Alliance *of* Nonprofits *for* Insurance
Risk Retention Group

The Nonprofits Insurance Alliance Group

2006

Comprised of 501(c)(3) nonprofit insurers governed by their nonprofit members

A Head for Insurance...A Heart for Nonprofits

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

MESSAGE *from the* PRESIDENT *and the* CHAIRMEN

2006 was a year that reminded us of the merits of charitable risk pooling for nonprofits. What that means for us is that we are serving more nonprofits across the country at a lower cost, while continuing toward our objective of driving prices to the lowest level that can be sustained over the long-term. Claims activity was less than expected and, while we grew 11 percent in number of members, our premium prices were flat or declining in nearly all cases. In fact, gross written premiums for the Group were essentially flat, yet by year-end we were insuring nearly 700 more members than just one year ago. Moreover, despite lower premiums, net income was stronger than ever. While it is impossible to measure accidents and injuries that have not occurred because of our work together to reduce claims, we are encouraged with what appears to be improving claims experience.

On a combined basis, the Group welcomed 1,172 new members and closed the year with 7,397, renewing more than 90 percent of existing members. Gross written premium totaled $57.2 million. Of that total, Nonprofits' Insurance Alliance of California (NIAC) wrote $40.4 million, Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG) wrote $14.9 million and the Group's reinsurance captive retained $1.9 million on a net basis. Also, we managed an additional $11.7 million in premium for our companion property program, bringing the total business administered by the Group in 2006 to $68.9 million.

At year-end, the Group's balance sheet showed total equity of $83.8 million and total assets of $200.5 million. Of the $17.7 million in combined net income for the Group, $15.2 million was contributed by NIAC, $1.9 million by ANI-RRG, and $.5 million by NANI, the Group's reinsurance captive. Once again, the outsized net income for NIAC and the strong net income for ANI-RRG resulted from prior and present year claim development that was significantly better than expected.

Pamela E. Davis, President and CEO

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

As a consequence of NIAC's particularly strong financial position, we have reached the important milestone of declaring a dividend. Its Board of Directors approved a dividend plan that enables NIAC to reward loyalty and commitment to loss control by paying dividends to members in those years where the company's experience is better than expected. When NIAC started in 1989, few gave us much chance of success. Nonprofits were thought to be poorer than average risks and there was much doubt about the wisdom of collecting all of the "sub-standard" risks into one pool. We now have exploded that myth about nonprofits being poor risks and have achieved far better results than even the most optimistic among us expected.

At its meeting in March 2007, the NIAC Board of Directors declared a $3.7 million dividend to be distributed to members during the 2007-2008 policy year. At the time the dividend was declared, 2,707 NIAC members were eligible to receive a dividend check at renewal of their policy. Based on individual member premiums paid during the dividend period, this plan rewards members for length of continuous coverage with NIAC as well as favorable claims experience.

While we are delighted to be able to announce NIAC's dividend plan, we also look forward to a future time when ANI-RRG may reach the same milestone. We know that the success of these efforts requires patience, and we value the commitment of members and brokers who understand and appreciate our long-term view.

The most rewarding part of our work is being able to be a small part of the individual stories of the nonprofits we insure. One particularly poignant moment occurred last year when we received a call from a broker in Colorado. Emily Keyes, a 16-year old high school student, was the only student who did not survive a hostage situation on September 27, 2006 at Platte Canyon High School. While she was being held hostage, Keyes managed to send her family a brief text message stating, "I love u guys" in response to a text message "R U OK?" from her father. Emily was killed not long after she sent that message. In Emily's memory, The "I Love U Guys" Foundation was created to carry forward her message of kindness to others. Its efforts to immediately hold fundraisers to help the other girls who survived the hostage taking were thwarted—no insurance. The call came in to us from the broker on October 5th. Our policy was issued that same day. The first fundraising event drew more than 5,000 motorcycle riders and raised $64,475.

Day in and day out, through their diligent and thoughtful efforts, nonprofits bring out the best in all of us. A quote by Ellen Goodman sums it up, "I have never been especially impressed by the heroics of people who are convinced that they are about to change the world. I am more awed by those who struggle to make one small difference after another."

It is with pride and respect that we serve these terrific organizations.

