Alliance of Nonprofits for Insurance
Risk Retention Group

The Nonprofits Insurance Alliance Group

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

A HEAD FOR INSURANCE…A HEART FOR NONPROFITS

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

On the Cover

Clockwise from top, left:

Redwood Empire Chinese Association (RECA) Santa Rosa, CA

RECA works to preserve Chinese culture, language and heritage, and to share these legacies with other Chinese Americans and with the community-at-large through social events, festivals and workshops; the organization also assists immigrants with translation and referral services. Find out more at www.recacenter.org.

City of Dreams - San Francisco, CA

City of Dreams is a volunteer-based youth development and mentorship program serving San Francisco's public housing communities to expand the perspectives of at-risk youth and empower them to make healthy choices. Find out more at www.city-of-dreams.org.

Alta Vista Center for Autism – Denver, CO

The Alta Vista Center for Autism is a treatment center for children with autism and related disorders, providing full and half-day programs, clinical and consultation services, home and school program development, and assessments. Find out more at www.aspenautism.org.

Shared Adventures - Santa Cruz, CA

Shared Adventures organizes year-round recreational events to improve the quality of life for people living with disabilities, and to encourage interaction, self-confidence, personal growth and leadership skills. Find out more at www.sharedadventures.org. *Photo by Thang Nguyen*

City Dance Ensemble - Washington, DC

City Dance Ensemble advances appreciation for and participation in the art of dance through performance, education, film and artistic innovation in their repertory dance company, an arts outreach program for youth, and two dance facilities. Find out more at www.citydance.net.

Hollywood HEART - Burbank, CA

Hollywood HEART provides recreational and educational opportunities to at-risk youth through a summer camp for children and adolescents affected by HIV and AIDS, and offers a filmmaking workshop in which children write, direct, produce and star in their own short films. Find out more at www.hollywoodheart.org.

Our printer donates a percentage of revenue from each print job to organizations that replant trees.

Environmental Savings Statement

This annual report was printed on paper made of 100% recycled fibers, 100% post-consumer waste, processed chlorine free, and manufactured with electricity that is offset with Green-e® certified renewable energy certificates. By using this environmentally-friendly paper, the Nonprofits Insurance Alliance Group has SAVED the following resources:

trees	water	energy	solid waste	greenhouse gases
68	29,153	49	3,225	6,370
fully grown	gallons saved	million Btu	pounds	pounds

Message *from the* President *and the* Chairmen

Pamela E. Davis, President and CEO

2007 reinforced our appreciation of the ability of the nonprofit members of the Nonprofits Insurance Alliance Group to deliver a complex array of services while maintaining impressive safety records. As a key to providing sound and affordable insurance coverages, our goal has been to help our members reduce claims by offering training and management tools.

It is gratifying to see these risk-reduction efforts gaining traction. Claims frequency is declining for virtually every type of business we write as more and more members take advantage of our various programs.

In particular, recent demand for our free, personalized employment risk management advice and employee handbook review has grown so dramatically that we have doubled our staff in this area. We have also seen a surge in members' use of our free online driver training in both Spanish and English, and burgeoning interest in our low-cost "webinars" on topics ranging from special events risks to the finer points of contract management. During 2007, our online program for boards of directors of our members, BOARDnetWORK, started to take off through word of mouth from satisfied users. Available to our members at a cost of less than one dollar a day per organization, BOARDnetWORK enables board members to access the documents they need from any computer. Materials available through this system include password-protected meeting information as well as important organizational, board, and committee documents and other reports.

Combined, the Group welcomed 1,199 new members and closed the year with 8,056, again renewing more than 90 percent of existing members. Gross written premium for the Group totaled $57.8 million. Of that total, NIAC wrote $40.4 million, ANI-RRG wrote $15.4 million and the Group's property reinsurance captive retained $2 million on a net basis. Also, we managed an additional $12.6 million in premium for our companion property program, bringing the total business administered by the Group in 2007 to $70.4 million.

At year's end, the Group's balance sheet showed total equity of $99 million and total assets of $225.9 million. Of the $15.6 million in combined net income for the

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

Group, $13.1 million was contributed by NIAC, $1.8 million by ANI-RRG, and $.7 million by the Group's property reinsurance captive. Once again, the exceptional net income for NIAC and the strong net income for ANI-RRG resulted from reserves released due to claim development that was significantly better than expected.

In March 2007 the NIAC Board declared a $3.7 million dividend, and one of the most satisfying aspects of NIAC's year was sending dividend checks to qualifying members. The response we received to our first-ever dividend was extremely gratifying.

"Thanks to the dividend check we were able to complete the upgrade/improvements of our kitchen at our emergency shelter for homeless and runaway at-risk teens with new appliances, flooring and counters. Thanks for the great surprise!"

—Mike Martin
Diogenes Youth and Family Services
Member since 1995

"The dividend check has helped fund architectural plans for a facility in Oakland which will provide a permanent home for Seneca programs, administration, and a training institute. Please offer our thanks and appreciation to your Board of Directors and supporters. Over the years our association with NIAC has had an enormously positive impact on our operations, in many ways. Thank you so much for all your efforts."

—Katherine West
Seneca Center
Member since 1990

"Our newsletter is our best way to stay in touch with our adoptive families and for general outreach, but due to a budget shortage it would have been cut if not for the dividend check. Thank you NIAC!"

—Judy Casson,
Infant of Prague Adoption Service
Member since 1997

Given 2007's exceptional results, the NIAC Board of Directors has declared a $4.2 million dividend to be distributed to 3,200 qualifying members during 2008 and 2009. NIAC's strong financial performance again was aided by the better-than-expected results during the dividend period being considered, accident years 2001 through 2003. While we are pleased to distribute a dividend two years in a row, we caution members that dividends depend on financial results for specific periods and cannot be guaranteed to continue.

At its December 2007 meeting, the ANI-RRG Board of Directors approved a dividend plan similar to the plan adopted by NIAC earlier in the year. This plan establishes criteria for rewarding members for length of continuous coverage and favorable claims experience. ANI-RRG will not be in a position to consider declaring a dividend, however, until it achieves considerable growth and a rating by A.M. Best comparable to NIAC's present rating.

We agreed in late 2007 to co-sponsor an online magazine and web site with CompassPoint Nonprofit Services. Information provided on the site will reflect the concerns and challenges faced by people who work and volunteer in community-based nonprofits—the people who comprise the largest part of the sector's numbers and who do much of the behind-the-scenes heavy lifting to make positive change in our communities. This online magazine will help our members gain the tools, training and information they need to do effective work. We are delighted that Jan Masaoka—a leading nonprofit thinker, leader and writer—has agreed to be Editor-in-Chief of this new publication, Blue Avocado, due to launch in April 2008. Anyone may receive a free subscription by sending a blank email to subscribe@blueavocado.org.

