

NONPROFITS' UNITED VEHICLE INSURANCE POOL

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2006 AND 2005**

NONPROFITS' UNITED VEHICLE INSURANCE POOL

BOARD OF DIRECTORS

JUNE 30, 2006

PRESIDENT

Sam Storey

VICE-PRESIDENT

Nicky Boyette

SECRETARY/TREASURER

Kitty Wilson

Chief Executive Officer

Monica Griffin

NONPROFITS' UNITED VEHICLE INSURANCE POOL

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James Marta & Company

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
NonProfits' United Vehicle Insurance Pool
Oakland, California

We have audited the accompanying balance sheet of NonProfits' United Vehicle Insurance Pool (VIP) as of June 30, 2006 and 2005 and the related statements of income and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of VIP's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 as to 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. An audit also includes 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 provide a reasonable basis for our opinion.

As further discussed in note 12 to the financial statements, this audit report was reissued to properly reflect the claim reserves which were understated on the loss runs at June 30, 2006 by \$787,500. This error was not determined until after issuance of the original report dated September 7, 2006.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NonProfits' United Vehicle Insurance Pool as of June 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The combining balance sheets and combining statement of income and changes in retained earnings, the reconciliation of claims liabilities by type of contract, loss development schedules, and the graphical presentation of claims are provided for purposes of additional analysis but are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and in our opinion is fairly stated in all material respects in relation to the financial statements taken as a whole.

S/James Marta

James Marta & Company, CPAs
January 31, 2007

NONPROFITS' UNITED VEHICLE INSURANCE POOL

BALANCE SHEET

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current Assets:		
Cash and Equivalents	\$ 1,051,726	\$ 588,497
Member Deductible Receivable	50,973	28,432
Investment Income Receivable	47,009	36,554
Premiums Receivable	16,926	10,392
Prepaid Expenses	11,857	84,234
Due from Affiliate	4,614	269,856
Total Current Assets	<u>1,183,105</u>	<u>1,017,965</u>
Noncurrent Assets:		
Investments, at Market	5,250,463	4,999,404
Restricted Investments	2,950,000	2,950,000
Losses Recoverable, (Net)	197,896	127,787
Prepaid Income Tax	63,276	-
Notes Receivable from Affiliate	1,000,000	1,000,000
Deferred Income Tax Asset	165,352	-
Fixed Assets, (Net)	110,105	23,103
Deposits	8,125	9,707
Total Noncurrent Assets	<u>9,745,217</u>	<u>9,110,001</u>
Total Assets	<u><u>\$ 10,928,322</u></u>	<u><u>\$ 10,127,966</u></u>
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable	\$ 201,355	\$ 108,380
Deferred Income Premiums	243,415	45,301
Accrued Vacation Payable	24,786	46,160
Income Taxes Payable	-	102,639
Deferred Expenses	16,590	21,330
Deferred Taxes	-	124,948
Current Portion - Claims Liability	1,500,000	1,500,000
Total Current Liabilities	<u>1,986,146</u>	<u>1,948,758</u>
Noncurrent Liabilities:		
Claims Liability	<u>3,398,416</u>	<u>3,265,180</u>
Total Liabilities	5,384,562	5,213,938
Retained Earnings	<u>5,543,760</u>	<u>4,914,028</u>
Total Liabilities and Retained Earnings	<u><u>\$ 10,928,322</u></u>	<u><u>\$ 10,127,966</u></u>

The accompanying notes are an integral part of these financial statements

NONPROFITS' UNITED VEHICLE INSURANCE POOL
STATEMENT OF INCOME AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED, JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Members' Contributions	\$ 5,391,936	\$ 5,532,706
Investment Income	144,864	416,762
Administration income	364,940	400,716
Other Income	(34)	30,543
Total Operating Revenues	<u>5,901,706</u>	<u>6,380,727</u>
OPERATING EXPENSES		
Insurance Expense	1,456,084	1,446,624
Claims Expenses		
Provision for Liability Claims	1,756,188	2,337,519
Provision for Physical Damage Claims	332,387	580,124
Liability Deductible	(152,690)	(86,817)
Liability Subrogation Recoveries	(112,258)	(17,212)
Physical Damage Subrogation Recoveries	(48,091)	(198,343)
Physical Damage Deductible	(4,500)	-
Unallocated Claims Expenses and Administration	36,251	39,654
General and Administration		
Salaries and Benefits	977,250	575,572
Professional Services	436,620	143,713
Facilities and Equipment Expense	167,625	141,457
Travel and Conferences	129,180	81,362
Marketing and Advertising	47,610	18,964
Office Supplies and Expenses	85,402	35,823
Excellence in Safety Award Expenses	171,415	50,695
Loss Control	27,240	637
Depreciation Expense	26,394	7,339
Contributions	-	170,000
Total Operating Expenses	<u>5,332,107</u>	<u>5,327,111</u>
Income Before Income Taxes	<u>569,599</u>	<u>1,053,616</u>
Income Tax (Expense) Benefit		
Current	230,086	555,177
Deferred	(290,300)	124,948
Total Income Tax	<u>(60,214)</u>	<u>680,125</u>
Net Income (Loss)	<u>629,813</u>	<u>373,491</u>
Beginning Retained Earnings	<u>4,914,028</u>	<u>4,540,537</u>
Ending Retained Earnings	<u>\$ 5,543,841</u>	<u>\$ 4,914,028</u>