Pamela E. Davis
President and CEO

R. Lawrence Bacon
Chairman of NIAC, NANI and AMS

Wilson M. Jones
Chairman of ANI-RRG

Wilson M. Jones, Chairman of ANI-RRG

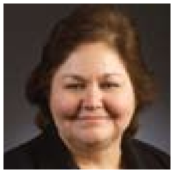
NIAC Board of Directors

R. Lawrence Bacon, Chairman
President
Bacon & Company

Pamela E. Davis, President
Chief Executive Officer
NIAC

John M. Christensen, Secretary
Senior Vice President
Hope Services

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



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

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

Suzanne Cross
Board Member
La Casa de las Madres

Roger W. Gilbert
President, Retired
Great American West

Phillip Kimble
Board Historian
Valley Center for the Blind

Martha Marcon [1]
Audit Partner, Retired
KPMG, LLP

Alissa Nourse [1]
Executive Director
Tahoe Youth and Family Services

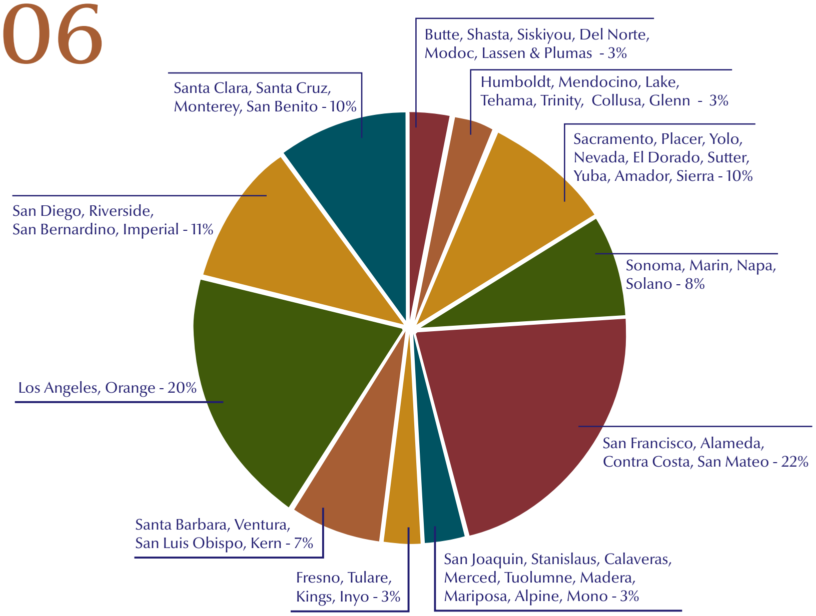
John E. McCue
Chief Executive Officer
Becoming Independent

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

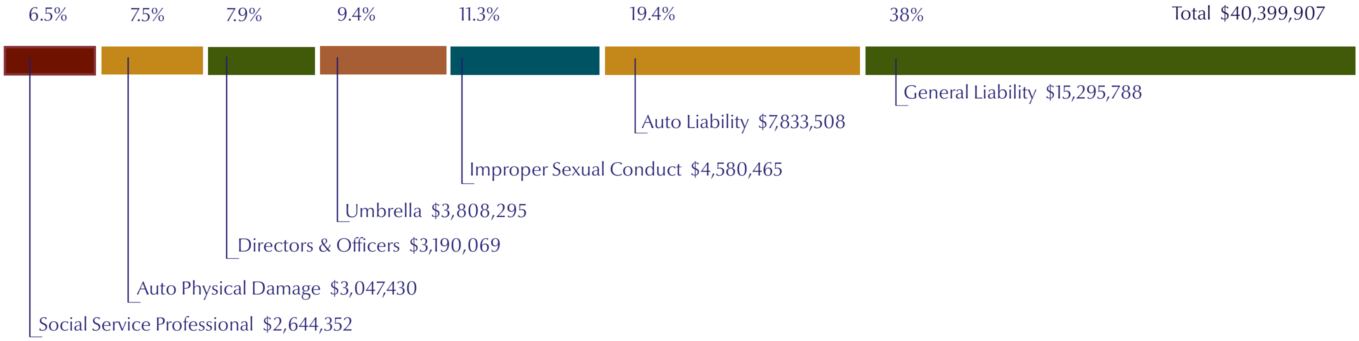
[1] Elected February 2007

NIAC Results 2006

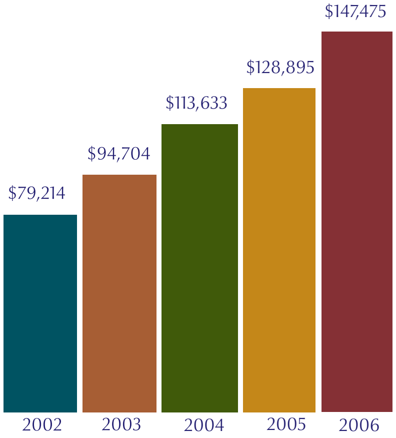
Members by County



Premium by Line

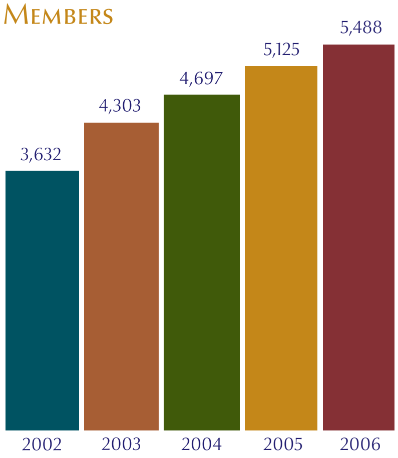


Assets (in Thousands)



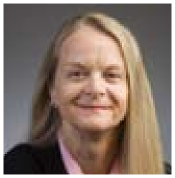
Premiums (in Thousands)

Members



ANI-RRG Board of Directors

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



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

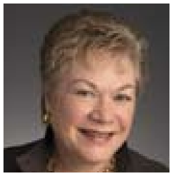
Joseph M. Dell'Olio, Secretary
Executive Vice President
CHILD, Inc., DE

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

R. Lawrence Bacon
President
Bacon & Company, CA

Robert Emrich [1]
Founder and Board Member
Road of Life, OH

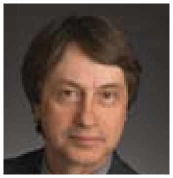
Roger W. Gilbert
President, Retired
Great American West, CA