We were reminded this year that we serve our members well by taking our risks on the insurance side, and not in our investment portfolios. With the downturn in the housing market, the distress in the mortgage and credit markets and losses in the equity market, our strategy of investing primarily in "plain-vanilla," high-quality fixed-income investments has largely kept us out of the turmoil roiling many others in the financial sector. Members can rest assured that we will continue to take seriously our responsibility to safeguard their companies.

Wilson M. Jones, Chairman of ANI-RRG

With respect and admiration for our members' good work in our communities,

Pamela E. Davis
President and CEO

R. Lawrence Bacon
Chairman of NIAC, NANI and AMS

Wilson M. Jones
Chairman of ANI-RRG

NIAC Board of Directors

R. Lawrence Bacon, Chairman
President
Bacon & Company, Carmel

Pamela E. Davis, President
Chief Executive Officer
NIAC, Santa Cruz

John M. Christensen, Secretary
Senior Vice President
Hope Services, San Jose

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

Jeanne Bell [1]
Chief Executive Officer
CompassPoint Nonprofit Services, San Francisco

Meredeth Clark
Chief Financial Officer
Housing Trust of Santa Clara County, San Jose

Norris Clark
Financial and Regulatory Specialist
Locke, Lord, Bissell & Liddell, LLP, Los Angeles

Suzanne Cross
Board Member
La Casa de las Madres, San Francisco

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

John Kniep [1]
Chief Financial Officer
FamiliesFirst, Inc., Davis

Martha Marcon
Audit Partner, Retired
KPMG LLP, Glendale

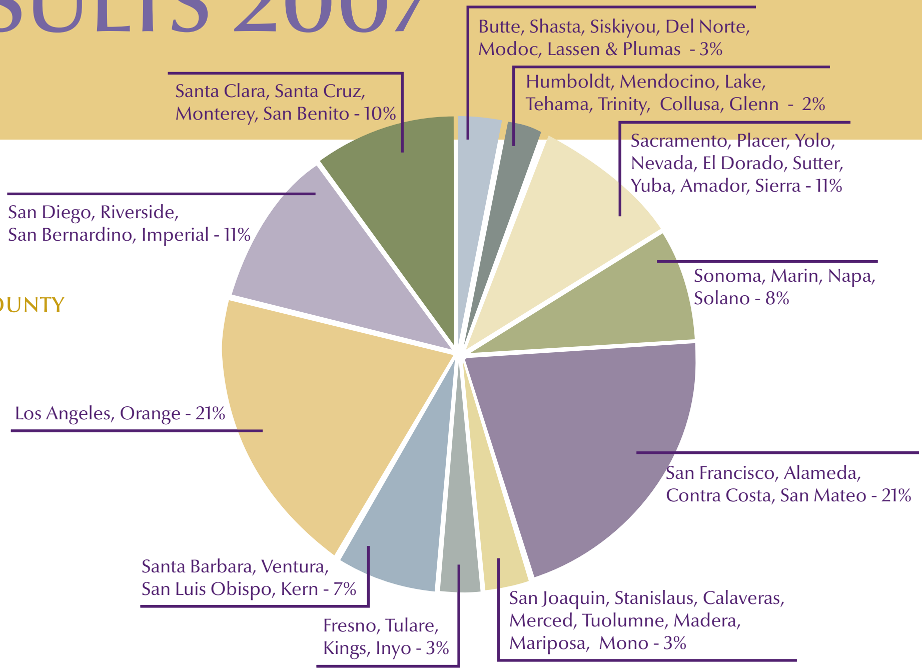
John E. McCue
Public Affairs Officer
Becoming Independent, Santa Rosa

Bill Walters [1]
Chief Financial Officer
Crossroads Diversified Services, Inc., Sacramento

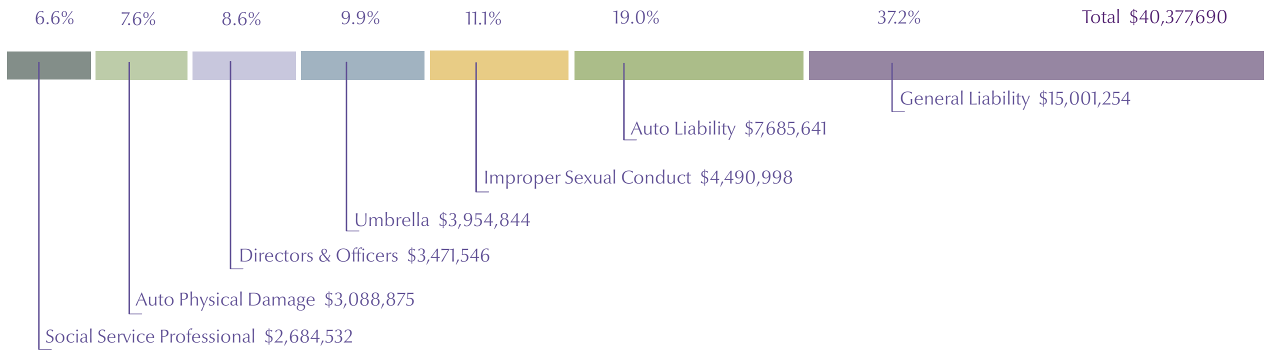
[1] Elected February 2008

NIAC Results 2007

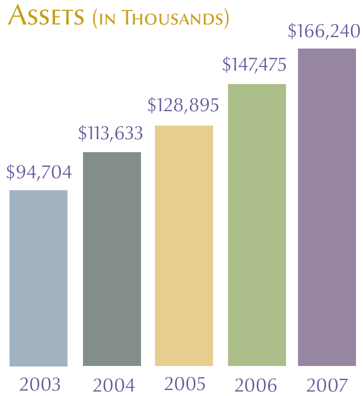
Members by County



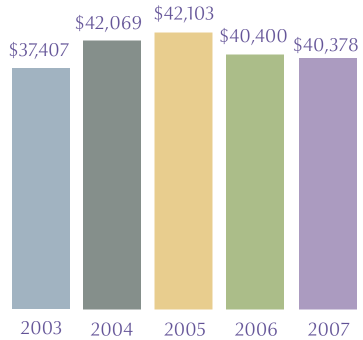
Premium by Line



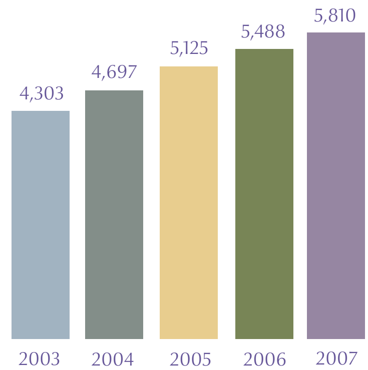
Assets (in Thousands)



