Nonprofits Insurance Alliance Group

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

2008

A HEAD FOR INSURANCE…
A HEART FOR NONPROFITS

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

Alliance of Nonprofits for Insurance
Risk Retention Group

On the Cover:

Big Brothers Big Sisters of Orange County
Tustin, CA

Big Brothers Big Sisters of Orange County exists to help children in Orange County reach their potential through professionally supported one-to-one relationships that have a measurable impact, contributing to brighter futures, better schools and stronger communities. Find out more at www.bigbrooc.org.

Pasadena Summer Youth Chamber Orchestra
Pasadena, CA

For 23 years, the Pasadena Summer Youth Chamber Orchestra has provided opportunities for teens through college to perform with outstanding conductors in professional settings at no cost to the musicians. Find out more at www.psycochamberorch.org.

Health Education Council
West Sacramento, CA

Health Education Council promotes healthy communities through health education programs and partnerships with organizations that serve at risk populations. The Council's projects include health education curriculum, farmers' markets, community gardens, and California's Project LEAN (Leaders Encouraging Activity and Nutrition), among others. Find out more at www.healthedcouncil.org.

Friends of the Minnesota Conservation Corps
Maplewood, MN

The Minnesota Conservation Corps provides hands-on environmental stewardship and service-learning opportunities to youth and young adults while accomplishing priority cost-effective conservation, natural resource management projects and emergency response work. Find out more at www.conservationcorps.org.

Roofs for Woofs Animal Rescue, Holly, MI

Roofs for Woofs rescues adoptable dogs and puppies from animal shelters and from abusive and neglectful situations in the Oakland County, Michigan area. Medical care is provided, and foster homes are utilized until each rescued animal is placed in a permanent, loving home. Find out more at www.roofsforwoofs.org.

Rainbow Kitchen Community Services
Homestead, PA

Rainbow Kitchen Community Services assists those in need in Homestead, PA. With a special emphasis on the elderly and disabled with few resources, the Kitchen keeps critically needed food on the table. Through supplemental food assistance, case management, and other supportive services, they help get people back on their feet and move again toward self-sufficiency. Find out more at www.rainbowkitchen.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
37	17,853	21	1,668	4,150
fully grown	gallons saved	million Btu	pounds	pounds

Message from the President and the Chairmen

Pamela E. Davis
President and CEO

2008 was one of the most challenging years in modern history for financial service companies. Our strategy of protecting members by cautious management of investment and insurance risks has served us well. In November 2008, A.M. Best affirmed NIAC's A (Excellent) rating and ANI-RRG's and our property reinsurance captive's ratings of A- (Excellent).

This was a year when the world experienced the truth of Warren Buffett's assertion, "You only find out who is swimming naked when the tide goes out." You will see from our healthy financial statements this year that we are modestly dressed swimmers.

Our country also learned that small is beautiful. Those companies with self-restraint and a willingness to stay with what they know, rather than growing just for growth's sake, are wiser than they looked. The benefits of prudent risk management and focus on bringing real value to the customer have taken on new importance.

In fact, the "new" advice to eschew unreasonable leverage, balance your budget, focus always on your mission and service to your customers by doing what you do best, and grow only when you can truly increase your value to the community, surely sounds like the way nonprofit organizations always have operated.

Although 2008 was a solid year for the member companies of Nonprofits Insurance Alliance Group, we are neither resting on our laurels nor assuming there will be no challenges ahead. We are well aware of the incredible financial strain many, if not most, of our member organizations are facing. In the best of times, it is not easy to run a community-based nonprofit, but today the burdens are even heavier. In light of our members' needs, we have redoubled our efforts to reduce expenses and are focused on keeping prices down and value up for our existing members. We will continue to welcome new members who understand our long-term mission and the special value we offer, but we are not going to grow at the expense of those who already have placed their trust in us.

R. Lawrence Bacon
Chairman of NIAC, NANI and AMS

By all measures, our claim experience is improving every year and members are benefiting from reduced premiums. We invite you to view the graphs on pages 18 and 19 of this report, showing the year over year improvement. We attribute these favorable results to the many risk management resources we provide to members as well as members' genuine interest in providing their services as safely as possible.

Responding to our members' eagerness to use these resources, we provided the following risk management services either free or at cost in 2008:

- 1,300 free labor and employment consultations
- Free driver training for 1,100 employees and volunteers
- 240 free loss control consultations
- 1,580 vehicles monitored free through Safetrak®
- Online free training for 1,300 employees to prevent sexual harassment
- Nine webinars training more than 1,000 nonprofit employees and volunteers
- BOARDnetWORK, a web-based tool to manage the work of boards of directors

Combined, the Group welcomed 1,332 new members and closed the year with 8,809, again renewing more than 90 percent of existing members. Gross written premium for the Group totaled $58.2 million. Of that total, NIAC wrote $40.3 million, ANI-RRG wrote $15.8 million and NANI, the Group's property reinsurance captive, retained $2 million on a net basis. Also, we managed an additional $11.9 million in premium for our companion property program, bringing the total business administered by the Group in 2008 to $70 million. At year's end, the Group's balance sheet showed total equity of $103.2 million and total assets of $237.3 million. Of the $12.8 million in combined net income for the Group, $10.3 million was contributed by NIAC, $1.5 million by ANI-RRG, and $1 million by the Group's property reinsurance captive. Once again, the exceptional net income for NIAC and the strong net income for ANI-RRG and NANI, resulted from reserves released due to favorable claim development.

With no significant write-offs, our high quality bond portfolios of relatively short duration have performed admirably, considering conditions in the credit markets. Including stock market declines in NIAC's portfolio, which is the only company holding equities, the Group's combined investments of $170 million showed a difference at year-end of about 3% below our cost. Nevertheless, our senior management, investment committee and investment manager remain vigilant in their oversight of our portfolios.

Given 2008's results, the NIAC Board of Directors has declared a $4.2 million dividend to be distributed to 3,500 qualifying members during 2009 and 2010. NIAC's strong financial performance again was aided by the better-than-expected results during the dividend period being considered, accident years 2002 through 2004. 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 pleased to distribute a dividend three years in a row, we caution members that dividends depend on financial results for specific periods and cannot be guaranteed to continue.

ANI-RRG turned in a strong performance as well, but is not yet large enough to be in a position to pay dividends. However, existing members are accruing points toward the dividend plan now approved for the company.

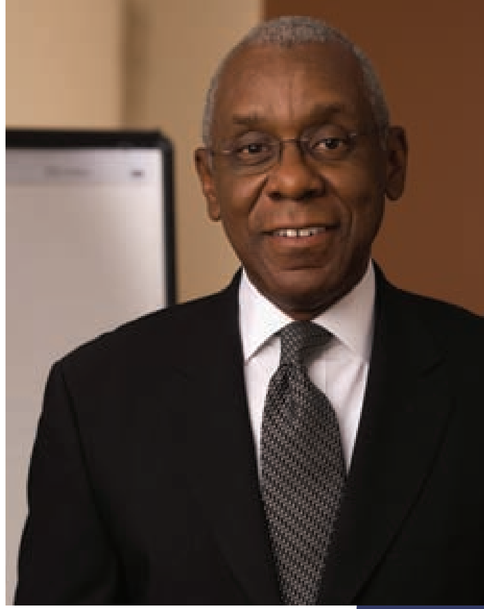
We close with the wise words of Peter Drucker, "You cannot prevent a major catastrophe, but you can build an organization that is battle-ready, that has high morale, that knows how to behave, that trusts itself, and where people trust one another."

We know our members and brokers are counting on us to protect them in these turbulent times and that is, and will remain, our only focus.