Linda L. Harrington
Executive Director
Families First of Grant County, OR

Martha Marcon [1]
Audit Partner, Retired
KPMG, LLP, CA

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

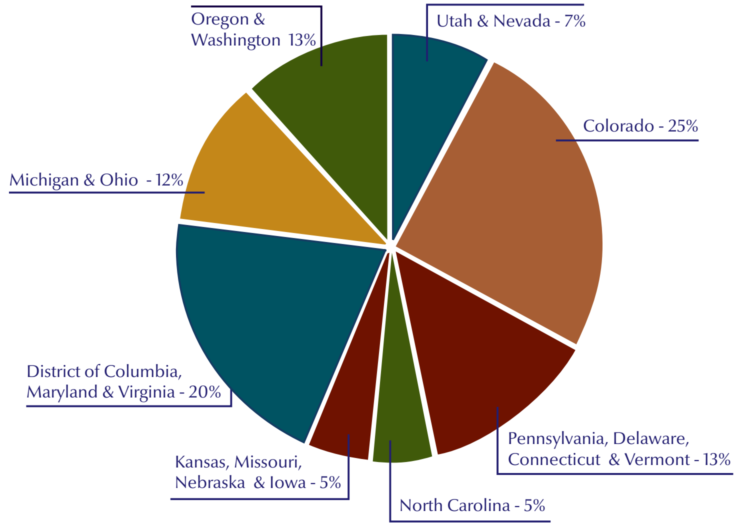


Phillip Shumway
Executive Director
TURN Community Services, UT

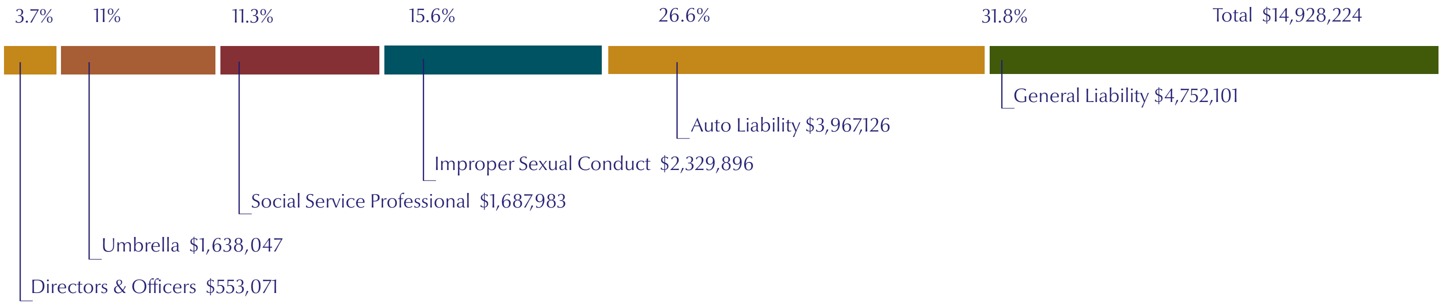
[1] Elected February 2007

ANI-RRG Results 2006

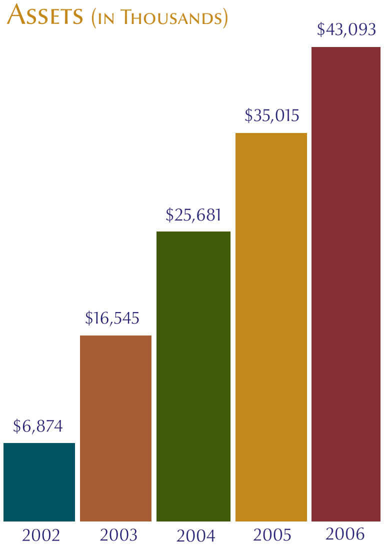
Members by State



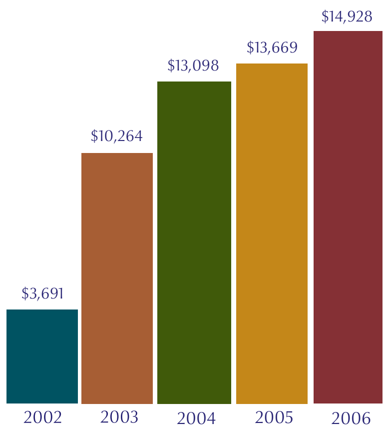
Premium by Line



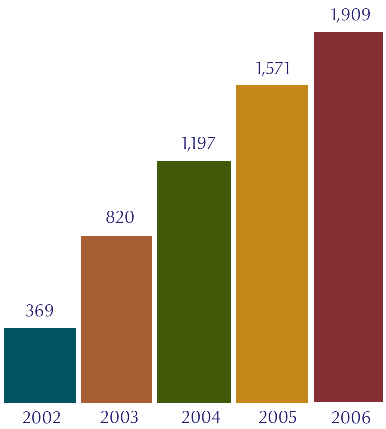
Assets (in Thousands)



Premiums (in Thousands)



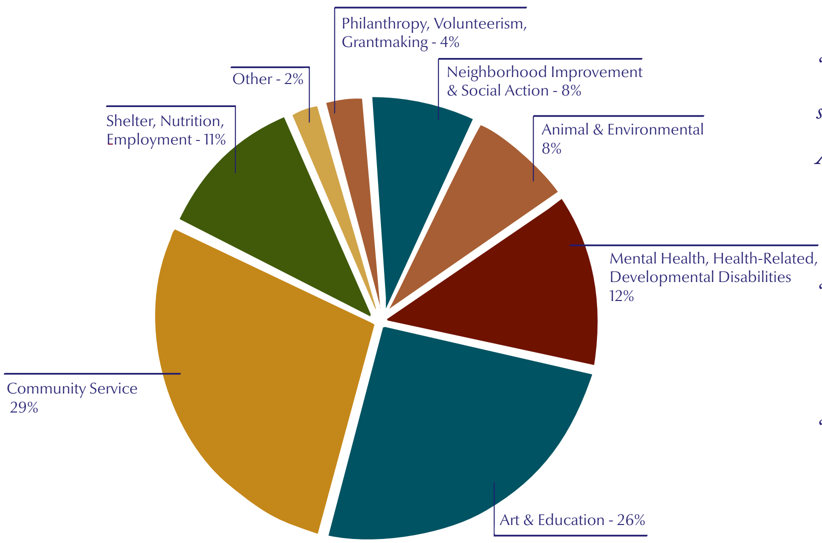
Members



Our Members...

