005, we also launched BOARDnetWORK, an online tool to help nonprofit boards of directors organize and manage their work. We trained more than 1,000 drivers through our free driver training program and tracked 2,000 autos through our free vehicle monitoring program. Additionally, our employment counsel handled 150 free pre-termination consultations for members.

Visit www.nonprofitrisk.org for information on the Risk Management and Finance Summit for Nonprofits. For a demo of BOARDnetWORK, go to www.InsuranceforNonprofits.org.

"The Risk Management and Finance Summit was an excellent summit and exceeded my expections. Thank you for the wonderful opportunity."

Kevin Burns, M.A.
Shanti, Inc.

Heads Up Therapeutic Riding Program

Pittsboro, NC

Heads Up provides therapeutic equine-related activities to individuals with physical, emotional or developmental disabilities in central North Carolina.

Currently Heads Up serves more than 30 people each week in two programs: hippotherapy, which emphasizes therapy and always involves a licensed physical, speech or occupational therapist, and therapeutic riding which emphasizes recreation, riding skills and fun on horseback.

Services are provided on a sliding scale with scholarships available according to family financial need. Find out more at www.narha.org.

The Nonprofits Insurance Alliance Group ended 2005 with 6,696 nonprofit member-insureds. Our members range from very small nonprofits without employees to large multi-service organizations. We have tremendous respect for the contributions our nonprofit members make in their communities and consider it a priviledge to serve them. We frequently spotlight our member nonprofits to highlight the work they do and to help carry their vision beyond their usual supporters. Throughout this report, as well as in our annual wall calendar and through our web sites, inspiring photos and stories demonstrate the work of our member nonprofits. Additionally, our management and staff volunteer in a variety of projects each year to support nonprofits in our own community. By being involved with the nonprofit community, we are reminded of our own mission to support the nonprofit sector and make it stronger.

"I believe that your business philosophy and your operating values are in complete alignment with your constituents and you have always demonstrated your willingness to be open to input from the field and to be vulnerable to change."

Robert De Leo
Polly Klass Foundation

Madrone Hospice

Yreka, CA

For more than twenty years, Madrone Hospice has provided quality, compassionate hospice care for the residents of Siskiyou County. Patient care volunteers provide respite for caregivers and support patients in many ways. Hospice House volunteers support staff, patients and families in their residential facility. Adult day health care volunteers assist with activity and meal times.

All the programs are supported by funds raised at three retail outlets. At the Hospice Heartisans Studio and Boutique, volunteers recycle discarded items into one of a kind home décor accessories. This photo shows Hospice Shop volunteers who sell used clothing, housewares and collectibles. There is also a Hospice Used Furniture and Book Store. Find out more at www.madronehospice.org.

Commitment

As nonprofits ourselves, we go out of our way whenever possible, to cover risks from which other insurance carriers recoil or price inappropriately. From feeding the homeless, to services for seniors, to innovative car-sharing programs, we understand nonprofits always will be in the forefront of providing entrepreneurial social services, and we stand by them to ensure that these services continue.

Our mission is to assist as many nonprofits as possible while growing financially solid companies that will exist to serve the nonprofit sector for decades to come. We always must balance growth with delivering stable financial results and providing exceptional service to our existing members. If we do anything that doesn't ring true to our mission, please let us know. If we are to continue to deserve the confidence you have shown in us, we must be mindful of our nonprofit roots and mission.

Management Team for the Nonprofits Insurance Alliance Group

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

"I felt abandoned when everyone settled and left (me) as a defendant, but you had our best interests at heart…you were with me all the way. That gave me confidence."

Gail Richey
Shascade Community Services

WALKSacramento

Sacramento, CA

WALKSacramento is dedicated to achieving safe, walkable communities for personal health and recreation, for livable neighborhoods, for traffic safety, and for clean air. Programs include education, assistance, fundraising and other activities including sponsoring and supporting walking-related events and communicating the benefits of walking to the media, policy-makers and the general public. The organization also builds awareness of safety needs and sponsors and supports projects to increase community walkability, including working with city and county planners to develop pedestrian design standards and support funding for pedestrian infrastructure. Find out more at www.walksacramento.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, 2005 and 2004 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, 2005 and 2004, 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 22, 2006