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

Steven Richard, Secretary
President and Chief Executive Officer
SUN Home Health Services, PA

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

R. Lawrence Bacon
President
Bacon & Company, CA

Robert Emrich
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
Audit Partner, Retired
KPMG LLP, CA

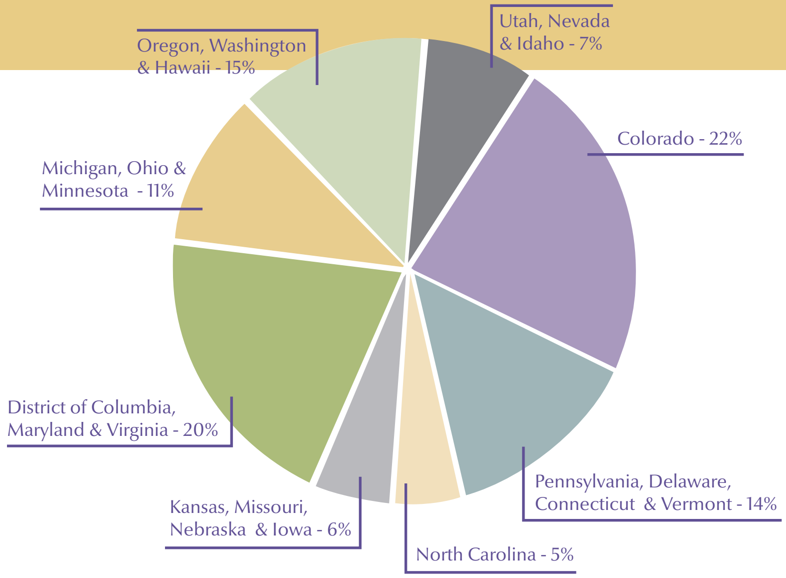
Carol McCaulley[1]
President
John Paul II Center for Life, WA

Ted Van Name [1]
President and Chief Executive Officer
Goodwill of Delaware and
Delaware County, DE

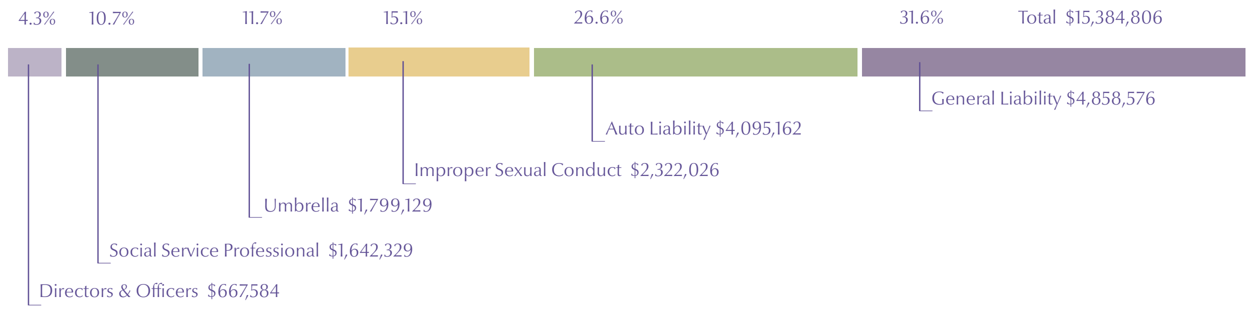
[1] Elected February 2008

ANI-RRG Results 2007

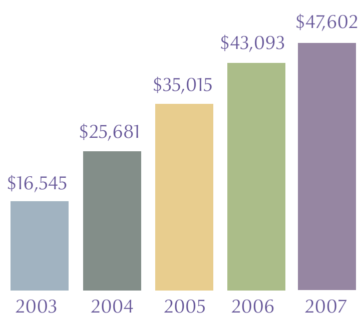
Members by State



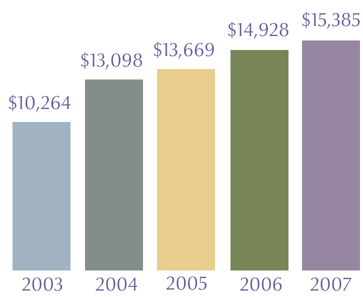
Premium by Line



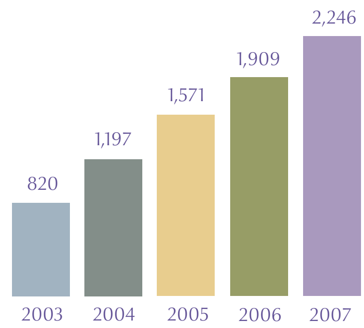
Assets (in Thousands)



Premiums (in Thousands)



Members



Nonprofits Insurance Alliance Group

A Head for Insurance...
A Heart for Nonprofits

This vision launched the Nonprofits' Insurance Alliance of California (NIAC) in 1989. Today, the Nonprofits Insurance Alliance Group comprises four distinct 501(c)(3) nonprofit organizations that insure more than 8,000 nonprofits in 24 states and DC.

- *Nonprofits' Insurance Alliance of California (NIAC)* provides liability insurance to 501(c)(3) nonprofits in California
- *Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG)* – provides liability insurance to nonprofits with locations outside California
- *National Alliance of Nonprofits for Insurance (NANI)* provides property reinsurance
- *Alliance Member Services (AMS)* – provides staff, services and support to the other three companies

Nonprofits Insuring Nonprofits

These companies that compose the Nonprofits Insurance Alliance Group are 501(c)(3) tax-exempt organizations governed by their nonprofit member-insureds with boards of directors elected annually by their member nonprofit organizations.