Are Delighted

2006 Member Composition



"..thank you and your organization for the continued fine service. Your valued service is the reason why we have accomplished the goals we have been able to. Again, thank you so very much."

Steve Brammer, Yuba-Sutter Economic Development Corporation

"We are very pleased with ANI-RRG's services. Keep up the great work."

Tracy Davids, Southern Appalachian Biodiversity Project

"We feel that your company truly understands our nonprofit operations."

Carol L. Gren, YWCA Salem

"I wanted to thank you in particular for NIAC's help with personnel-related matters over the past several years. Your pre-termination consultation service has been excellent. Great service!"

Paul S. Powell, Ed.S., C.R.C., TLCS, Inc.

"We want to tell you how pleased we are with the excellent coverage we enjoy through NIAC and the superior service with which we receive it from NIAC and our local broker..."

Cindy Scarborough, Vintage House

The Nonprofits Insurance Alliance Group

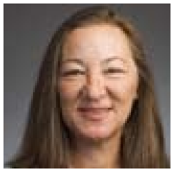
Management

Gary Bencomo
Vice President Administration

Susan Bradshaw
Vice President Marketing and Member/Broker Services

Pamela E. Davis
President and CEO

Charles C. Hewitt
Vice President Claims



Betty Johnson
Vice President Information Technology

Steven Moody, ARM
Vice President Insurance Operations

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 more than 7,300 nonprofits in 21 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

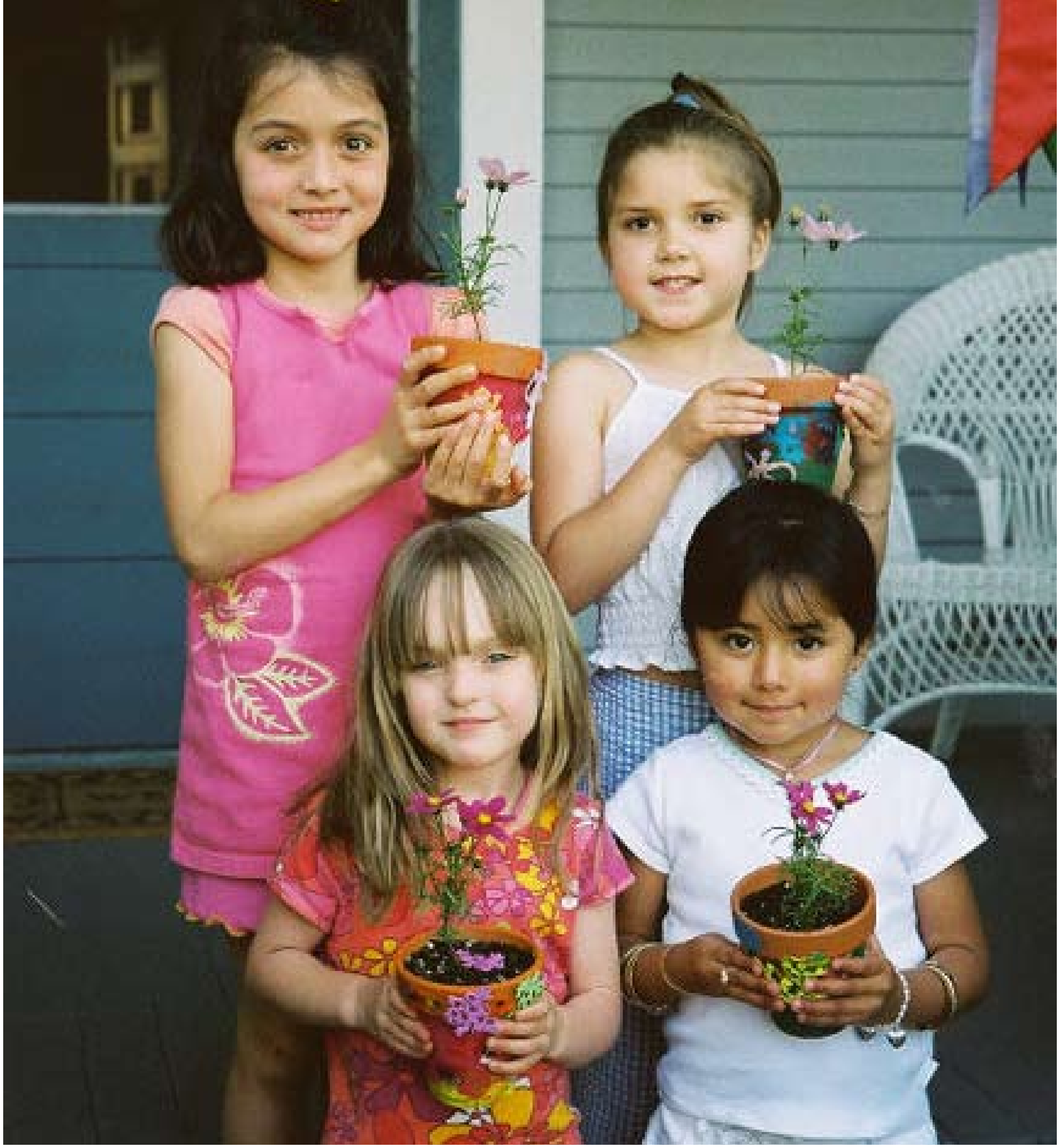
Member companies in the Nonprofits Insurance Alliance Group actively write business in:

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

How do you grow a nonprofit?