Combined Balance Sheets

	2005	2004
Assets		
Investments		
Debt securities (amortized cost: 2005 - $105,859,144; 2004 - $87,283,256)	$ 104,736,510	$ 87,048,365
Equity securities (cost: 2005 - $8,261,030; 2004 - $2,624,643)	8,588,997	2,852,593
Total investments	113,325,507	89,900,958
Cash and cash equivalents	4,162,169	7,269,441
Premiums receivable, net	14,311,150	13,561,416
Interest receivable	1,005,684	748,896
Prepaid expenses and other assets	374,746	762,880
Reinsurance recoverable	22,155,092	19,175,780
Prepaid reinsurance premium	6,840,150	6,922,521
Deferred acquisition costs	3,932,030	3,886,509
Property and equipment, net of accumulated depreciation of $2,656,421 in 2005 and $1,974,117 in 2004	7,103,167	7,439,054
Total assets	$173,209,695	$ 149,667,455
Liabilities and Equity		
Liabilities		
Loss and loss adjustment expense reserves	$69,442,846	$ 56,666,399
Unearned premiums	28,006,187	27,894,785
Accounts payable and other accrued liabilities	3,049,204	2,772,108
Reinsurance payable	1,435,191	1,508,801
Loan payable	3,725,734	3,905,734
	105,659,142	92,747,827
Subordinated debt	2,000,000	1,000,000
Total liabilities	107,659,142	93,747,827
Total equity - unrestricted		
Members' contributions	900,507	900,507
Capital contributions	10,000,000	10,000,000
Accumulated earnings	55,444,713	45,026,062
Unrealized losses on investments, net	(794,667)	(6,941)
Total equity - unrestricted	65,550,553	55,919,628
	$173,209,695	$ 149,667,455

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

Combined Statements of Income
and Changes in Total Equity
Years Ended December 31, 2005 and 2004

	2005	2004
Revenues		
Gross written premium	$57,531,841	$ 56,695,605
Ceded premium	(14,045,680)	(13,848,650)
Net written premium	43,486,161	42,846,955
Increase in unearned premium, net	(193,774)	(1,869,974)
Net earned premium	43,292,387	40,976,981
Net investment income	3,427,947	2,145,151
Net realized (losses) gains on sales of investments	(283,792)	4,492
Other income	2,340,321	2,248,162
Total revenues	48,776,863	45,374,786
Expenses		
Losses and loss adjustment expenses, net	23,551,447	21,240,574
Salaries and employee benefits	5,745,973	5,410,364
Commission expense, net	6,373,330	6,285,319
Other expense	2,687,462	1,881,058
Total expenses	38,358,212	34,817,315
Net income	10,418,651	10,557,471
Other changes in total equity		
Change in net unrealized losses on investments	(787,726)	(370,972)
	9,630,925	10,186,499
Total equity - unrestricted, beginning of year	55,919,628	45,733,129
Total equity - unrestricted, end of year	$65,550,553	$ 55,919,628

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

Combined Statements of Cash Flows

Years Ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities		
Net income	$10,418,651	$ 10,557,471
Adjustments to reconcile net income to net cash provided by operating activities		
Net realized losses (gains) on sale of investments	283,792	(4,492)
Loss on disposal of property and equipment	858	5,775
Depreciation and amortization	690,411	606,633
Amortization of premium of debt securities	777,837	901,157
Changes in assets and liabilities		
Premiums receivable	(749,734)	(470,713)
Interest receivable	(256,788)	(172,639)
Prepaid expenses and other assets	388,134	(45,295)
Reinsurance recoverable	(2,979,312)	(7,165,634)
Prepaid reinsurance premium	82,371	(1,110,644)
Deferred acquisitions costs	(45,521)	(416,852)
Loss and loss adjustment expense reserves	12,776,427	15,303,234
Unearned premiums	111,402	2,980,618
Reinsurance payable	(73,610)	351,216
Accounts payable and other accrued liabilities	277,096	143,954
Net cash provided by operating activities	21,702,014	21,463,789
Cash flows from investing activities		
Purchases of investments	(124,609,454)	(78,642,915)
Proceeds from sales and maturities of investments	99,335,550	53,677,140
Purchases of property and equipment	(355,382)	(211,737)
Net cash used in investing activities	(25,629,286)	(25,177,512)
Cash flows from financing activities		
Proceeds from subordinated debt	1,000,000	1,000,000
Repayment of loan payable	(180,000)	(170,000)
Net cash provided by financing activities	820,000	830,000
Net decrease in cash and cash equivalents	(3,107,272)	(2,883,723)
Cash and cash equivalents, beginning of year	7,269,441	10,153,164
Cash and cash equivalents, end of year	$ 4,162,169	$ 7,269,441
Supplemental disclosure of cash flow information		
Interest paid	$ 128,140	$ 99,465

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 liability, 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, employer's 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 combined 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. The Group has presented combined financial statements rather than consolidated financial statements in accordance with the guidance for not-for-profit organizations as the companies in the group do not have any ownership or economic interest in each other, only common management and board control.