Pamela E. Davis
President and CEO

R. Lawrence Bacon
Chairman of NIAC, NANI and AMS

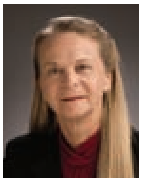
Wilson M. Jones
Chairman of ANI-RRG



Wilson M. Jones
Chairman of ANI-RRG

NIAC Board of Directors

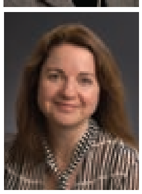
R. Lawrence Bacon
Chairman
President
Bacon & Company, Carmel



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

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

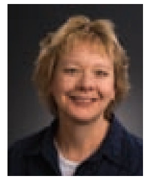
Kathleen Adamson
President and Chief Executive Officer
Gateway Center of Monterey County, Pacific Grove



Jeanne Bell
Chief Executive Officer
CompassPoint Nonprofit Services, San Francisco

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

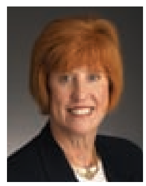
Suzanne Cross
Board Member
La Casa de las Madres
San Francisco



Lisa Dobey [1]
Chief Executive Officer
Truckee Tahoe Community Foundation, Truckee

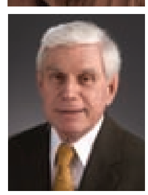
Roger W. Gilbert
President, Retired
Great American West, Orange

John Kniep
Senior Vice President
FamiliesFirst, Inc., Davis



Martha Marcon
Audit Partner, Retired
KPMG LLP, Glendale

Mary Stroube [1]
President and Chief Executive Officer
Terra Nova Counseling
Sacramento

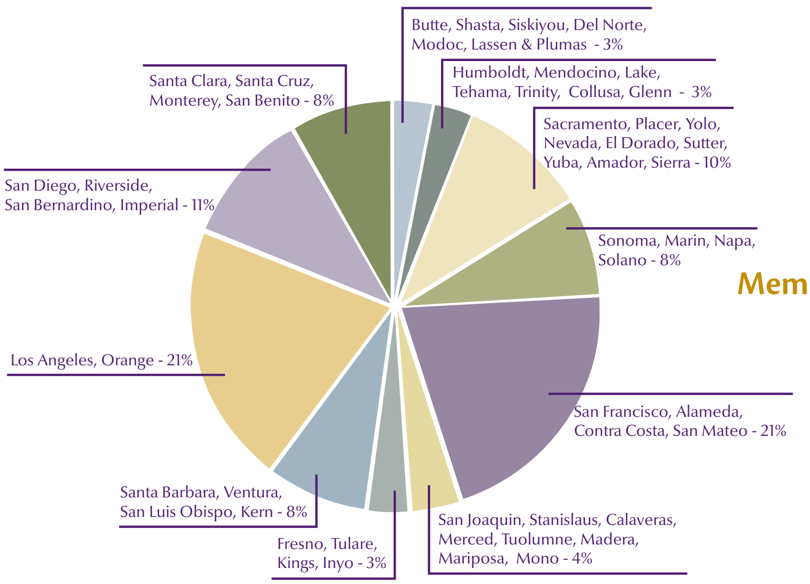


Bill Walters
Chief Financial Officer
Crossroads Diversified Services, Inc., Sacramento

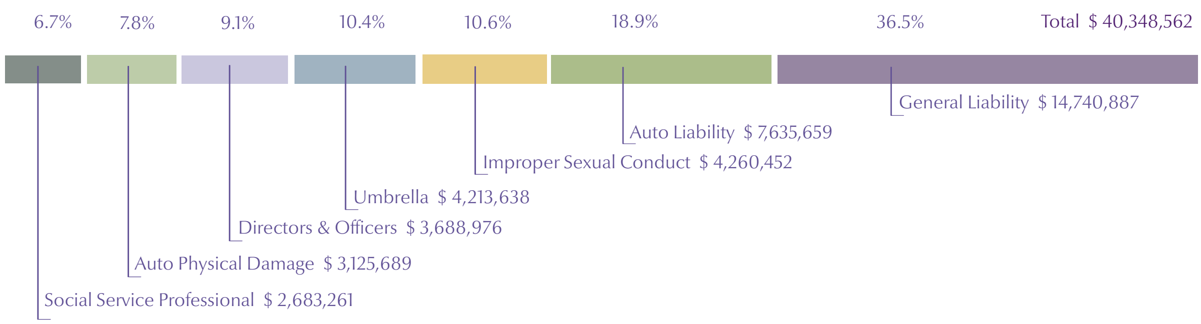
[1] Elected February 2009

NIAC Results 2008

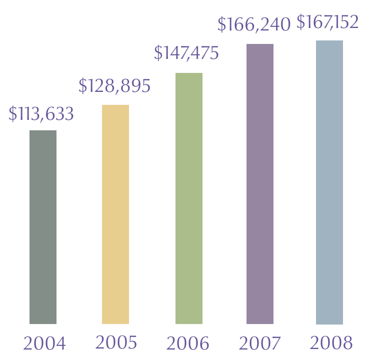
Members by County



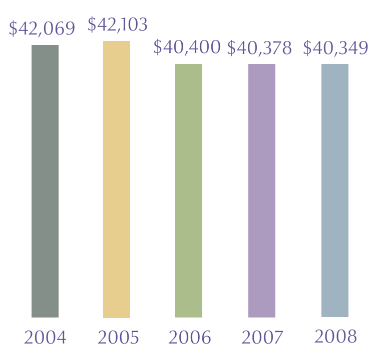
Premium by Line



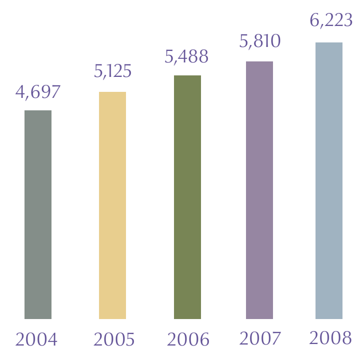
Assets (in Thousands)



Premiums (in Thousands)

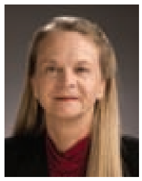


Members



ANI-RRG Board of Directors

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



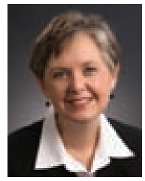
Pamela E. Davis
President
Chief Executive Officer
ANI-RRG, CA

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

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

David Altman [2]
Chief Financial Officer
Central City Concern
Portland, OR

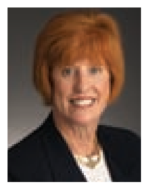
R. Lawrence Bacon
President
Bacon & Company, CA



Kathleen Cronan [1]
Executive Director
Franciscan Friends of the Poor, CO

Robert Emrich
Founder and Board Member
Road of Life, OH

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



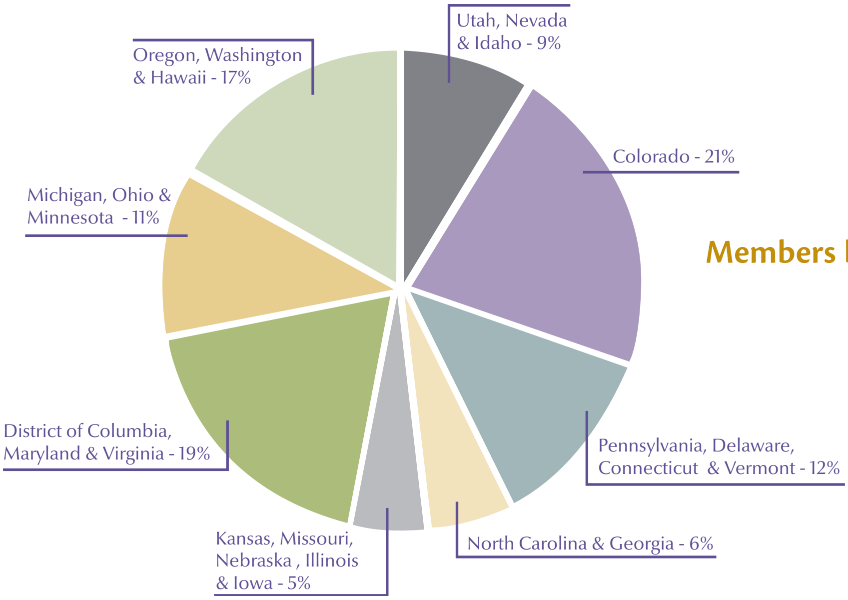
Martha Marcon
Audit Partner, Retired
KPMG LLP, CA