"The mighty oak was once a little nut that stood its ground." – Anonymous

It starts with an idea; a seed—a determination to do something positive that will benefit the community in which we live. Like our member-insureds, we started that way, too. The idea was to start a nonprofit insurer that would provide liability insurance coverages to other nonprofits; a simple idea, but not an easy task. The odds were stacked against us. Still, there was a vision and a need, so we trudged ahead. What started as a thesis concept in a graduate school project has grown to become a solid choice for nonprofits seeking a stable, affordable source of liability insurance. Read on to see how the Nonprofits Insurance Alliance Group has grown, and continues to grow, alongside our nonprofit member-insureds, to fulfill our collective missions.



Wilmar Center for Bereaved Children
Sonoma, California

Willmar Center for Bereaved Children provides a safe, healing environment and compassionate support for children and teenagers grieving the death of a loved one. The center extends support services to the family, schools, and the community and to children living with a family member who has a life-changing illness. The Center offers support groups for children and their parents or other caregivers and conducts expressive arts programs to help children work through their losses. The Center also provides community education through their lending library and school outreach programs, as well as presentations for adults in the community.

you start with a…

Mission

"Aerodynamically, the bumble bee shouldn't be able to fly, but the bumble bee doesn't know it so it goes on flying anyway." – Mary Kay Ash

All nonprofits start with a mission—a purpose, a driving force, a desire to make a change in a community. The Nonprofits Insurance Alliance Group started with a mission to form a company, controlled by nonprofits. This company would give nonprofit organizations a source of liability insurance that they could count on; one that would not be subject to the wide pricing cycles typical in the insurance market. The goal was to provide tailored coverage, specific to the needs of nonprofits, at sustainable, stable prices, and to assist them in developing and implementing effective loss prevention programs. It was a good concept, and one that continues today. "A Head for Insurance…A Heart for Nonprofits," encapsulates our vision.

Now with 18 years of experience, and nearly 7,500 nonprofit member-insureds, we are in the unique position of being the only source of information on claims against nonprofits, belonging to nonprofits themselves. We use this data to develop risk management tools to assist nonprofits in their day-to-day operations. By modeling fairness and pricing stability, by providing specialty coverages and risk management resources, and by making exceptional customer service the standard, we have permanently influenced the larger insurance marketplace for nonprofits.

Third Street Community Center
San Jose, California

The Third Street Community Center is a place where people of all ages and backgrounds are actively engaged in enriching themselves and their community through education, arts, technology and service. The Center was founded in 1997 by community volunteers to serve at-risk children in downtown San Jose, California. Since then, five staff members have been added in addition to the work of more than 50 volunteers. The Center offers afterschool programs for students as well as adult education programs to assist the families they serve.

then you need a…

Strategy

"A goal without a plan is just a wish." - Antoine de Saint-Exupery

At some point, all nonprofits go through the process of developing a plan. The Nonprofits Insurance Alliance Group has gone through that strategic planning process more than once. What started in 1989 as a one-state nonprofit insurance pool to address the insurance crisis in California has grown to four distinct 501(c)(3) nonprofit organizations. It took a lot of planning to take the California model nationwide; a feasibility study funded by the David and Lucile Packard Foundation started the process.

The result of that work is a group of companies: The Nonprofits Insurance Alliance Group. Nonprofits' Insurance Alliance of California (NIAC), the original company which continues to provide liability insurance coverage for nonprofits in California, the Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG), which currently provides liability insurance for nonprofits in 21 states and DC, the National Alliance of Nonprofits for Insurance (NANI), a captive reinsurer and Alliance Member Services (AMS), the management company which employs all staff. All of these companies are themselves 501(c)(3) nonprofits and work together toward common goals.

The core components of our strategic plan focus on a commitment to exceptional service and long-term stability, in both financial results and in product and service delivery. We broadly serve the nonprofit sector, both large and small nonprofits. Our strategic principle states it best: "Inspired service and sensible products at the right prices, effectively and dependably delivered."

MOAB Music Festival
Moab, Utah

The MOAB Music Festival was founded in 1992 by professional musicians based in New York who have a love for the red rock country of southeastern Utah. The goal was to marry world class performances of music with the spectacular landscape of the Utah canyonlands region and to bring musical opportunities to the Moab community, particularly to its children. They feature primarily classical chamber music, but also have traditional folk music, jazz, vocal music, and the music of living composers included in their repertoire. Since its founding, close to 150 world-class musicians have performed, and many return each year.

it helps to have…

Partners

"A snowflake is one of God's most fragile creations, but look what they can do when they stick together!" – Anonymous

Every nonprofit needs friends to help out along the way. The Nonprofits Insurance Alliance Group has had a number of valuable partners over the years who have helped us better serve our nonprofit member-insureds. Six foundations, led by the Ford Foundation, provided the original funding for Nonprofits' Insurance Alliance of California (NIAC). When the time came to expand outside of California, the David and Lucile Packard Foundation and the Bill & Melinda Gates Foundation each contributed $5 million in grants to capitalize Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG) and National Alliance of Nonprofits for Insurance (NANI).

We have been fortunate over the years to have the support of the nonprofit sector through partnerships with state associations and nonprofit resource centers. In 2006, ANI-RRG and NIAC were able to reciprocate and provide seed funding for an exciting nonprofit sector initiative, The Nonprofit Congress. The goal of the Congress is to unite the sector around common values, shared vision and priorities and to become a collective voice for a better future. Local town hall meetings in 40 states led up to the first national meeting held in October. More than 400 nonprofit leaders from across the country came together in DC to establish priorities and plan strategies to strengthen the nonprofit sector. Much of the work now is being done at the local nonprofit state association level. We commend their efforts. To get involved in this exciting initiative visit: www.nonprofitcongress.org

The nonprofit sector is also served well by insurance brokers who specialize in working with nonprofits. Their service and commitment to nonprofits in their communities is an important component of nonprofits' ability to fulfill their missions. We are proud to be partners with these brokers and value their continued support.