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

Kimberly Aday
Vice President Finance

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

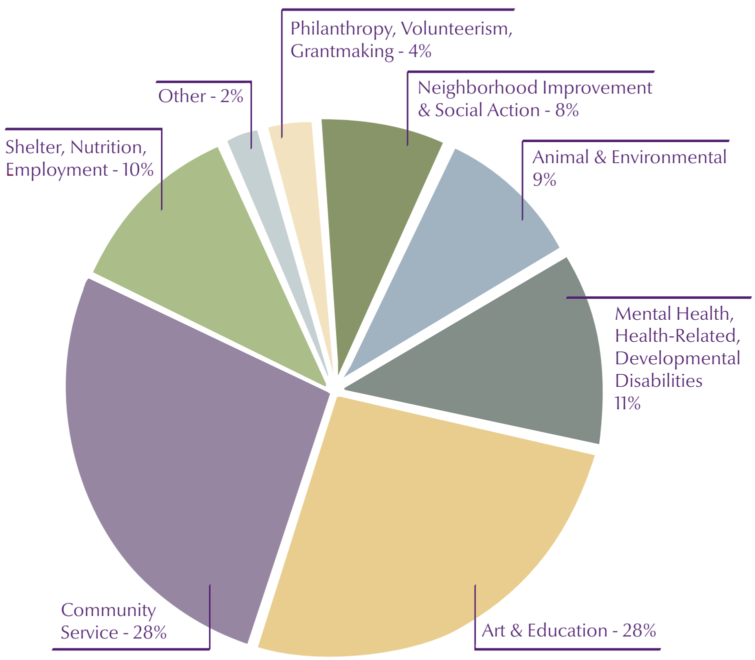
Steven Moody, ARM
Vice President Insurance Operations

Our Members...

NIAC and ANI-RRG serve most all types of 501(c)(3) nonprofit organizations, including children's programs, animal rescue operations, group homes, senior organizations, art groups, food banks, community groups, foster family agencies and many others. Their employees and volunteers are the unsung heroes of our communities. Day in and day out, they diligently work to serve the neediest in our communities, and to save the earth, itself.

Moreover, they remind us to celebrate and explore our world with music, theater and other creative arts. Although it is seldom acknowledged, they improve life for every one of us. We are proud to be associated with the organizations, and the people in them, that make up this important sector. Our mission is to support their efforts by providing them with appropriate insurance coverages and risk management tools to help them operate more effectively and safely.

2007 Member Composition



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

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

*Beginning April 1, 2008

Great work!...You do such a good job...I always appreciate yo
possibly know how grateful I am and thank you so much!...We
for your (as usual) wonderful help...That's pretty cool!...Easy
You are incredibly awesome!!!!!...Thank you so much...Very e

INSURANCE

COVERAGES

We use our more than 18 years of experience insuring 501(c)(3) nonprofits to develop and deliver the best possible insurance policies and risk management tools. Our Nonprofits' OWN policy form is a unique, enhanced liability product designed by and for nonprofits to meet the specific needs of the nonprofit sector.

Coverages available through the Nonprofits Insurance Alliance Group include:

- General Liability
- Auto Liability
- Social Service Professional
- Improper Sexual Conduct
- Directors and Officers Liability
- Umbrella Liability
- Liquor Liability
- Employee Benefits Liability

Through companion programs, Group member-insureds may also purchase the following coverages:

- Property
- Auto Physical Damage
- Fidelity
- Student/Participant/Volunteer Accident
- Foster Parent Liability

A.M. BEST COMPANY RATINGS

- Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG) has a Best's Rating of A- (Excellent)
- Nonprofits' Insurance Alliance of California (NIAC) has a Best's Rating of A (Excellent)
- National Alliance of Nonprofits for Insurance (NANI) has a Best's Rating of A- (Excellent)

INDEPENDENT INSURANCE BROKERS

The Nonprofits Insurance Alliance Group is proud to work through independent insurance brokers. Their professional expertise and knowledge is a critical component of the insurance purchasing process for nonprofits. We work most successfully with brokers who are excited about the many services and specialty coverages we offer, who are knowledgeable about our nonprofit mission, and who understand and communicate to nonprofits our record of fairness and price stability.

ur quick response…You have done a terrific job…Cannot
e really appreciate you getting back to us so quick …Thanks
to work with…I always appreciate your quick response…
xcited…I really a

Reinsurer

Since 1994, the Nonprofits Insurance Alliance Group has partnered with Swiss Re, which has a Best's rating of A+ (Superior).

"…I really appreciate all your hard work…it is so rare to work with someone who is just consistently responsive."

– Kim Llewellyn, Account Executive, Resergens Risk Management

HasNa - Washington, DC

HasNa's mission is to promote cross-cultural understanding and economic empowerment in culturally divided areas of the world, and to encourage individuals and communities to work together toward peaceful coexistence. Find out more at www.hasna.org.

"…[The staff member who works with us is] fast, efficient and knowledgeable. He always calls or emails me right back when I ask questions…does his best to accommodate anything I ask…truly an asset"

– Michelle Robinson, Account Executive, John O. Bronson Company

rance

Pricing

The Importance of Stability

During 2007 we witnessed the distress created in the mortgage and credit markets. This came about because many lenders abandoned their underwriting guidelines and made erroneous assumptions about housing prices and borrowers' abilities to repay. What happened in the credit markets this year is similar to what happens in insurance during "soft markets." In the push to grow, insurance companies are too optimistic about risk; they often abandon long-held underwriting guidelines and reduce prices, sometimes dramatically. They manage to convince themselves that future claims experience will be better than the past. That rarely happens. Instead, to remain solvent after several years of inadequate pricing, insurance companies usually find that they need to dramatically increase prices and reduce the amount of insurance they write. We call that "crisis" in the insurance industry "a hard market."

Many commercial insurers cut prices in 2007 to increase cash flow, without regard to the impact on future instability. Member companies in the Nonprofits Insurance Alliance Group were created to protect nonprofits from this instability; we therefore work hard to help our member-insureds and brokers understand why we do not play pricing games. We know how tempting it can be for a nonprofit looking for short-term savings to be fooled by unrealistically low "teaser" prices. The nonprofit often does not find out until later that the coverage is inferior or the price unsustainable. Even worse, when a nonprofit that has been paying artificially low premiums has a series of routine claims, it begins to look like a poor risk— much like those individuals whose credit has been damaged by taking out loans that were inappropriate.

Our goal is to offer the right price at the beginning of every insuring relationship, based on our deep knowledge of nonprofit risks and our commitment to fairness. If there are any surprises, we want them to be good ones—like unexpected price reductions or dividend payments because of demonstrated results from successful loss control.

"What a wonderful vision, and now one that has come true. Congratulations on your efforts to improve the world of nonprofits."

—Marilyn Barr, Executive Director
CASA of Tulare County

ke that happen…Please offer our thanks and appreciation…
ys…shot in the arm for this program…Thanks for the great
n for your tremendous support…Ongoing diligence…Most
tunity…Thanks f

Long Beach BLAST - Long Beach, CA

Long Beach BLAST (Better Learning After School Today) trains college students as academic mentors to work one-on-one with K-12 students, and also brings enrichment programming to after-school programs. Find out more at www.lbblast.org.

"You should call yourselves "The Innovators." It is my view that no carrier can hold a candle to NIAC and ANI-RRG at any level - underwriting, claims, marketing and member services."