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

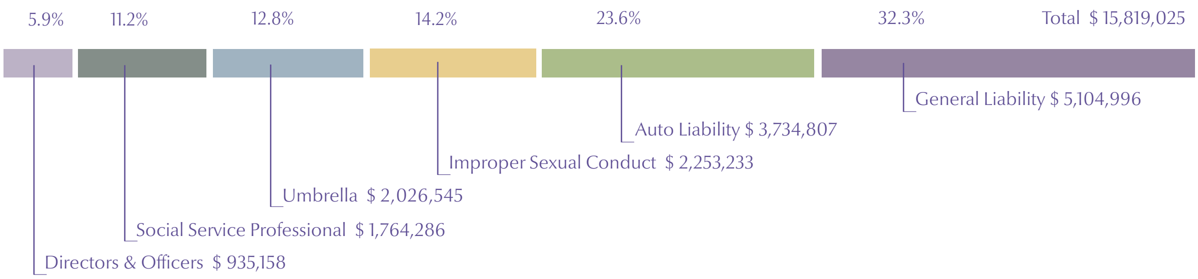
[1] Elected February 2009
[2] Appointed March 2009

ANI-RRG Results 2008

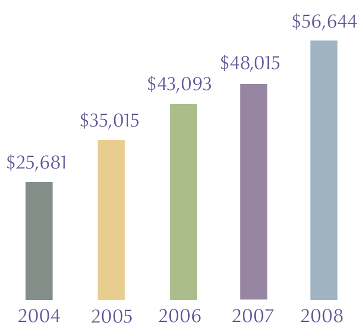
Members by State



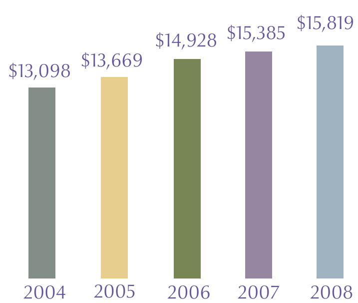
Premium by Line



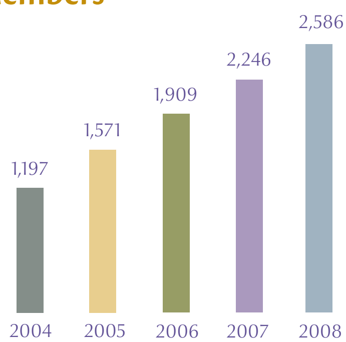
Assets (in Thousands)



Premiums (in Thousands)



Members

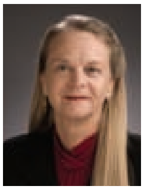


Management Team

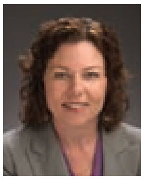
We came with diverse backgrounds—from the insurance industry, small businesses, large corporations, and the nonprofit sector. But there is one experience on which we all agree; it is a privilege to work for an organization that provides such an important service to the nonprofit sector. We take seriously the trust that nonprofits and their insurance brokers place in us and work daily to ensure that trust is well-founded.

Our commitment to risk management is far greater than the products and services we offer members. It is central to our operations. During 2008, we made the position of Vice President of Risk part of our management team. This key role oversees and directs all aspects of our enterprise risk management initiative, ensuring that we continue to be prepared to adapt to the ever-changing business and economic climate.

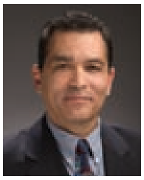
In the following pages, we'll introduce you to a few of our staff members. We pride ourselves on being an energetic group of individuals who truly have hearts and passion for nonprofits.



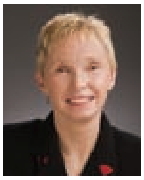
Pamela E. Davis
President and CEO



Kimberly Aday
Vice President of Finance



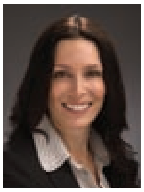
Gary Bencomo
Vice President of Administration



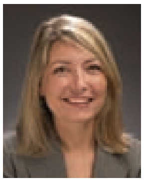
Susan Bradshaw
Vice President of Marketing and Member/Broker Services

Charles C. Hewitt
Vice President of Claims

Betty Johnson
Vice President of Information Technology

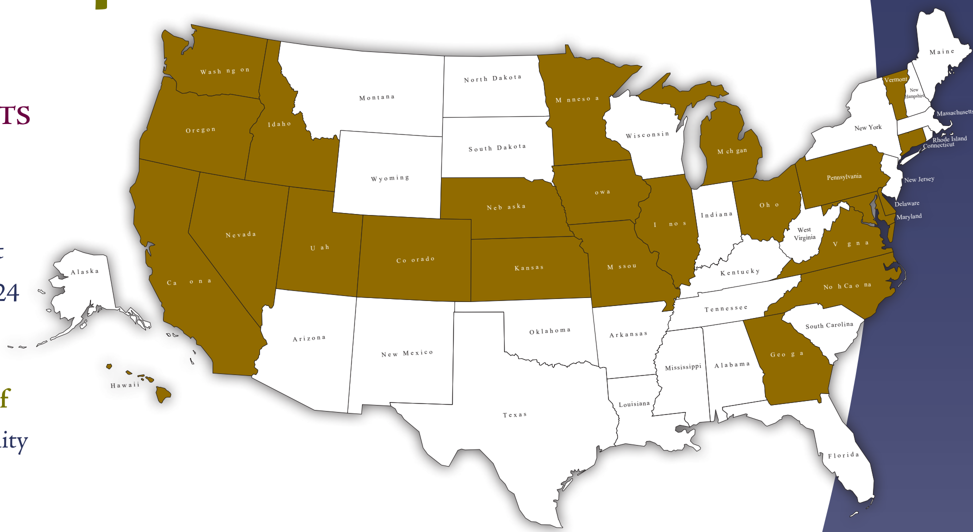


Laura C. Marcus
Vice President of Risk



Melissa E. Yarnell
Vice President of Insurance Operations

Nonprofits Insurance Alliance Group



A HEAD FOR INSURANCE…
A HEART FOR NONPROFITS

The Nonprofits Insurance Alliance Group is comprised of four distinct 501(c)(3) nonprofit organizations that insure more than 8,500 nonprofits in 24 states and DC.

- **Nonprofits' Insurance Alliance of California (NIAC)** provides liability insurance to 501(c)(3) nonprofits in California–Founded in 1989
- **Alliance of Nonprofits for Insurance, Risk Retention Group (ANI-RRG)** provides liability insurance to nonprofits with locations outside California–Founded in 2000
- **National Alliance of Nonprofits for Insurance (NANI)** provides property reinsurance–Founded in 2000
- **Alliance Member Services (AMS)** provides staff, services and support to the other three companies Founded in 2000

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

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

Courage

Nonprofits OWN Insurance...

Staff Profile:
Michele Thomas
Underwriting Supervisor

Michele has been with us for 15 years, starting as receptionist. Now supervising an underwriting team, she enjoys volunteering at her kids' schools.

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

Nonprofits' OWN has enhancements designed exclusively to meet the specific needs of the nonprofit sector. We constantly review our coverages to ensure that we are meeting the evolving needs of the 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

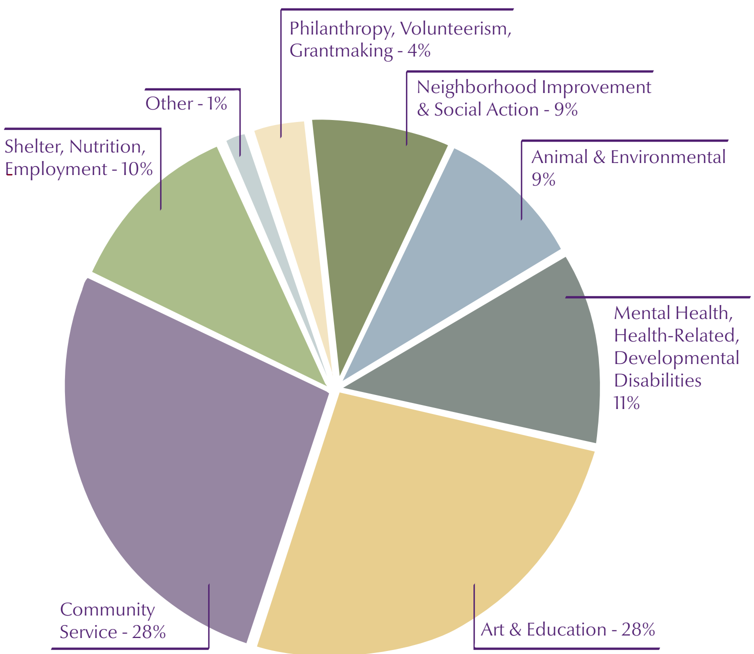
The Nonprofits Insurance Alliance Group is proud to work through professional independent insurance brokers. Their service and commitment to nonprofits in their communities is an important part of nonprofits' ability to fulfill their missions. We work most successfully with insurance brokers who are excited about the many services and specialty coverages we offer, who are knowledgeable about our nonprofit mission, and who understand and communicate to their nonprofit clients our record of fairness, price stability and services.

is the power to let go of the familiar. – Raymond Lindquist

Veteran's Haven, Wayne, MI

Veteran's Haven assists honorably discharged veterans with transitional shelter, clothing, transportation and employment assistance. Find out more at www.veteranshaveninfo.org.