Breakthrough Club of Sedgwick County
Wichita, Kansas

Breakthrough Club helps people who have mental illnesses like depression, bi-polar disorders and schizophrenia to become as independent as possible in the community. The Club provides support that helps clients stay out of the hospital, get jobs and go back to school. The Club is a place were members can feel safe and be treated as equals, working together with staff in the daily activities that keep the organization running smoothly. Some of the programs provided include supported education and employment, young adult services, housing vouchers, case management, payee services, banking services, social/recreation programs and a training web site.

and plenty of…

Resources

"What do we live for, if it is not to make life less difficult for each other?" – George Eliot

Nonprofits need to stretch every dollar. We provide our nonprofit member-insureds with free or highly subsidized risk management tools. Our free resources cover topics such as safety at special events, directors and officers insurance, what nonprofits need to know about lawsuits, managing volunteers, tips for vehicle safety programs, avoiding sexual abuse, managing collaboration risks and surviving a crisis. We also make available to member-insureds an extensive free lending library with videos and DVDs.

Other free resources include consultations with a labor and employment risk manager for members that purchase directors and officers insurance, and free driver training and fleet management resources for non-profits that purchase auto liability insurance. Secure areas of our web sites provide all member-insureds with additional management assistance, and insurance brokers can log into our secure web site to retrieve policy information and quotes.

For less than one dollar a day our member-insureds get full access to BOARDnetWORK, a web-based communication tool for board members that streamlines governance activities while improving the board's function. We also offer deeply discounted background checks for our nonprofit member-insureds who serve vulnerable populations.

ElderHelp of San Diego
San Diego, California

ElderHelp of San Diego offers social services that help seniors live independently in their own homes. To accomplish this, the agency provides care management, grocery shopping, homeshare, caregiver education, information and referrals, friendly visitors and much more. Professionals and community volunteers work together to meet the needs of each client. Since most of the seniors are on limited incomes, ElderHelp raises funds in the community from individuals, foundations, and corporations to help support their work. In its 34-year history, ElderHelp has assisted more than 65,000 older San Diegans and their families.

to meet your…

Goals

"Start by doing what is necessary, then do what is possible, and suddenly, you are doing the impossible." – St. Francis of Assisi

It all comes down to the end result. What do we want to accomplish? Our goals are simple. We want to be the source for insurance that nonprofits and their brokers can trust implicitly. We aren't flashy, but we are the best at what we do. We care deeply about serving our member-insureds and being a valued business partner to them. When something bad happens, we want to be there with our considerable and special expertise to assure the best possible outcome. When we do that, we enable our member-insureds to better fulfill their own missions in their communities, enlarging the benefit we all receive from the incredible work of the nonprofit sector.

Global Partners for Development
Rohnert Park, California

Global Partners for Development's core belief is that people can achieve the greatest success when they are recognized as capable, responsible, and committed. Working closely with grassroots African leaders, Global Partners supports communities that have the drive and initiative to tackle the basic problems of chronic hunger and poverty, but lack access to training and outside resources. The aim is to help craft solutions that bring self-reliance and positive outcomes for future generations. The local people are asked both to contribute to the projects, with labor, material or supplies, and to create a plan for long-term management.

In Appreciation

On behalf of our members, we would like to thank the following foundations for their support and vision:

Bill & Melinda Gates Foundation
David and Lucile Packard Foundation
California Community Foundation
Conrad N. Hilton Foundation
Ford Foundation
James Irvine Foundation
Marin Community Foundation
San Francisco Foundation
Wallace Alexander Gerbode Foundation
Walter S. Johnson Foundation

We would also like to thank the following organizations for their continued support and guidance:

California Association of Nonprofits
Center for Nonprofit Advancement
Colorado Association of Nonprofits
CompassPoint
Connecticut Association of Nonprofits
Idaho Nonprofit Development Center
Mainstream, Inc.
Michigan League of Human Services
Michigan Nonprofit Association
Minnesota Council of Nonprofits
National Council of Nonprofit Associations
Nonprofit Risk Management Center
North Carolina Center for Nonprofits
Utah Nonprofit Association

Swiss Re, our reinsurer and valued partner for more than twelve years.

And the independent insurance brokers who trust us to consistently provide the best package of specialty products and services over the long-term. In particular, there will always be a special place in our "heart for nonprofits" for those brokers who grasped our mission to nonprofits during the early years and introduced us to their clients when others took a "wait and see" approach.

Nonprofits Insurance Alliance Group

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, 2006 and 2005 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, 2006 and 2005, 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 9, 2007

Combined Balance Sheets

December 31, 2006 and 2005

	2006	2005
Assets		
Investments		
Debt securities (amortized cost: 2006 - $120,121,989; 2005 - $105,859,144)	$ 118,973,526	$ 104,736,510
Equity securities (cost: 2006 - $9,164,936; 2005 - $8,261,030)	10,086,196	8,588,997
Total investments	129,059,722	113,325,507
Cash and cash equivalents	10,048,139	4,162,169
Premiums receivable, net	15,053,764	14,311,150
Interest receivable	1,326,796	1,005,684
Prepaid expenses and other assets	281,502	374,746
Reinsurance recoverable	26,431,385	22,155,092
Prepaid reinsurance premium	7,169,173	6,840,150
Deferred acquisition costs	4,173,926	3,932,030
Property and equipment, net of accumulated depreciation of $3,305,510 in 2006 and $2,656,421 in 2005	7,001,446	7,103,167
Total assets	$200,545,853	$ 173,209,695
Liabilities and Equity		
Liabilities		
Loss and loss adjustment expense reserves	$79,014,529	$ 69,442,846
Unearned premiums	27,852,169	28,006,187
Accounts payable and other accrued liabilities	2,995,125	3,049,204
Reinsurance payable	1,302,386	1,435,191
Loan payable	3,540,734	3,725,734
	114,704,943	105,659,142
Subordinated debt	2,000,000	2,000,000
Total liabilities	116,704,943	107,659,142
Total equity - unrestricted		
Members' contributions	900,507	900,507
Capital contributions	10,000,000	10,000,000
Accumulated earnings	73,167,606	55,444,713
Unrealized losses on investments, net	(227,203)	(794,667)
Total equity - unrestricted	83,840,910	65,550,553
	$200,545,853	$ 173,209,695