—Cole Kinney, Insurance Broker
Chapman & Associates

"What an amazing thing your company is doing for your nonprofit clients. I was astounded to hear the news [about the dividend, and] want to thank you and everyone at NIAC for the outstanding job you do servicing the nonprofit community."

– Marilyn Price, Executive Director
Trips for Kids

You really gave this an A-1 effort…Excellent…It was a pleasu
the process was superb!…Very quick…Surprising speed…Gre
help…very much enjoy…Express my gratitude and respect f
steadfast position to not compromise…Followed up regularly…

SERVICE

Inspired Service…We Mean it!

During 2007, we received about one letter or email a week from members and insurance brokers commenting on how much they appreciate our inspired service. Whether it is in the area of underwriting, claims management, or loss control and risk management, our member-insureds and insurance brokers consistently tell us that we stand out from the crowd. For example, our policies are typically issued within one day; the commercial insurance industry average is 30 days. Our members and brokers appreciate our easy access, our thorough, individualized attention, and our ability to quickly resolve most matters with just one contact. The following examples demonstrate some of the ways we were able to help in 2007 and testimonials from our grateful member-insureds.

Sexual Harassment Training Saves Nonprofit $1,200

During a recent visit with a NIAC member-insured, we were reviewing the listing of resources available from our organization. The executive director was excited to learn that we offered free online sexual harassment training for supervisors. The organization had been on the verge of buying training for 36 employees through another organization. Our online training meets the requirements of AB1825 in California. This free training resource saved the nonprofit more than $1,200.

Free Driver Training Replaces Costly Program

A member contacted us regarding specialized state mandatory driver-training requirements for their organization. The organization was paying a lot of money to train employees, and wanted to know if our free defensive-driver training qualified. They were unsure about the requirements, so we reviewed the state codes and contacted the administering agency for clarification. After some discussion with the administering agency, we determined that our training programs met the requirements. The member appreciated our legwork and the use of our free training.

Sample Waiver Helps Member-Insured Protect Itself

A member-insured was adding a walk-a-thon to their fund raising activities. The executive director contacted us for assistance in developing a waiver for the event, which was fast approaching. We created a sample walk-a-thon waiver, including a sign-off on use of photographs in case the organization wanted to publish photos in an annual report or fundraising materials. They appreciated our quick turnaround, saying it was exactly what they needed.

ure working with you…Your support and guidance through
eat work!…You are awesome!…Thanks so much for all your
or the professional legal assistance you've availed…NIAC's
.Always available

PAWSITIVE TEAMS - SAN DIEGO, CA

Pawsitive Teams provides service dogs for people with disabilities, enabling clients to lead richer, more independent lives. Find out more at www.pawsteams.org.

Policy Documentation Assistance Promotes Compliance

A member-insured who runs a private children's academy was having trouble with parents not following procedures for picking up their children. Parents were to pick up students from inside the building, rather than allow them to wait on the street. School employees, concerned about the children's safety, needed help getting parents to comply. A lengthy discussion helped us understand the school's current procedures and their methods of communicating their expectations to parents. Our recommendations included formalizing the student pick-up policy and adding information to parent information packets. We provided sample language to use in crafting their policy and gave them guidance on how to reinforce the policy. They appreciated our taking the time to learn the issues, and our thorough response to their needs.

"I wanted to express my gratitude to you and to ANI-RRG for being willing to see this case through. I know that it is easy to throw money [to settle] claims…but it has meant the world to our psyche to win [in court]."

*– An ANI-RRG Member-Insured**

**We do not disclose names of individuals involved in insurance claims or labor and employment risk management consultations.*

Express my gratitude and respect for the professional assistanc up regularly…Always available returning calls within 5-10 m The service received was awesome and very professional…I on….Everything looks perfect…Your professional courtesy an

and more SERVICE

Our employment and labor risk managers have also assisted our member-insureds, as in the examples below.

FMLA and ADA Issue

A member-insured called about an employee— a children's therapist—who was six weeks behind on her notes at the end of the school year, thereby jeopardizing grant funding. When the supervisor talked to the employee about submitting her notes, the employee said she suffered from depression and needed time off. She also noted that her mother was the HR Director for a major law school, and declared that she knew her rights. We were able to delineate the employee's rights, determine how long the employee could remain on leave, and help the agency obtain the required notes to secure grant funding.

Potential Suicide Risk

An employee reported that another employee, a residential caretaker, was talking about suicide. The HR Director was concerned that the agency would incur liability if the employee were to hurt herself or others on the job. He wanted to know if he should terminate the employee or take some other step. One of our Employment Risk Managers was able to help this nonprofit understand their rights and responsibilities so that they could take appropriate action.

Termination Issue

An employee disclosed that he was HIV positive, then slipped and fell at work, sustaining an injury to his back. Prior to these occurrences, the employee had been placed on a Performance Improvement Plan, under which his job performance had not improved. The nonprofit wanted to move forward with termination based on employee's work performance, but wasn't sure how they could do this. We helped them determine the steps they needed to take.

As you can see, we assist nonprofits in many difficult real-world situations. Our goal with these services is to make sure that our member-insureds have the tools they need to make the best possible decisions.

"It was a pleasure working with you. Your support and guidance through the process was superb!"

*—A NIAC Member-Insured**

e…NIAC's steadfast position to not compromise…Followed
inutes…Excellent service…Very professional and helpful…
hope you know how much I appreciate you taking this issue
d cooperation…It

"To all of you at ANI-RRG, I want you to know how much your assistance is appreciated by your clients and me. You truly are a one-of-a-kind organization."

*—An ANI-RRG Insurance Broker**

AVENIDAS - PALO ALTO, CA

Avenidas helps seniors in the San Francisco Bay Area live well and maintain their independence by providing support, information and community through their senior center and senior day health center. Find out more at www.avenidas.org.

"The service I received was awesome and very professional. The adjuster followed up regularly and phone calls were returned promptly."

*—An ANI-RRG Member-Insured**

rvice

**We do not disclose names of individuals involved in insurance claims or labor and employment risk management consultations.*

Resources

Practical & Innovative

Every day we gain new appreciation for those working and volunteering for nonprofit organizations. Because of the way many nonprofits are funded, most of their revenue is restricted for specific projects and not available for general operating expenses. Consequently, money is tight, even non-existent, for developing the important infrastructure support that most for-profit organizations take for granted. Despite these challenging funding realities, nonprofits have admirable safety records. However, when systems and structures are under-developed and resources stretched too thin, accidents can happen. We believe that insurance should be more than just a safety net when things go wrong. We take seriously our mission to help our member organizations excel at all times. To support them, we offer a wide range of educational and practical risk management resources as part of their insurance purchase.