Our Members…



Our members represent a broad cross-section of the 501(c)(3) nonprofit sector, including the smallest community-based all volunteer organization to large multi-disciplined nonprofits with hundreds of volunteers and employees. Our mission supports their efforts by providing them with appropriately priced insurance coverages and risk management tools, either free or at our cost. As nonprofits ourselves, we are proud to be associated with these organizations and their important work in their communities. These nonprofit organizations are simultaneously holding our communities together and pushing all of us to make our communities better.

True *progress*

Stable and secure...

As part of the nonprofit sector, NIAC and ANI-RRG are governed by very different principles than for-profits. Our sole reason for being is to bring stable, affordable and appropriate liability insurance coverage and risk management services to our nonprofit member-insureds. We do not go in and out of the nonprofit market; we are committed to this market. Nonprofits are our only business. We have no motivation to over-price, under-price or inflate earnings. Over this past year, our country has learned all too clearly the truth of Thomas Jefferson's statement that "banking establishments are more dangerous than standing armies." He could not have imagined the complexity that has overtaken our financial markets in the 21st century, but still he saw the risks with great clarity.

Greener Pastures for Seniors, Colfax, NC

Greener Pasture's mission is to enhance the well-being of older adults by providing greater access to health care and a better quality of life in general whatever their living environment may be. Find out more at www.greenerpasturesonline.org.

In the mid-1980s, nonprofits were similarly at risk in a commercial insurance marketplace that periodically has its own "credit crises" that are less extreme, but caused by similar issues of leverage like those we are experiencing in the financial markets today. Our founder reasoned that nonprofits deserved stability, transparency, and predictability from their *quietly and persistently moves along without notice. – St. Francis*

insurance company. She believed that by focusing on the needs of nonprofits, not just on the bottom line, we could achieve both financial independence and serve nonprofits better than commercial insurers. In response, first NIAC was created and then ANI-RRG. As 501(c)(3) tax-exempt insurers, we are governed by and work only for other 501(c)(3) nonprofits.

Today, NIAC and ANI-RRG together insure more than 8,500 nonprofits in 24 states and DC. And, we are pleased to say that we have been called stodgy, boring, predictable, stable, conservative, sensible, and a host of other names that just one year ago would have been considered uncomplimentary. Today we wear those labels like badges of honor.

We are proud to report that on November 11, 2008 A.M. Best affirmed its ratings of our companies:

- NIAC - A.M. Best Rated A (Excellent)
- ANI-RRG - A.M. Best Rated A- (Excellent).
- NANI - A.M. Best Rated A- (Excellent).

For more information visit www.ambest.com.

"We get great coverages at a fair, stable price and excellent claims and risk management services. And their strategic understanding of underwriting and products helped us capitalize on opportunities and achieve meaningful savings, while actually strengthening our overall risk management structure. We remain a loyal member of ANI-RRG, knowing that as insurance markets change, they keep our interests in the forefront of everything they do."

—Robert Blumenfeld,
Senior VP Finance & Development
Orchards Children's Services

Staff Profile:
Matt Dwyer
Senior Accountant

Matt has been with us for 6 years and is famous around the office for the unique geometrical design art pieces he makes in his spare time.

The method of the

We're more than insurance...

Staff Profile:
Julie Bernhard
Marketing and Member/Broker Services Administrator

Julie has been with us for 7 years. She coordinates conferences and helps get the word out about us. She is currently in graduate school studying social work.

We were founded on the premise that nonprofits that are better managed, with better trained employees, have fewer accidents and injuries. After twenty years, we have the evidence that strong management, coupled with timely and targeted training, reduces claims. If you have any doubts, take a look at the charts on pages 18 and 19.

We also know that no matter how committed a nonprofit is to safety, it is nearly impossible for them to raise unrestricted funds for staff training and infrastructure support. That's where we come in. We use the savings from lower claim costs to keep premiums down and also provide a wide range of management and loss control resources to members either free or at our cost.

In 2008, we introduced the Member Services Usage Report. This report gives each member-insured a detailed summary of the risk management services they used over the past 12 months and the value of those services. It also lists the services of which they could have taken advantage, but did not. In these unchartered economic times, nonprofits need all the support they can get. And we intend to be the place they think of first for free and low cost training and assistance.

What follows are just a few examples of the resources available. For a full summary of all the services available visit www.InsuranceforNonprofits.org.

Employment Consultations and Handbook Review

In 2008, our employment and labor risk managers provided more than 1,300 free employment consultations to member-insureds who have their D&O with us. Assistance ranged from providing step by step help through terminations, to planning downsizing strategies, to assistance meeting the requirements of the ADA, to providing guidance in responding to whistleblower allegations and more. Each consultation gives the member-insured the opportunity to work with a labor and employment expert, free of charge, to insure that their enterprising is to *plan* with audacity and execute with vigor. – Christine Boree

City of Dreams, San Francisco, CA

City of Dreams uses a curriculum of "12 Life Lessons" combined with experiential learning events and mentorship. Focusing on kids living in public housing, City of Dreams' youth development model helps young people learn how to create the life they want by discovering who they are. Find out more at www.cityofdreams.org.

issues are handled appropriately to conclusion. Also in 2008, we reviewed and helped bring up-to-date 135 employee handbooks. From the grateful comments we receive from our members, we know this free access to personnel law experts is invaluable and provides significant savings to them.

Vehicle Safety

During the past year we trained 1,100 individual drivers through our on-site, on-line and self study driver training courses. These trainings are available free to member-insureds who have autos insured with us. For those with fleets, we provide a free vehicle monitoring program through Safetrak®. Currently there are 1,580 vehicles being monitored by this program.

We're with you...

Help your

Nonprofits Supporting Nonprofits

As nonprofits ourselves, we look for ways to be supportive of this important sector. We work collaboratively with others in the sector to ensure that we leverage our resources and talents. In 2006, we provided initial support to the National Council of Nonprofit Associations (NCNA – now NCN) and their Nonprofit Congress initiative.

The Parenting Place, Boulder, CO

The Parenting Place seeks to relieve isolation and reduce the stress of parenting by providing outreach and a place where families can receive support, education, and develop a sense of community. Find out more at www.boulderparenting.org.

blue avocado

In 2008, we supported another new initiative, *Blue Avocado*, an online magazine launched in April.

Blue Avocado has been a big success with more than 50,000 readers. The companies in Nonprofits Insurance Alliance Group are proud to be the co-sponsor along with CompassPoint in this exciting new initiative. Jan Masaoka, Editor-in-Chief has done an outstanding job of providing provocative, interesting and timely content. Top stories in the first 21 issues included:

- Nonprofit Embezzlement: More Common and More Preventable Than You Think
- And Now for Something Different About Nonprofits & the Economy
- Take a 3-Minute Vacation to a Chamber Music Concert
- Laid Off by a Nonprofit: Me!
- Sarbanes-Oxley and Nonprofits

If you are not currently receiving *Blue Avocado,* send an email to editor@blueavocado.org or visit the website at www.blueavocado.org.

brother's boat across, and your own will reach the shore. — Hindu proverb

Loss Control Consultant

In 2008, our Director of Loss Control provided free assistance to 240 members with issues such as background checks, drafting and reviewing waivers, safely managing facilities and fleets, volunteer management, staff training, and much more. If we don't have the answer, we find it for members and insurance brokers through our various resources. Working as a team we ensure that members get the support they need to continue to operate effectively and safely.