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.

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.

Reinsurance

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

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 $7,833,257 for 2005 and $7,123,699 for 2004. 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.

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.

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, 2005 and 2004 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.

Estimated Fair Value of Financial Instruments

The carrying value of cash, investments, 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.

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.

Income Taxes

The companies in the Group are tax-exempt for federal tax purposes under Section 501(c)(3) of the Internal Revenue Code and NIAC has been granted tax exempt status by the State of California.

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, 2005 and 2004:

2005	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. government and agency obligations	$ 61,021,893	$ 410,018	$ 1,066,841	$ 60,365,070
Corporate obligations	35,363,406	335,014	695,524	35,002,896
Asset-backed securities	6,978,421	137	112,533	6,866,025
Mortgage-backed securities	61,427	31	-	61,458
Other debt securities	2,433,997	41,743	34,679	2,441,061
Total debt securities	105,859,144	786,943	1,909,577	104,736,510
Equity securities	8,261,030	634,808	306,841	8,588,997
Total investments	$ 114,120,174	$ 1,421,751	$ 2,216,418	$ 113,325,507

2004	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. government and agency obligations	$39,683,712	$ 128,027	$ 195,808	$ 39,615,931
Corporate obligations	35,713,113	321,798	200,037	35,834,874
Asset-backed securities	10,021,309	30,289	281,253	9,770,345
Mortgage-backed securities	183,475	7,193	22,118	168,550
Other debt securities	1,681,647	13,782	36,764	1,658,665
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

The amortized cost and estimated fair value of investments at December 31, 2005, 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.

	2005	
	Cost or Amortized Cost	Estimated Fair Value
Due in 1 year or less	$ 11,961,223	$ 11,915,130
Due after 1 year through 5 years	40,827,080	40,271,573
Due after 5 years through 10 years	15,314,571	15,161,930
Due after 10 years	30,716,422	30,460,394
Asset-backed securities	6,978,421	6,866,025
Mortgage-backed securities	61,427	61,458
	$ 105,859,144	$ 104,736,510

Gross realized gains and losses on sales of debt securities were $211,560 and $506,743 in 2005, respectively, and $136,056 and $141,977 in 2004, respectively. Gross realized gains and losses on sales of equity securities were $162,975 and $151,584 in 2005, respectively, and $12,426 and $2,013 in 2004, respectively.

At December 31, 2005, unrealized losses on individual securities were as follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. government and agency obligations	$570,520	$36,880,534	$496,321	$15,442,739	$1,066,841	$52,323,273
Corporate obligations	464,930	22,958,301	230,593	8,610,466	695,523	31,568,767
Asset-backed securities	22,089	1,203,186	90,444	5,364,228	112,533	6,567,414
Other debt securities	4,828	319,308	29,852	854,337	34,680	1,173,645
Total bonds	1,062,367	61,361,329	847,210	30,271,770	1,909,577	91,633,099
Equity securities	283,420	2,927,251	23,421	134,996	306,841	3,062,247
	$1,345,787	$64,288,580	$870,631	$30,406,766	$2,216,418	$94,695,346

The unrealized losses on the Group's investments in U.S. government and agency obligations, corporate obligations, asset-backed securities and other debt securities were primarily caused by interest rate changes and not credit quality. Because the Group has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Group does not consider those investments to be other than temporarily impaired at December 31, 2005.

The Group's investments in equity securities consist primarily of investments in common stocks of large companies included in the Standard & Poor's 500 index. In January 2006, the Group disposed of all investments in equity securities and recognized a net gain of approximately $632,000 on the sales. Proceeds of $8,893,000 were invested in the Vanguard Institutional Index Fund.

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. Premiums receivable 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 premiums receivable under the property program for the benefit of the third party insurer amounted to $2,013,412 and $2,095,697, as of December 31, 2005 and 2004, respectively.