Services

BOARDnetWORK - A web-based tool that stores important organizational records and helps organize the work of boards of directors. ANI-RRG and NIAC members can use this tool for less than a dollar a day.

Employment Risk Management Consultations and Handbook Service - Members of ANI-RRG and NIAC that purchase our policy for Directors and Officers (D&O) are eligible for unlimited, free employment risk-management consultations to avoid the most common errors in terminating employees. These consultations have helped avoid many expensive and time-consuming lawsuits. Our labor and risk-management staff also review and comment on employee handbooks free of charge for these members.

Background Checks - We provide significant member discounts for online background checks of employees and volunteers.

Vehicle Monitoring Program - For members that own vehicles, this free program provides bumper decals with a toll-free number to solicit both feedback from motorists about how vehicle operators are driving.

Training & Education

Audiovisual Library - Our extensive DVD and video lending library is available to all members free of charge. Topics include driver training, working with people with disabilities, school and youth programs, preventing child abuse, legal issues, facilities and finance.

Child Sexual Abuse Prevention Training - We provide, at a deeply discounted member rate, a revolutionary training program that educates adults to prevent, recognize and react responsibly to child sexual abuse.

ful...You are a wonderful resource!...A wonderful presenta-
...You did a great job...I really appreciate the effort...It's ter-
ould recommend it to others...I want you to know how much
you have done...T ... est

Defensive Driving Training
We provide free driver training—including classroom, online, and self-study options—for member nonprofits that own vehicles.

Presentations - NIAC and ANI-RRG representatives frequently give presentations and workshops at nonprofit events on topics such as overseeing volunteers, managing risk, holding safe special events, creating employee handbooks, and many other topics.

Sexual Harassment Training for Supervisors - This online tool is available free to NIAC members so that they can meet the AB1825 requirement in California.

"I wouldn't think of going through the coming year without BOARDnetWORK. It's been great."

—Joni Halpern, Executive Director
Supportive Parents Information Network

Big Sister League of San Diego - San Diego, CA

The Big Sister League of San Diego assists women and girls in San Diego County by providing supervised transitional housing, volunteer mentor relationships, and support services. The League's programs encourage confidence, self-esteem, and independence. Find out more at www.bigsisterleague.org.

Risk Management Webinars - Conducted via phone and internet, these one-hour, live sessions are both inexpensive and convenient. They are ideal for providing in-service training, polishing risk-management skills and orienting staff, senior management and board members to aspects of managing risk in nonprofit organizations. The 2008 webinar schedule can be found at www.InsuranceforNonprofits.org.

ources

and more RESOURCES

PUBLICATIONS

Educational Booklets - Eight booklets (available free on the web site and in print) are currently available, covering topics such as special events, directors and officers insurance, what nonprofits need to know about lawsuits, managing volunteers, tips for vehicle safety programs, avoiding sexual abuse, managing collaboration risks and managing technology risks. Each booklet has been written specifically for the nonprofit reader.

Risk Management Posters - Posters are available on our web sites on topics from premises safety to workplace sexual-conduct issues.

Forms and Templates - This library of risk management material contains checklists, forms, templates, policies, procedures and waivers in a variety of topic areas. Sample forms and templates may be downloaded from our member-secure web site, and adapted to meet specific needs.

Our list of member resources continues to grow. During 2007 we reorganized the Resources section of our secure member-only web site so that members can easily find and cross-reference a variety of free resources on the topic areas listed at right. To receive access to this secure resource site, NIAC and ANI-RRG members and brokers may sign up by contacting us at webmaster@insurancefornonprofits.org.

RESOURCES BY TYPE

- Applications
- Audiovisual
- Booklets
- Brochures
- Checklists
- Contracts and Agreements
- Forms
- Handbooks
- Policies
- Posters
- Reference
- Services
- Training and Education
- Waivers

RESOURCES BY TOPIC

- Administation/Operations
- Board Governance
- Client Safety
- Employment and Labor
- Facilities
- Fleet/Auto Maintenance
- Insurance
- Safety
- Volunteers

.I really appreciate the effort…It's terrific…Provides great
others…I want you to know how much your assistance is
ppreciate all you have done…You have been very helpful …
ource!…A wonder … ow-

COMMUNITY ASSOCIATION FOR REHABILITATION (CAR)
PALO ALTO, CA

CAR supports and promotes the achievements of people with developmental and other disabilities so they can continue to be valued members of the community. Find out more at www.c-a-r.org.

"I found your seminar on Effective and Legal Employment Practices to be outstanding."

—Louise Bourassa, Executive Director
Contra Costa Interfaith Housing

"…thank you for the great training day…[which was] fun and full of useful information, discussions and exercises… I can't say enough how much we appreciate the training from NIAC!"

—David McKeand, Program Director
New Directions for People with Disabilities

New in 2008

Intriguing, nourishing and practically indispensable

blue avocado
www.blueavocado.org

Blue Avocado is a new online magazine for people who work and volunteer in community nonprofits. Its mission is to inspire, support, inform, speak for, and capture the imaginations of these readers. Member companies in theNonprofits Insurance Alliance Group are proud to be the co-sponsors with CompassPoint Nonprofit Services of this exciting, provocative initiative.

The Editor-in-Chief, Jan Masaoka, is a leading writer and thinker in the nonprofit sector, with particular emphasis on boards of directors, business planning, and the role of nonprofits in society.

Features will include:

- Lead Investigative Journalism
- Board Café column for nonprofit board members
- Ask Rita in HR
- Real World Nonprofit Finance
- Personal Finance for the Nonprofiteer
- Headline News from the Field
- That's Nonprofit Life

To subscribe to this exciting initiative, send an email to editor@blueavocado.org; visit the web site at www.blueavocado.org

The Blue Avocado Leadership Council includes:

Kathleen Adamson, Board Member, *Nonprofits' Insurance Alliance of California (NIAC)*

Audrey Alvarado, *National Council of Nonprofit Associations*

Daniel Ben Horin, *Compumentor*

Rick Carter, *Lincoln/Lancaster County Human Services Federation*

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Alana Conner, *Stanford Social Innovation Review*

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Kathleen Enright, *Grantmakers for Effective Organizations*

Irv Katz, *National Human Services Assembly*

Fran Kunreuther, *Building Movement in the Nonprofit Sector*

Janis Lane-Ewart, *KFAI*

Bill Levis, *National Center for Charitable Statistics, Urban Institute*

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Darian Rodriguez Heyman, *Craigslist Foundation*