Risk Management Webinars

Conducted via phone and internet, these one-hour, live sessions are both inexpensive and convenient. Provided at our cost of $25 per session, they are ideal for providing in-service training, polishing skills, and orienting staff, senior management and board members to aspects of managing risk in nonprofit organizations. In 2008, more than 1,000 individuals participated in our webinar series. The 2009 webinar schedule can be found at www.InsuranceforNonprofits.org.

Discounts on Background Checks

Our members receive deep discounts through a national firm offering online background checks of employees and volunteers. In 2008 members conducted more than 12,000 background checks, saving an estimated $480,000 off retail.

Preventing Sexual Harassment Training

Our California members have access to a free on-line tool that meets the requirements of AB1825. NIAC members can save substantial sums by using this free resource. To date 1,300 individuals have taken this training.

BOARDnetWORK

For less than a dollar a day NIAC and ANI-RRG members have access to an easy to use on-line board management tool. This tool is not only terrific for board communication, but it is a secure central location for all organizational and board documents. A demo can be found at www.boardnetwork.org

Staff Profile:
Ann Shanklin
Director of Loss Control

Ann has been with us for 4 years, assisting members with a variety of risk management tools. She has a wealth of information she shares with enthusiasm with interested members.

Be kind, for

And we'll be there for you...

"I didn't realize how much this claim hung over my head until yesterday when I woke up feeling like the world had been lifted off my shoulders. Thank you for your support in all of this. I am very grateful. I can't express myself enough to let you know how wonderful you are."

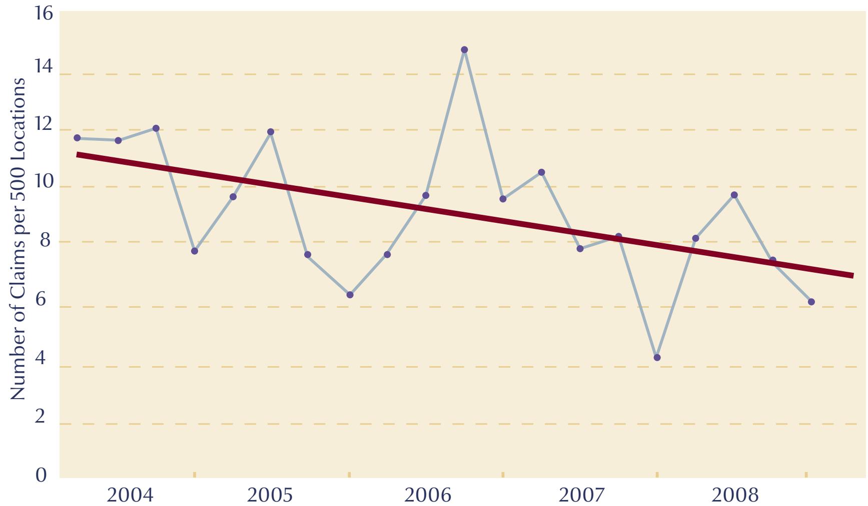
—A Member-Insured

When, despite all of our best efforts through training and risk management programs, an accident happens, our claims department responds. Our team is comprised of seasoned, experienced claims professionals. When there is a claim, they never consider the claims process "routine." They understand that a poorly handled claim or lawsuit can adversely affect a nonprofit's standing in the community and its ability to raise funds and fulfill its mission.

Staff Profile:
Keri Petersen
Claims Examiner

Keri has been with us for 4 years and she adjusts auto and general liability claims. In her free time, Keri enjoys teaching yoga and being a CASA advocate for children.

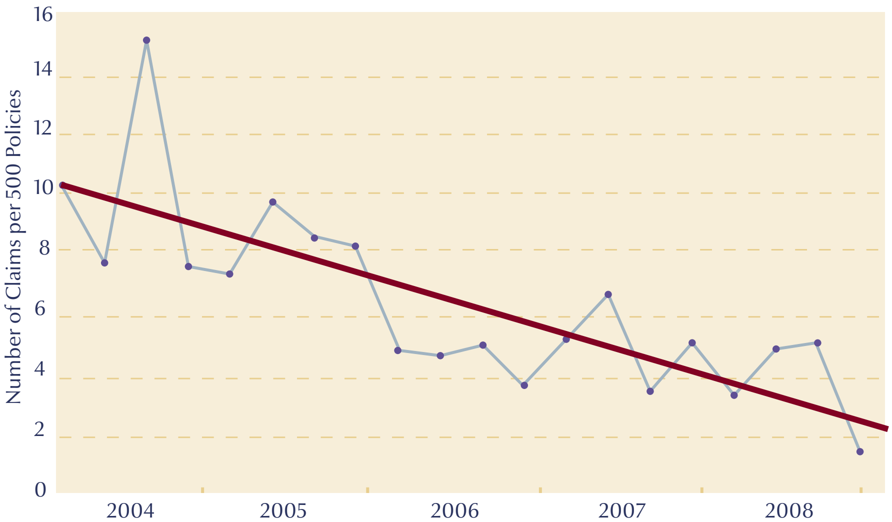
General Liability Claims



Raising awareness of facilities safety reduces slip and fall claims.

everyone *you meet is fighting a hard battle. — Plato*

Directors and Officers Liability Claims

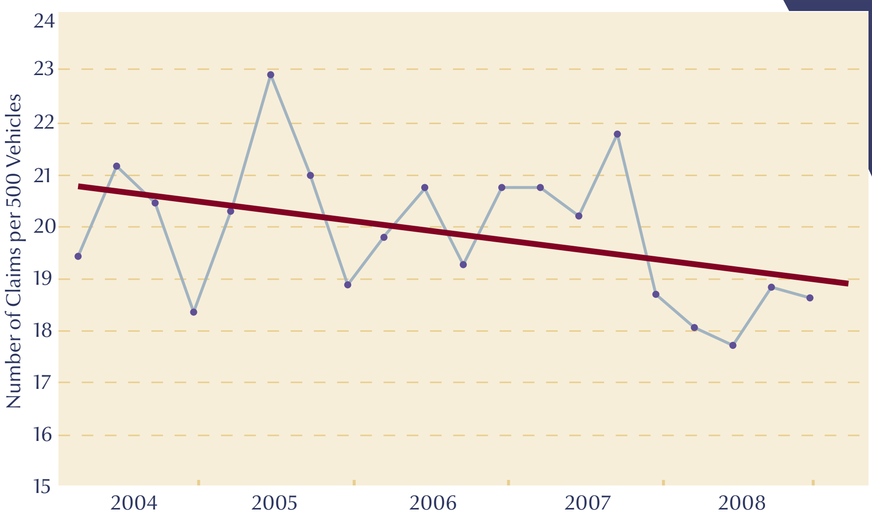


Timely advice from our Employment Risk Managers is dramatically reducing employment-related claims.

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

It is rewarding to see the risk management efforts of our members gaining traction. As shown on these charts, claims frequency is declining noticeably as more and more members take advantage of the many services we provide.

Business Auto Liability Claims



Our focus on driver training is having a positive impact.

The **hero**

Whenever you need us...

While we highly value those face-to-face and one-on-one communications we have with brokers and members during the normal workday, we need to be "open for business" and accessible to members and brokers 24 hours a day, 7 days a week, via our user-friendly websites.

Portland Children's Museum, Portland, OR

Since 1946, the Portland Children's Museum has been inspiring imagination, creativity and the wonder of learning in children and adults by inviting moments of shared discovery. Find out more at www.portlandcm.org.

Broker Secure Websites

Brokers can login to their own secure area of our websites to access applications, get quotes, bind accounts, print renewals, view claims information or pay their bill anytime of the day or night. In 2009, we will launch an exciting new electronic data initiative tied into the major agency management systems used by insurance brokers. This new tool will allow underwriting data to be electronically uploaded and downloaded between the insurance brokers' management system and our Group, ensuring more accurate information and increasing efficiency and productivity for everyone.

"The user- friendly broker secure website that ANI-RRG provides allows us to quickly access policies and coverage forms for each client. The fact that it is available 24-7 is great...The quick delivery of policies and endorsements is great for customer service. The availability of our new business and retention stats helps us keep on track for production goals throughout the year."