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

Combined Statements of Income
and Changes in Total Equity
Years Ended December 31, 2006 and 2005

	2006	2005
Revenues		
Gross written premium	$57,201,562	$ 57,531,841
Ceded premium	(14,635,922)	(14,045,680)
Net written premium	42,565,640	43,486,161
Decrease (increase) in unearned premium, net	483,041	(193,774)
Net earned premium	43,048,681	43,292,387
Net investment income	5,006,256	3,427,947
Net realized gains (losses) on sales of investments	1,144,082	(283,792)
Other income	2,580,770	2,340,321
Total revenues	51,779,789	48,776,863
Expenses		
Losses and loss adjustment expenses, net	18,723,342	23,551,447
Salaries and employee benefits	5,586,716	5,745,973
Commission expense, net	6,703,750	6,373,330
Other expense	3,043,088	2,687,462
Total expenses	34,056,896	38,358,212
Net income	17,722,893	10,418,651
Other changes in total equity		
Change in net unrealized gains (losses) on investments	567,464	(787,726)
	18,290,357	9,630,925
Total equity - unrestricted, beginning of year	65,550,553	55,919,628
Total equity - unrestricted, end of year	$83,840,910	$ 65,550,553

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

Combined Statements of Cash Flows

Years Ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities		
Net income	$17,722,893	$ 10,418,651
Adjustments to reconcile net income to net cash provided by operating activities		
Net realized (gains) losses on sale of investments	(1,144,082)	283,792
Loss on disposal of property and equipment	-	858
Depreciation and amortization	649,089	690,411
Amortization of premium of debt securities	419,375	777,837
Changes in assets and liabilities		
Premiums receivable	(742,614)	(749,734)
Interest receivable	(321,112)	(256,788)
Prepaid expenses and other assets	93,244	388,134
Reinsurance recoverable	(4,276,293)	(2,979,312)
Prepaid reinsurance premium	(329,023)	82,371
Deferred acquisitions costs	(241,896)	(45,521)
Loss and loss adjustment expense reserves	9,571,703	12,776,427
Unearned premiums	(154,018)	111,402
Reinsurance payable	(132,805)	(73,610)
Accounts payable and other accrued liabilities	(54,079)	277,096
Net cash provided by operating activities	21,060,382	21,702,014
Cash flows from investing activities		
Purchases of investments	(99,480,629)	(124,609,454)
Proceeds from sales and maturities of investments	85,038,585	99,335,550
Purchases of property and equipment	(547,368)	(355,382)
Net cash used in investing activities	(14,989,412)	(25,629,286)
Cash flows from financing activities		
Proceeds from subordinated debt	-	1,000,000
Repayment of loan payable	(185,000)	(180,000)
Net cash (used in) provided by financing activities	(185,000)	820,000
Net increase (decrease) in cash and cash equivalents	5,885,970	(3,107,272)
Cash and cash equivalents, beginning of year	4,162,169	7,269,441
Cash and cash equivalents, end of year	$ 10,048,139	$ 4,162,169
Supplemental disclosure of cash flow information		
Interest paid	$ 156,459	$ 128,140

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"), Alliance Member Services, Inc. ("AMS"), and AMS Insurance Services, Inc. ("AMSIS").

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.

AMSIS is a wholly-owned for-profit subsidiary of AMS formed for the primary purpose of acting as managing general underwriter for certain other carriers providing property and other coverage for NIAC and ANI-RRG members. AMSIS is a licensed broker and claims adjuster in all states in which these other carriers provide coverage for NIAC or ANI-RRG members.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying combined financial statements include the accounts of NIAC, ANI-RRG, NANI, AMS and AMSIS. 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.

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. Reinsurance payable represents ceded premium due but unpaid.

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. Reinsurance payable represents ceded premium due but unpaid.

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 $8,204,034 for 2006 and $7,833,257 for 2005. 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, 2006 and 2005 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 receivable and 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.

3. INVESTMENTS

Investments carried in the accompanying balance sheets at estimated fair value, consist of the following as of December 31, 2006 and 2005:

2006	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. government and agency obligations	$ 69,788,703	$ 514,485	$ 1,061,123	$ 69,242,065
Corporate obligations	44,951,365	142,891	713,410	44,380,846
Asset-backed securities	2,781,567	7,061	37,852	2,750,776
Other debt securities	2,600,354	31,603	32,118	2,599,839
Total debt securities	120,121,989	696,040	1,844,503	118,973,526
Equity securities	9,164,936	921,260	-	10,086,196
Total investments	$ 129,286,925	$ 1,617,300	$ 1,844,503	$ 129,059,722

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

The amortized cost and estimated fair value of investments at December 31, 2006, 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.