Stephanie Roth, *Grassroots Fundraising Journal*

Paul Shoemaker, *Social Venture Partners*

Tom Silk, *Thomas Silk Law*

Kelvin Taketa, *Hawai'i Community Foundation*

Nonprofits Insurance Alliance Group

Independent Auditors' Report

To the Board of Directors of
Nonprofits Insurance Alliance Group

PricewaterhouseCoopers

In our opinion, the accompanying combined balance sheets as of December 31, 2007 and 2006, 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, 2007 and 2006, 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 21, 2008

Nonprofits Insurance Alliance Group

Combined Balance Sheets

December 31, 2007 and 2006

	2007	2006
Assets		
Investments		
Debt securities (amortized cost: 2007 - $132,028,077; 2006 - $120,121,989)	$ 132,385,016	$ 118,973,526
Equity securities (cost: 2007 - $9,974,290; 2006 - $9,164,936)	11,229,660	10,086,196
Total investments	143,614,676	129,059,722
Cash and cash equivalents	17,268,039	10,048,139
Premiums receivable, net	16,116,957	15,053,764
Interest receivable	1,330,115	1,326,796
Prepaid expenses and other assets	616,125	281,502
Reinsurance recoverable	29,624,062	26,431,385
Prepaid reinsurance premium	6,169,603	7,169,173
Deferred acquisition costs	4,399,375	4,173,926
Property and equipment, net of accumulated depreciation of $4,020,635 in 2007 and $3,305,510 in 2006	6,730,814	7,001,446
Total assets	$ 225,869,766	$ 200,545,853
Liabilities and Equity		
Liabilities		
Loss and loss adjustment expense reserves	$ 89,149,852	$ 79,014,529
Unearned premiums	27,750,401	27,852,169
Accounts payable and other accrued liabilities	3,500,353	2,995,125
Reinsurance payable	1,071,154	1,302,386
Loan payable	3,350,000	3,540,734
	124,821,760	114,704,943
Subordinated debt	2,000,000	2,000,000
Total liabilities	126,821,760	116,704,943
Total equity - unrestricted		
Members' contributions	900,507	900,507
Capital contributions	10,000,000	10,000,000
Accumulated earnings	86,535,190	73,167,606
Unrealized losses on investments, net	1,612,309	(227,203)
Total equity - unrestricted	99,048,006	83,840,910
Total liabilities and equity	$ 225,869,766	$ 200,545,853

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

Nonprofits Insurance Alliance Group

Combined Statements of Income and Changes in Total Equity

Years Ended December 31, 2007 and 2006

	2007	2006
Revenues		
Gross written premium	$ 57,760,434	$ 57,201,562
Ceded premium	(12,748,137)	(14,635,922)
Net written premium	45,012,297	42,565,640
(Increase) decrease in unearned premium, net	(897,800)	483,041
Net earned premium	44,114,497	43,048,681
Net investment income	6,290,724	5,006,256
Net realized (losses) gains on sales of investments	(237,424)	1,144,082
Other income	2,813,287	2,580,770
Total revenues	52,981,084	51,779,789
Expenses		
Losses and loss adjustment expenses, net	21,641,078	18,723,342
Salaries and employee benefits	5,068,734	5,062,632
Commission expense, net	6,809,828	6,703,750
Other expense	3,817,816	3,567,172
Total expenses	37,337,456	34,056,896
Net income	15,643,628	17,722,893
Other changes in total equity		
Dividend	(2,276,044)	-
Change in net unrealized gains on investments	1,839,512	567,464
	15,207,096	18,290,357
Total equity - unrestricted, beginning of year	83,840,910	65,550,553
Total equity - unrestricted, end of year	$ 99,048,006	$ 83,840,910

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

Combined Statements of Cash Flows

Years Ended December 31, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Net income	$ 15,643,628	$ 17,722,893
Adjustments to reconcile net income to net cash provided by operating activities		
Net realized losses (gains) on sale of investments	237,424	(1,144,082)
Depreciation and amortization	715,145	649,089
Amortization of premium of debt securities	113,248	419,375
Changes in assets and liabilities		
Premiums receivable	(1,063,193)	(742,614)
Interest receivable	(3,319)	(321,112)
Prepaid expenses and other assets	(334,623)	93,244
Reinsurance recoverable	(3,192,677)	(4,276,293)
Prepaid reinsurance premium	999,570	(329,023)
Deferred acquisitions costs	(225,449)	(241,896)
Loss and loss adjustment expense reserves	10,135,323	9,571,703
Unearned premiums	(101,768)	(154,018)
Reinsurance payable	(231,232)	(132,805)
Accounts payable and other accrued liabilities	505,208	(54,079)
Net cash provided by operating activities	23,197,285	21,060,382
Cash flows from investing activities		
Purchases of investments	(84,745,349)	(99,480,629)
Proceeds from sales and maturities of investments	71,679,235	85,038,585
Purchases of property and equipment	(444,493)	(547,368)
Net cash used in investing activities	(13,510,607)	(14,989,412)
Cash flows from financing activities		
Repayment of loan payable	(190,734)	(185,000)
Dividend	(2,276,044)	-
Net cash (used in) provided by financing activities	(2,466,778)	(185,000)
Net increase (decrease) in cash and cash equivalents	7,219,900	5,885,970
Cash and cash equivalents, beginning of year	10,048,139	4,162,169
Cash and cash equivalents, end of year	$ 17,268,039	$ 10,048,139
Supplemental disclosure of cash flow information		
Interest paid	$ 181,901	$ 156,459

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 the average bid price 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.

The Group also collects premiums on behalf of a third party carrier that provides coverage to Group's members not otherwise offered by NIAC or ANI. Amounts due from members for such coverage amounted to $3,154,948 and $2,691,233 at December 31, 2007 and 2006, respectively, and are included in premiums receivable. The corresponding amounts payable to the third party carrier are $960,610 and $927,277 at December 31, 2007 and 2006, respectively, and are included in accounts payable and other accrued liabilities.

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 $8,393,571 for 2007 and $8,204,034 for 2006. 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, 2007 and 2006 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, except for AMSIS, 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, 2007 and 2006:

2007	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. government and agency obligations	$ 22,451,582	$ 630,919	$ 46,703	$ 23,035,798
Corporate obligations	57,460,724	437,837	929,893	56,968,668
Mortgage-backed securities	41,514,258	378,574	123,944	41,768,888
Asset-backed securities	2,747,770	5,268	18,306	2,734,732
Other debt securities	1,710,169	30,198	7,011	1,733,356
Total debt securities	125,884,503	1,482,796	1,125,857	126,241,442
Equity securities	9,974,290	1,255,370	-	11,229,660
Money market account	6,143,574	-	-	6,143,574
Total investments	$142,002,367	$ 2,738,166	$ 1,125,857	$143,614,676

2006	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. government and agency obligations	$ 36,562,003	$ $383,042	$ 621,651	$ 36,323,394
Corporate obligations	44,951,365	142,891	713,410	44,380,846
Mortgage-backed securities	33,226,700	131,443	439,472	32,918,671
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

The amortized cost and estimated fair value of investments at December 31, 2007, 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.