—Diane Durnin,
JD Fulwiler & Co. Insurance

is no braver than the ordinary man, but he is brave five minutes longer. –Ralph Waldo Emerson

Member Secure Websites

Members can login to the secure area of our website to access copies of policies and endorsements, pay their bill or obtain any of our member-only risk management resources, some of which are available only on the web. Risk management resources are easy to find and available by type, for example, checklist or sample policy; or topic, for example, fleet management or employment. There are many sample policies, checklists and other very useful and practical resources. New resources are always getting added to the site.

Business Continuity Plan

We take our responsibility to members and insurance brokers very seriously. We routinely review update, train staff, and test our Business Continuity Plan to ensure that there will be little or no impact on our members and brokers in the event there is an emergency or disaster impacting our facility. We have timely electronic storage of all our operational data stored off site, so in the event of an emergency or disaster at our building, this data is secure.

"The member-only website is mind-blowing! ... there are so many resources available to us. It is obvious that this is a nonprofit-oriented insurance company because everything is applicable. And in addition to all the great resources, I also have access to the staff. The staff is so responsive when I call with my questions or if I need something I can't find. I have not experienced this level of customer service with any other insurance company."

—Samantha Barnes, Business Manager
ARIEL Theatrical, Inc.

Staff Profile:
Ben Guyer
Senior Systems Analyst /Programmer

Ben has been with us for 6 years, designing custom software solutions including the Data Exchange portal which will help brokers communicate more efficiently with us.

That's our mission!

Board Profile:
Roger W. Gilbert
Board Member
Audit Committee Chair

Roger has been on our boards for 10 years and is the current Audit Committee Chair. Roger serves on several nonprofit and for-profit boards, drawing on many years of experi ence in the insurance industry.

It has been my privilege to serve as a member of the Board of Directors since 1998 and audit chair since 2001. My more than 40 years experience in the insurance industry, including five years as President of a large regional insurance company, and several as a Special Deputy Insurance Commissioner for the California Department of Insurance, did not completely prepare me for the experience this has been because of their dedication to the nonprofit sector.

Throughout my many years on the board, I have witnessed this group time and again confront challenges where the easy thing to do would have been to put mission aside and follow the pack. But, that has never been the path for NIAC and ANI-RRG. This is truly a group of companies that puts the well-being of nonprofit members first and foremost in every decision.

As the chair of the audit committee, I proudly submit the following audited financials to you as one indication of a well-run group that is succeeding in accomplishing its mission while simultaneously building one heck of a financial institution to support the nonprofit sector.

Roger W. Gilbert
Board Member, Audit Committee Chair
NIAC, ANI-RRG, NANI and AMS

Independent Auditors' Report

To the Board of Directors of Nonprofits Insurance Alliance Group

We have audited the accompanying combined balance sheet of Nonprofits Insurance Alliance Group ("the Group") as of December 31, 2008 and the related combined statements of operations, changes in total equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The combined financial statements of the Group as of and for the year ended December 31, 2007 were audited by other auditors whose report dated March 21, 2008 expressed an unqualified opinion on those statements, prior to the change in accounting principle disclosed in Note 2.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes the consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nonprofits Insurance Alliance Group at December 31, 2008, and the results of its operations, changes in total equity and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the audited financial statements, during 2008 the Group changed its accounting policy related to policyholder dividends.

Johnson Lambert & Co. LLP

Raleigh, North Carolina
March 13, 2009

JOHNSON LAMBERT & CO. LLP
CPAs AND CONSULTANTS

Combined Balance Sheets

December 31, 2008 and 2007

	2008	Restated 2007
Assets		
Cash and cash equivalents	$ 21,123,906	$ 17,268,039
Investments in fixed maturity securities	140,445,691	132,385,016
Investments in equity securities	8,018,707	11,229,660
Premiums receivable, net	17,872,537	16,116,957
Interest receivable	1,535,582	1,330,115
Prepaid expenses and other assets	355,435	616,125
Reinsurance recoverable	31,215,385	29,624,062
Prepaid reinsurance premium	6,011,970	6,169,603
Deferred acquisition costs	4,121,497	4,399,375
Property and equipment, net of accumulated depreciation	6,588,956	6,730,814
Total assets	$ 237,289,666	$ 225,869,766
Liabilities and Equity		
Liabilities		
Loss and loss adjustment expense reserves	$ 93,472,189	$ 89,149,852
Unearned premiums	27,955,021	27,750,401
Accounts payable and other accrued liabilities	4,698,194	3,500,353
Reinsurance payable	1,214,370	1,071,154
Dividend payable	1,577,648	1,328,579
Loan payable	3,150,000	3,350,000
	132,067,422	126,150,339
Subordinated debt	2,000,000	2,000,000
Total liabilities	134,067,422	128,150,339
Total equity		
Members' contributions	900,507	900,507
Capital contributions	10,000,000	10,000,000
Accumulated earnings	98,056,927	85,206,611
Accumulated other comprehensive (loss) income	(5,735,190)	1,612,309
Total equity	103,222,244	97,719,427
Total liabilities and equity	$ 237,289,666	$ 225,869,766

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

Nonprofits Insurance Alliance Group

Combined Statements of Income

Years Ended December 31, 2008 and 2007

	2008	Restated 2007
Revenues		
Gross written premium	$ $58,210,335	$ 57,760,434
Ceded premium	(12,503,302)	(12,748,137)
Net written premium	45,707,033	45,012,297
Increase in unearned premium, net	(362,253)	(897,800)
Net earned premium	45,344,780	44,114,497
Net investment income	6,801,560	6,290,724
Net realized losses on sales of investments	(98,883)	(237,424)
Other income	2,417,304	2,813,287
Total revenues	54,464,761	52,981,084
Expenses		
Losses and loss adjustment expenses, net	21,293,306	21,641,078
Salaries and employee benefits	5,510,929	5,068,734
Commission expense, net	7,154,290	6,809,828
Other expense	3,611,905	3,817,816
Total expenses	37,570,430	37,337,456
Excess of revenue over expenses, prior to dividend	16,894,331	15,643,628
Dividend to policyholders	(4,044,015)	(3,604,623)
Net income	$12,850,316	$12,039,005

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

Combined Statements of Total Equity

Years Ended December 31, 2008 and 2007

	Capital Contributions	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, January 1, 2007	$ 10,900,507	$ 73,167,606	$ (227,203)	$ 83,840,910
Comprehensive income				
Net income		12,039,005		12,039,005
Other comprehensive income				
Net unrealized holding gains arising during year			1,602,088	1,602,088
Reclassification adjustment for net realized losses included in net income			237,424	237,424
Total comprehensive income				13,878,517
Balances, December 31, 2007 Restated	10,900,507	85,206,611	1,612,309	97,719,427
Comprehensive income				
Net income		12,850,316		12,850,316
Other comprehensive income				
Net unrealized holding losses arising during year			(7,446,382)	(7,446,382)
Reclassification adjustment for net realized losses included in net income			98,883	98,883
Total comprehensive income				5,502,817
Balances, December 31, 2008	$ 10,900,507	$ 98,056,927	$ (5,735,190)	$103,222,244

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

Combined Statements of Cash Flows

Years Ended December 31, 2008 and 2007

	2008	Restated 2007
Cash flows from operating activities		
Net income	$ 12,850,316	$ 12,039,005
Adjustments to reconcile net income to net cash from operating activities		
Net realized losses on investments	98,883	237,424
Depreciation and amortization	631,225	715,145
Amortization of premium of debt securities	295,807	113,248
Changes in assets and liabilities		
Premiums receivable	(1,755,580)	(1,063,193)
Interest receivable	(205,467)	(3,319)
Prepaid expenses and other assets	260,689	(334,623)
Reinsurance recoverable	(1,591,323)	(3,192,677)
Prepaid reinsurance premium	157,633	999,570
Deferred acquisitions costs	277,878	(225,449)
Loss and loss adjustment expense reserves	4,322,337	10,135,323
Unearned premiums	204,620	(101,768)
Reinsurance payable	143,216	(231,232)
Dividend payable	249,069	1,328,579
Accounts payable and other accrued liabilities	1,197,842	505,208
Net cash provided by operating activities	17,137,145	20,921,241
Cash flows from investing activities		
Purchases of investments	(78,658,914)	(84,745,349)
Proceeds from sales and maturities of investments	66,067,003	71,679,235
Purchases of property and equipment	(489,367)	(444,493)
Net cash from investing activities	(13,081,278)	(13,510,607)
Cash flows from financing activities		
Repayment of loan payable	(200,000)	(190,734)
Net cash from financing activities	(200,000)	(190,734)
Net increase in cash and cash equivalents	3,855,867	7,219,900
Cash and cash equivalents, beginning of year	17,268,039	10,048,139
Cash and cash equivalents, end of year	$ 21,123,906	$ 17,268,039
Supplemental disclosure of cash flow information		
Interest paid	$ 122,664	$ 181,901

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 property and 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 quota share and excess of loss reinsurance to NIAC and ANI-RRG, and provides quota share reinsurance to an unaffiliated carrier providing certain lines of coverage for NIAC and ANI-RRG members.