5. Property and Equipment

Property and equipment at December 31 consists of:

	2005	2004
Computers and software	$ 1,604,570	$ 1,307,090
Furniture and fixtures	182,733	179,126
Internal software	2,186,717	2,143,770
Land	1,481,423	1,481,423
Building	4,304,144	4,301,762
	9,759,588	9,413,171
Accumulated depreciation	(2,656,421)	(1,974,117)
Property and equipment, net	$ 7,103,167	$ 7,439,054

Depreciation and amortization expense of $690,411 and $606,633, including amortization of leasehold improvements, was recognized for the years ended December 31, 2005 and 2004, respectively.

6. Loss and Loss Adjustment Expense Reserves

Activity in the loss and loss adjustment expense reserves for 2005 and 2004 is summarized as follows:

	2005	2004
Gross loss and loss adjustment expense reserves, January 1	$56,666,399	$ 41,363,165
Reinsurance recoverables on unpaid loss and loss adjustment expenses	(18,583,033)	(11,833,238)
Net loss and loss adjustment expense reserves	38,083,366	29,529,927
Incurred related to:		
Current year	26,112,545	22,907,140
Prior years	(2,561,098)	(1,666,566)
Total incurred	23,551,447	21,240,574
Paid related to:		
Current year	3,723,950	4,236,309
Prior years	9,176,401	8,450,826
Total paid	12,900,351	12,687,135
Net loss and loss adjustment expense reserves, December 31	48,734,462	38,083,366
Reinsurance recoverable on unpaid loss and loss adjustment expenses	20,708,364	18,583,033
Gross loss and loss adjustment expense reserves, December 31	$69,442,826	$ 56,666,399

As a result of changes in estimates of insured events in prior years, the loss and loss adjustment expense reserves decreased by a net $2,561,098 and $1,666,566 in 2005 and 2004, respectively. In evaluating its 2005 and 2004 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 determined that reserve reductions for prior years were necessary.

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 represented all of the proceeds from the Authority's May 1, 2000, Series 2000A bond issuance. The bond matures in 2020. A bank issued a letter of credit on behalf of NIAC to secure the payments of principal and interest on the bond. The letter of credit agreement contains certain restrictive covenants and is collateralized by substantially all personal property of NIAC.

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:

2006	$ 185,000
2007	195,000
2008	200,000
2009	210,000
2010	220,000
Thereafter	2,715,734
	$ 3,725,734

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 $93,696 and $96,187 for the years ended December 31, 2005 and 2004, 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. In 2004, ANI-RRG borrowed $1 million under the Surplus Note and, after meeting certain conditions, ANI-RRG borrowed an additional $1 million in 2005. 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, 2005 and 2004, ANI-RRG had $2 million and $1 million outstanding under the Surplus Note, respectively. After receiving prior written approval from the Insurance Commissioner, ANI-RRG paid total accrued interest of $34,444 in 2005 and $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, up to a $1 million limit under the first excess of loss contract and up to $4 million under the second excess of loss contract. NANI also assumes a 10% quota share for property risks with maximum policy limits of $4.5 million and $3 million in 2005 and 2004, respectively. In addition, NANI retrocedes umbrella policies on a 95% or 97.5% quota share treaty basis.

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 effects of reinsurance ceded on the financial statement captions which are stated net of reinsurance are quantified in the table below:

Reinsurance ceded

	2005	2004
Premium earned	$14,130,134	$12,738,002
Loss and loss adjustment expenses	$ 8,913,512	$ 8,912,641
Commission expense	$ 7,816,971	$ 7,742,493
Deferred acquisition costs	$ 4,623,234	$ 4,529,474

For the years ended December 31, 2005 and 2004, NANI received ceding commission of $1,398,024 and $1,412,127, 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, 2005 and 2004 is 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 $182,136 and $163,746 in 2005 and 2004, respectively.

11. Related Party Transactions

NIAC transacts certain business with an insurance agency for which one of its directors serves as an officer. Further, the insurance agency also places AMS' employee health and welfare plans with other insurance companies for which it earns commissions. Premiums written and commissions earned on property and liability business brokered by the agency were $412,563 and $61,884 in 2005 and $394,032 and $59,105 in 2004, respectively. Commissions earned by the agency on health and welfare plans were approximately $28,000 in 2005 and 2004.

12. 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, 2005, the reported capital of ANI-RRG and NANI was in excess of the minimum regulatory requirement.

13. Subsequent Event

In January 2006, the Group disposed its investments in equity securities and reinvested the proceeds of $8,893,000 in a Vanguard Institutional Index Fund as described further in Note 3.

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, ext. 41.