	2007	
	Cost or Amortized Cost	Estimated Fair Value
Due in 1 year or less	$ 7,213,394	$ 7,200,674
Due after 1 year through 5 years	40,646,813	41,170,886
Due after 5 years through 10 years	23,824,182	23,760,103
Due after 10 years	9,938,086	9,606,159
Mortgage-backed securities	41,514,258	41,768,888
Asset-backed securities	2,747,770	2,734,732
	$125,884,503	$126,241,442

Gross realized gains and losses on sales of debt securities were $161,688 and $399,112 in 2007, respectively, and $909,271 and $361,102 in 2006, respectively. Gross realized gains and losses on sales of equity securities were $0 and $0 in 2007, respectively, and $817,652 and $221,739 in 2006, respectively.

At December 31, 2007 and 2006, unrealized losses on individual securities were as follows:

2007	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	$ 30,840	$ 2,201,226	$ 15,863	$ 1,177,143	$ 46,703	$ 3,378,369
Corporate obligations	164,409	8,389,913	765,484	22,093,704	929,893	30,483,617
Mortgage-backed securities	222	187,049	123,722	13,380,770	123,944	13,567,819
Asset-backed securities	4,176	561,848	14,130	1,464,252	18,306	2,026,100
Other debt securities	1,595	185,984	5,416	652,391	7,011	838,375
	$ 201,242	$ 11,526,020	$ 924,615	$ 38,768,260	$ 1,125,857	$ 50,294,280

2006	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	$ 103,848	$ 12,242,350	$ 517,803	$ 18,456,334	$ 621,651	$ 30,698,684
Corporate obligations	102,415	10,118,031	610,995	24,130,958	713,410	34,248,989
Mortgage-backed securities	34,435	4,219,988	405,037	17,273,478	439,472	21,493,466
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
	$ 244,644	$ 27,595,535	$ 1,599,859	$ 62,559,077	$ 1,844,503	$ 90,154,612

The unrealized losses on the Group's investments in U.S. government and agency obligations, corporate obligations, mortgage-backed securities, asset-backed securities and other debt securities, which averaged 1.2% 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, 2007.

The Group's investments in equity securities are invested in the Vanguard Institutional Index Fund.

4. Property and Equipment

Property and equipment at December 31 consists of:

	2007	2006
Computers and software	$ 2,293,667	$ 2,029,079
Furniture and fixtures	227,171	221,791
Internal software	2,433,006	2,269,879
Building	4,316,182	4,304,784
	9,270,026	8,825,533
Accumulated depreciation	(4,020,635)	(3,305,510)
	5,249,391	5,520,023
Land	1,481,423	1,481,423
Property and equipment, net	$ 6,730,814	$ 7,001,446

Depreciation and amortization expense of $715,125 and $649,089, including amortization of leasehold improvements, was recognized for the years ended December 31, 2007 and 2006, respectively.

5. Loss and Loss Adjustment Expense Reserves

Activity in the loss and loss adjustment expense reserves for 2007 and 2006 is summarized as follows:

	2007	2006
Gross loss and loss adjustment expense reserves, January 1	$ 79,014,529	$ 69,442,826
Reinsurance recoverable on unpaid loss and loss adjustment expenses	(24,554,437)	(19,320,599)
Net loss and loss adjustment expense reserves	54,460,092	50,122,227
Incurred related to:		
Current year	27,234,410	25,549,134
Prior years	(5,593,332)	(6,825,792)
Total incurred	21,641,078	18,723,342
Paid related to:		
Current year	3,877,283	3,170,458
Prior years	11,838,275	11,215,019
Total paid	15,715,558	14,385,477
Net loss and loss adjustment expense reserves, December 31	60,385,612	54,460,092
Reinsurance recoverable on unpaid loss and loss adjustment expenses	28,764,240	24,554,437
Gross loss and loss adjustment expense reserves, December 31	$ 89,149,852	$ 79,014,529

As a result of changes in estimates of insured events in prior years, the loss and loss adjustment expense reserves decreased by a net $5,593,332 and $6,825,792 in 2007 and 2006, respectively. In evaluating its 2007 and 2006 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:

2008	$ 200,000
2009	210,000
2010	220,000
2011	225,000
2012	235,000
Thereafter	2,260,000
	$ 3,350,000

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 $131,901 and $126,459 for the years ended December 31, 2007 and 2006, 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, 2007 and 2006, the principal outstanding under the Surplus Note was $2 million. After receiving prior written approval from the Insurance Commissioner, ANI-RRG paid total accrued interest of $50,000 in 2007 and $30,000 in 2006.

8. REINSURANCE

The Group purchases reinsurance protection on liability risks under excess-of-loss contracts for risks with policy limits in excess of a retention of between $250,000 to $500,000 (2006 - $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. In addition, the Group cedes umbrella policies on a 90% or 95% (2006 - 95% or 97.5% respectively) quota share treaty basis. The Group's reinsurer is rated A+ by A.M. Best.

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 are quantified in the table below:

	2007	2006
Premium earned	$13,749,707	$14,306,899
Loss and loss adjustment expenses	7,022,052	13,437,717

For the years ended December 31, 2007 and 2006, the Group received ceding commission of $1,580,201 and $1,564,493, 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, 2007 and 2006 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 $203,425 and $182,175 in 2007 and 2006, 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 $414,132 and $59,506 in 2007 and $461,952 and $65,169 in 2006, respectively. Commissions earned by the agency on health and welfare plans were approximately $28,000 in 2007 and 2006.

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, 2007, the reported capital of ANI-RRG and NANI was in excess of the minimum regulatory requirement.

In August 2006, the NIAC board of directors adopted a dividend plan effective January 1, 2007. This plan is designed to reward NIAC members for length of continuous coverage as well as for favorable claims experience of NIAC as a whole. The NIAC board of directors retains sole authority to declare a dividend. In any year that a dividend is declared, NIAC members who qualify will be entitled to receive a dividend upon renewal of their policy beginning June 1 through May 31. In March 2007, dividends of $3,740,711 were approved for the 2007-2008 year. At December 31, 2007, the remaining commitment, which is contingent upon renewal of coverage by individual NIAC members, is $1,407,565.

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