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 fair value, with unrealized gains and losses excluded from net income and reported as a separate component of total equity. For equity securities, fair value is based on quoted market prices for identical assets in active markets. 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. Net realized investment gains or losses are recognized based upon the specific identification of investments sold. When, in the opinion of management, a decline in the estimated fair value of an investment is considered to be other than temporary, the investment is written down to its estimated fair value. The determination of an other than temporary decline in estimated fair value includes, in addition to other relevant factors, consideration of the nature of the investments, the severity of the impairments, the duration of the impairment, the current financial condition and near-term prospects of the issuer, and management's intent and ability to hold these securities for a period of time sufficient to recover value, which may be maturity for debt securities. Any such write downs are reported as net realized losses on investments and disclosed in Note 3.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and money market mutual funds, and any securities with original maturities within three months of the acquisition date. The Company maintains certain cash and cash equivalent balances that exceed FDIC insurance thresholds.

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. Management continually monitors its receivables for collectability, and any accounts deemed uncollectable are written off in the period the determination is made. During 2008 and 2007, the Group wrote off $25,000 and $9,500 of premiums receivable, respectively. No allowance for uncollectable amounts was recorded as of December 31, 2008 and 2007.

Reinsurance

Reinsurance recoverable (including amounts related to claims incurred but not reported) and prepaid reinsurance premiums are reported as assets. Reinsurance recoverable on unpaid losses and LAE and adjustable features are estimated in a manner consistent with the gross liabilities relating to the underlying insured contracts. Management continually monitors its reinsurance balances for collectability, including a review of reinsurer creditworthiness, and any accounts deemed uncollectible are written off in the period the determination is made. No allowance for uncollected amounts was recorded as of December 31, 2008 and 2007. Reinsurance payable represents ceded premium due but unpaid. Ceding commissions are recorded based on ceded written premium, and are deferred and recognized over the policy term, as discussed in the following paragraph. Ceding commissions are reported as an offset to commission expense.

Deferred Acquisition Costs

Policy acquisition costs are deferred and amortized over the period of premium recognition. These costs generally include commissions (net of ceding commissions), underwriting, policy issuance and marketing costs. Amortization of acquisition costs was $8,940,547 for 2008 and $8,393,571 for 2007. Anticipated investment income is not considered in determining if a premium deficiency exists. No premium deficiency reserve has been recorded as of December 31, 2008 or 2007.

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, in accordance with SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, 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, 2008 and 2007 are appropriately established in the aggregate and are adequate to cover the ultimate cost of reported and unreported claims arising from losses which had occurred by that date based upon an actuarial analysis prepared by a consulting actuary. The establishment of appropriate reserves is an inherently uncertain process. Such reserves are necessarily based on estimates and the ultimate net cost may vary from such estimates. These estimates are regularly reviewed and updated using the most current information available. Any resulting adjustments, which may be material, are reflected in current operations.

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.

Change in Accounting Policy – Policyholder Dividends

As discussed in Note 11, NIAC declared and paid policyholder dividends during both 2007 and 2008. During 2007, NIAC's accounting policy was to record such policyholder dividends on a cash basis, and to report policyholder dividends as a direct charge against accumulated earnings. During 2008, NIAC determined that accruing for policyholder dividends when declared and reporting policyholder dividends as an expense within the statement of income, a policy which is consistent with GAAP for insurance enterprises, would better meet the needs of the financial statements users. Because of the unusual nature of NIAC as a charitable, tax-exempt risk pool, there is more than one acceptable presentation of these policyholder dividends.

As a result of this accounting change, NIAC accrued $1,328,579 for declared but unpaid policyholder dividends as of December 31, 2007, and also reclassified $2,276,044 of policyholder dividends paid during 2007 as policyholder dividend expense. These adjustments resulted in a reduction to net income of $3,604,623 for the year ended December 31, 2007, and a net reduction to accumulated earnings of $1,328,579 as of December 31, 2007.

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 is tax-exempt in the State of California according to Section 23701z of the Revenue and Taxation Code. With the exception of premium taxes, ANI-RRG and NANI are not subject to any state taxes.

Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year presentation. Such reclassifications, excluding the change in accounting policy relating to dividends, had no effect on net income or total equity.

3. Investments

Investments carried in the accompanying balance sheets at estimated fair value, consist of the following as of December 31, 2008 and 2007:

2008	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. government and agency obligations	$ 29,756,358	$ 1,943,997	$ 93,238	$ 31,607,117
Corporate obligations	62,876,939	368,759	4,715,777	58,529,921
Mortgage-backed securities	42,317,447	1,339,395	5,668	43,651,174
Asset-backed securities	6,620,112	9	872,209	5,747,912
Other debt securities	949,932	8,911	49,276	909,567
Total debt securities	142,520,788	3,661,070	5,736,168	140,445,691
Equity securities	11,687,122	-	3,668,415	8,018,707
Total investments	$154,207,910	$ 3,661,070	$ 9,404,583	$148,464,398

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

The amortized cost and estimated fair value of investments in debt securities at December 31, 2008, 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.

	2008	
	Cost or Amortized Cost	Estimated Fair Value
Due in 1 year or less	$ 5,117,291	$ 5,004,907
Due after 1 year through 5 years	48,824,970	48,045,411
Due after 5 years through 10 years	33,517,777	32,106,674
Due after 10 years	6,123,192	5,889,613
Mortgage-backed securities	42,317,448	43,651,175
Asset-backed securities	6,620,111	5,747,912
	$142,520,787	$140,445,691

Gross realized gains and losses on sales of debt securities were $1,170,019 and $887,739 in 2008, respectively, and $161,689 and $259,512 in 2007, respectively. In addition to these gross realized losses, adjustments were made for declines in the estimated fair value of investments considered to be other than temporary, of $381,163 and $139,600 in 2008 and 2007, respectively. There were no sales of equity securities in 2008 or 2007.

Mortgage-backed securities consist entirely of issues of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Government National Mortgage Association (Ginnie Mae).

At December 31, 2008 and 2007, unrealized losses on debt and equity securities were as follows:

2008	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	$ 9,401	$ 1,460,158	$ 83,837	$ 377,844	$ 93,238	$ 1,838,002
Corporate obligations	862,638	13,983,179	3,853,139	28,456,580	4,715,777	42,439,759
Mortgage-backed securities	-	-	5,668	1,866,619	5,668	1,866,619
Asset-backed securities	59,681	930,613	812,527	4,816,639	872,208	5,747,252
Other debt securities	-	-	49,276	411,406	49,276	411,406
	931,721	16,373,950	4,804,447	35,929,088	5,736,168	52,303,038
Equity securities	3,668,415	8,018,707	-	-	3,668,415	8,018,707
	$4,600,136	$ 24,392,657	$ 4,804,447	$35,929,088	$ 9,404,583	$60,321,745

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	8,568,014	765,484	22,093,704	929,893	30,661,718
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	$ 11,704,121	$ 924,615	$ 38,768,260	$ 1,125,857	$ 50,472,381

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 4.0% and 0.8% of amortized cost as of December 31, 2008 and 2007, respectively, were caused by interest rate changes and not credit quality, and were greatly impacted by the market dislocation experienced in 2008. At December 31, 2008 and 2007, 383 and 246 securities, respectively, were in an unrealized loss position. Based upon management's evaluation of the impairment considerations disclosed in Note 2, the Company does not consider those investments to be other than temporarily impaired at December 31, 2008.