	2006	
	Cost or Amortized Cost	Estimated Fair Value
Due in 1 year or less	$ 13,971,879	$ 13,901,049
Due after 1 year through 5 years	46,272,968	45,911,757
Due after 5 years through 10 years	21,325,879	21,184,320
Due after 10 years	35,769,696	35,225,624
Asset-backed securities	2,781,567	2,750,776
	$ 120,121,989	$ 118,973,526

Gross realized gains and losses on sales of debt securities were $909,271 and $361,102 in 2006, respectively, and $211,560 and $506,743 in 2005, respectively. Gross realized gains and losses on sales of equity securities were $817,652 and $221,739 in 2006, respectively, and $162,975 and $151,584 in 2005, respectively.

At December 31, 2006 and 2005, unrealized losses on individual securities were as follows:

2006	Less Than 12 Months Unrealized Losses	Less Than 12 Months Fair Value	12 Months or Greater Unrealized Losses	12 Months or Greater Fair Value	Total Unrealized Losses	Total Fair Value
U.S. government and agency obligations	$138,283	$16,462,338	$922,840	$35,729,812	$1,061,123	$52,192,150
Corporate obligations	102,415	10,118,031	610,995	24,130,958	713,410	34,248,989
Asset-backed securities	3,565	798,041	34,287	1,557,127	37,852	2,355,168
Other debt securities	381	217,125	31,737	1,141,180	32,118	1,358,305
Total bonds	244,644	27,595,535	1,599,859	62,559,077	1,844,503	90,154,612
Equity securities	-	-	-	-	-	-
	$244,644	$27,595,535	$1,599,859	$62,559,077	$1,844,503	$90,154,612

2005	Less Than 12 Months Unrealized Losses	Less Than 12 Months Fair Value	12 Months or Greater Unrealized Losses	12 Months or Greater Fair Value	Total Unrealized Losses	Total 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, which averaged 1.5% of amortized cost, 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, 2006.

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. Property and Equipment

Property and equipment at December 31 consists of:	2006	2005
Computers and software	$ 2,029,079	$ 1,604,570
Furniture and fixtures	221,791	182,733
Internal software	2,269,879	2,186,717
Building	4,304,144	4,304,144
	8,825,533	8,278,165
Accumulated depreciation	(3,305,510)	(2,656,421)
	5,520,023	5,621,744
Land	1,481,423	1,481,423
Property and equipment, net	$7,001,446	$ 7,103,167

Depreciation and amortization expense of $649,089 and $690,411, including amortization of leasehold improvements, was recognized for the years ended December 31, 2006 and 2005, respectively.

5. Loss and Loss Adjustment Expense Reserves

Activity in the loss and loss adjustment expense reserves for 2006 and 2005 is summarized as follows:

	2006	2005
Gross loss and loss adjustment expense reserves, January 1	$69,442,826	$ 56,666,399
Reinsurance recoverable on unpaid loss and loss adjustment expenses	(19,320,599)	(18,583,033)
Net loss and loss adjustment expense reserves	50,122,227	38,083,366
Incurred related to:		
Current year	25,549,134	26,112,545
Prior years	(6,825,792)	(2,561,098)
Total incurred	18,723,342	23,551,447
Paid related to:		
Current year	3,170,458	3,723,950
Prior years	11,215,019	9,176,401
Total paid	14,385,477	12,900,351
Net loss and loss adjustment expense reserves, December 31	54,460,092	48,734,462
Reinsurance recoverable on unpaid loss and loss adjustment expenses	24,554,437	20,708,364
Gross loss and loss adjustment expense reserves, December 31	$79,014,529	$ 69,442,826

As a result of changes in estimates of insured events in prior years, the loss and loss adjustment expense reserves decreased by a net $6,825,792 and $2,561,098 in 2006 and 2005, respectively. In evaluating its 2006 and 2005 actuarial reports, the Group determined that the actual experience in certain of its lines of business has developed more favorably than original estimates. As a result, management determined that reserve reductions for prior years were necessary.

6. Loan Payable

On May 1, 2000, NIAC entered into an agreement with the California Statewide Communities Development Authority (the "Authority") to borrow $4,560,000, which 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:

2007	$ 195,000
2008	200,000
2009	210,000
2010	220,000
2011	225,000
Thereafter	2,490,734
	$ 3,540,734

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 $126,459 and $93,696 for the years ended December 31, 2006 and 2005, respectively.

7. 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, 2006 and 2005, 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 $30,000 in 2006 and $34,444 in 2005.

8. 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. 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 premiums earned and losses which are stated net of reinsurance are quantified in the table below:

Reinsurance ceded	**2006**	**2005**
Premium earned	$14,306,899	$14,130,134
Loss and loss adjustment expenses	13,437,717	8,913,512

For the years ended December 31, 2006 and 2005, NANI received ceding commission of $1,564,493 and $1,398,024, respectively. The ceding commission is recorded as a reduction to deferred acquisition costs, subject to amortization, in the financial statements.

Certain NIAC 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, 2006 and 2005 is due from two third-party reinsurance companies, both of which are rated A+ or better by A.M. Best.

9. Deferred Compensation Plan

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 $203,223 and $182,136 in 2006 and 2005, respectively.

457 (b) Deferred Compensation Plan

AMS has a voluntary retirement program under Section 457 (b) of the Internal Revenue Code available to a select group of key employees upon seven months after the date of hire. The plan allows for qualified employees to contribute an amount not to exceed the lesser of the amount specified under Section 457 (e)(15) of the Code for such plan year or 100% of the participant's includible compensation for such year. It is fully vested at the time of contribution.

10. 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 $461,952 and $65,169 in 2006 and $412,563 and $61,884 in 2005, respectively. Commissions earned by the agency on health and welfare plans were approximately $28,000 in 2006 and 2005.

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, 2006, the reported capital of ANI-RRG and NANI was in excess of the minimum regulatory requirement.