Equity securities consist of two broad-market mutual funds. The performance of these securities is in line with key market indices, indicative of the pervasive market downturn. Based upon management's evaluation of the impairment considerations disclosed in Note 2, the Company does not consider those investments to be other than temporarily impaired at December 31, 2008.

On January 1, 2008, the Group adopted SFAS No. 157, Fair Value Measurements. This statement provides guidance for measuring assets and liabilities at fair value and establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), the next priority (Level 2) to quoted prices for identical assets and liabilities in inactive markets or similar assets and liabilities in active markets, and the lowest priority to unobservable inputs (Level 3).

The following table presents the Company's investment securities within the fair value hierarchy, indicating the objectivity and reliability of the inputs used to value those securities at December 31, 2008.

2008	Estimated Fair Value	Level 1	Level 2	Level 3
U.S. government and				
agency obligations	$ 31,607,117	$ 27,235,090	$ 4,372,028	$ -
Corporate obligations	58,529,921	-	58,529,921	-
Mortgage-backed securities	43,651,174	-	43,651,175	-
Asset-backed securities	5,747,912	-	5,747,912	-
Other debt securities	909,567	-	909,566	-
Total debt securities	140,445,691	27,235,090	113,210,601	-
Equity securities	8,018,707	8,018,707	-	-
Total investments	$ 148,464,398	$ 35,253,797	$ 113,210,601	$ -

4. Property and Equipment

Property and equipment at December 31 consists of:	2008	2007
Computers and software	$ 1,614,485	$ 2,293,667
Furniture and fixtures	1,239,839	227,171
Internal software	2,579,723	2,433,006
Building	4,325,346	4,316,182
	9,759,393	9,270,026
Accumulated depreciation	(4,651,860)	(4,020,635)
	5,107,533	5,249,391
Land	1,481,423	1,481,423
Property and equipment, net	$ 6,588,956	$ 6,730,814

Depreciation and amortization expense of $631,225 and $715,145, including amortization of leasehold improvements, was recognized for the years ended December 31, 2008 and 2007, respectively.

NIAC received a settlement award of $1.1 million in 2008 for construction defects to its home office building in Santa Cruz, California. NIAC expects to commence and complete repairs in 2009 necessary to repair the construction defects. Management determined that the amount of the award, after deducting legal costs of approximately $300,000, will be sufficient to make all necessary repairs. As of December 31, 2008 such amounts are included as a component of accounts payable and other accrued expenses on the accompanying balance sheet.

5. Loss and Loss Adjustment Expense Reserves

Activity in the loss and loss adjustment expense reserves for 2008 and 2007 is summarized as follows:

	2008	2007
Gross loss and loss adjustment expense reserves,		
January 1	$ 89,149,852	$ 79,014,529
Reinsurance recoverable on unpaid loss and loss		
adjustment expenses	(28,764,240)	(24,554,437)
Net loss and loss adjustment expense reserves	60,385,612	54,460,092
Incurred related to:		
Current year	28,255,501	27,234,410
Prior years	(6,962,195)	(5,593,332)
Total incurred	21,293,306	21,641,078
Paid related to:		
Current year	3,822,277	3,877,283
Prior years	14,285,832	11,838,275
Total paid	18,108,109	15,715,558
Net loss and loss adjustment expense reserves,		
December 31	63,570,809	60,385,612
Reinsurance recoverable on unpaid loss and loss		
adjustment expenses	29,901,380	28,764,240
Gross loss and loss adjustment expense reserves,		
December 31	$ 93,472,189	$ $89,149,852

In evaluating its 2008 and 2007 actuarial reports, the Group determined that the actual experience in certain of its lines of business has developed favorably from original estimates and management determined that reserve reductions for prior years were necessary. As a result of changes in estimates of insured events in prior years, the loss and loss adjustment expense reserves related to prior accident years decreased by a net $6,962,195 and $5,593,332 in 2008 and 2007, respectively. The Group attributes the recurring reserve reductions to declining claims frequency in virtually every line of business, measured by exposure units insured.

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:

2009	$ 210,000
2010	220,000
2011	225,000
2012	235,000
2013	245,000
Thereafter	2,015,000
	$ 3,150,000

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 $82,664 and $131,901 for the years ended December 31, 2008 and 2007, 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, 2008 and 2007, 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 $40,000 in 2008 and $50,000 in 2007.

8. Reinsurance

In the normal course of business, the Group uses excess of loss (both per risk and catastrophe) and quota share reinsurance contracts to limit its exposure to unanticipated loss severity and frequency. Such risks reinsured would become an expense of the Group in the event the reinsurer is unable to or will not fulfill the obligations assumed under the agreements. The Group's current reinsurance has been placed with a single reinsurer that has been rated "A" by A.M. Best.

Prior to January 1, 2007 the Group's reinsurance structure varied, with retention on liability lines (excluding umbrella liability) ranging from $50,000 to $300,000. Umbrella liability was ceded at either 100% or 97.5%, and the Group participated in auto physical damage and business owners' property risks at varying quota share rates.

Beginning January 1, 2007, the Group purchased excess of loss reinsurance coverage from a third-party reinsurer, for NIAC business, $500,000 excess of a company retention of $500,000 per occurrence and for ANI-RRG business, $750,000 excess of a company retention of $250,000 per occurrence. In addition, both companies have obtained an aggregate reinsurance cover of $3 million in excess of $1 million. This treaty also provides for clash coverage on all liability lines except umbrella. NIAC and ANI-RRG offer umbrella coverage with a maximum limit of $10 million. Umbrella policies are ceded 90% and 95% by NIAC and ANI-RRG, respectively on a quota share treaty basis directly to the third-party reinsurer.

For 2008 and 2007, the group assumes a 100% quota share of auto physical damage risks up to $1 million per occurrence from an unaffiliated carrier who has fronted coverage for ANI-RRG insureds. The Group also participates in a business property quota share reinsurance program with an unaffiliated carrier who has fronted coverage for NIAC and ANI-RRG members. The Group assumes a 10% quota share for incurred losses up to $15 million, per event, and a 100% quota share of losses in excess of $30 million per event; subject to a maximum cession limit of $450,000 each risk. Losses from $15 million up to $30 million are retained entirely by the unaffiliated carrier.

The effects of reinsurance ceded on premiums earned and losses, which are stated net of reinsurance on the statement of income, are quantified in the table below:

	2008	2007
Premium earned	$12,660,935	$13,749,707
Loss and loss adjustment expenses	8,895,847	7,022,052

For the years ended December 31, 2008 and 2007, the Group received ceding commission of $1,715,247 and $1,580,201, respectively. The ceding commission is recorded as a reduction to commission expense. The maximum amount of return commission that would have been due to reinsurers if all reinsurance had been cancelled with the return of unearned premium reserves at December 31, 2008 and 2007 was $816,933 and $768,274, respectively.

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, 2008 and 2007 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 6% and 4% of each employee's gross salary in 2008 and 2007, respectively, subject to Internal Revenue Service limitations. Eligibility for the plan occurs on the first day of each quarter. The amounts contributed by the employer to the Plan were $311,950 and $203,425 in 2008 and 2007, 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. The group does not match contributions to this 457(b) plan.

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 $624,711 and $87,231 in 2008 and $414,132 and $59,506 in 2007, respectively. Commissions earned by the agency on health and welfare plans were approximately $34,000 in 2008 and 2007.

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 policyholder dividends is restricted and subject to prior regulatory approval. At December 31, 2008, 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 policyholder 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 the sole authority to declare a policyholder dividend. In any year that a policyholder dividend is declared, NIAC members who qualify will be entitled to receive a policyholder dividend upon renewal of their policy beginning June 1 though May 31. In March 2008, policyholder dividends of $4,215,511 were declared for the 2008-2009 year. In March 2007, policyholder dividends of $3,740,711 were declared for the 2007-2008 year.

12. Contingencies

In the normal course of business, lawsuits may arise against the Group. Contingent liabilities arising from litigation and other matters are not considered material in relation to the financial position of the Group.

www.InsuranceforNonprofits.org

Nonprofits Insurance Alliance Group • P.O. Box 8507 • Santa Cruz, California 95061