NONPROFITS' UNITED VEHICLE INSURANCE POOL

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash Flows From Operating Activities:		
Contributions Received from Members	\$ 6,213,698	\$ 5,298,889
Investment Income Received	554,057	411,943
Other Cash Received	(34)	30,543
Cash Paid for Claims	(1,730,450)	(1,843,790)
Cash Paid for Insurance	(1,690,073)	(1,680,613)
Cash Paid for Claims Administrative and Risk Mgt.	(234,038)	(98,023)
Cash Paid for Salaries and Benefits	(976,107)	(528,601)
Cash Paid for Income Taxes	(234,907)	(586,159)
Cash Paid for Other General and Administrative	(654,814)	(277,962)
Cash Donated	-	(170,000)
Net Cash Flows Provided (Used) by Operating Activities	<u>1,247,332</u>	<u>556,227</u>
Cash Flows From Financing Activities:		
Purchase of Fixed Assets	<u>(113,396)</u>	<u>(27,607)</u>
Net Cash Flows Provided (Used) by Financing Activities	<u>(113,396)</u>	<u>(27,607)</u>
Cash Flows From Investing Activities		
Loans made to Affiliate	-	(1,000,000)
Purchase of Investments	(9,646,518)	(13,477,122)
Proceeds from Sales and Maturities of Investments	<u>8,975,811</u>	<u>10,895,270</u>
Net Cash Flows Provided (Used) by Investing Activities	<u>(670,707)</u>	<u>(3,581,852)</u>
Net Increase (Decrease) in Cash	463,229	(3,053,232)
Beginning Cash and Equivalents	<u>588,497</u>	<u>3,641,729</u>
Ending Cash and Equivalents	<u>\$ 1,051,726</u>	<u>\$ 588,497</u>
Reconciliation of Net Income to Net Cash Flows From Operating Activities		
Net Income	\$ 629,732	\$ 373,491
Adjustments to Reconcile Net Income to Cash Flows		
Provided by Operations:		
Depreciation and Amortization	26,394	7,339
Unrealized Loss (Gain) on Investments	419,648	(13,291)
(Increase) Decrease in:		
Deferred Income Tax Asset	(290,300)	124,948
Member Deductible Receivable	(22,541)	14,832
Investment Income Receivable	(10,455)	8,472
Premiums Receivable	(6,534)	(5,266)
Losses Recoverable	(70,109)	(25,535)
Other Receivable	265,242	(197,643)
Deposits	1,582	2,229
Prepaid Expenses	72,377	46,540
Increase (Decrease) in:		
Accounts Payable	92,975	(278,872)
Compensated Absences	(21,374)	24,454
Unearned Contributions	198,114	(431,624)
Claims Payable	133,236	782,184
Deferred Lease Payable	(4,740)	21,330
Taxes Payable	(165,915)	102,639
Total Cash Flows From Operating Activities	<u>\$ 1,247,332</u>	<u>\$ 556,227</u>

The accompanying notes are an integral part of these financial statements

NONPROFITS' UNITED VEHICLE INSURANCE POOL

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

NonProfits' United Vehicle Insurance Pool (VIP) is a non-profit corporation organized under the non-profit Corporation Law in the State of California. However, VIP is a taxable entity under federal laws as a property casualty insurance company. The specific purpose of VIP is to establish and operate an insurance pool pursuant to Section 5005.1 of the California Corporations Code and other relevant sections of California law. The insurance pool provides vehicle liability and physical damage protection for non-profit organizations. A volunteer board of directors that is elected by and from the membership plus up to four at large non-members govern VIP.

B. MEMBERSHIP

Members of VIP are private non-profit organizations, which are exempt under Section 501 (c)(3) of the Internal Revenue Service Code and have been approved by management. To be eligible, the organization must own or lease at least one vehicle.

C. ADMISSION AND WITHDRAWAL OF MEMBERSHIP

Admission

The Board in full or through a New Member Committee receives applications for membership from prospective new members of the pool and then approves membership in accordance with admission standards. The Board may delegate approval to the administrator.

Withdrawal / Termination

A member may withdraw from the pool upon 30 days written notice to the Board. A member who fails to make timely premium contribution, fee, and/or assessment payments, as provided by the Member Agreement, may be terminated after 10 days written notice has been given to the member. The Board may terminate the membership of any member who fails to comply with the Bylaws, Member Agreement, or other requirements of the pool.

D. DESCRIPTION OF PROGRAMS

VIP provides for a pooled self-insured program for automobile liability for member non-profit organizations. The pooled layer covers losses in excess of each member's deductible levels to \$500,000. Deductible limits vary between zero and \$10,000.

Losses are recognized as financial statement liabilities when the potential for future claims occurs. The amount reserved is based on the best estimate of the ultimate settlement cost of each claim plus a provision for claims incurred but not reported. The reserve provision is subject to continuous review and changes due to complex factors such as inflation, changes in doctrines of legal liability, recent settlement awards, claim frequency, and other economic and social factors. The process used in computing claim liability does not necessarily result in exact amounts. Difference between estimates and actual claims settled are accounted as expenses of the period in which the change occurs.

NONPROFITS' UNITED VEHICLE INSURANCE POOL

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

Auto Comprehensive and Collision Program

The Auto Comprehensive and Collision Program was established to provide a risk sharing pool for the provision and administration of auto comprehensive and collision risk financing, and to pay for the cost of excess insurance and related costs as approved by the Board of Directors. Contribution income consists of payments from Members that are planned to match the expense of insurance premiums for coverage in excess of self-insured amounts, estimated payments resulting from self-insurance programs, and operating expenses. Members participating in the Auto Comprehensive and Collision Program were 310 and 301 for the fiscal years ended June 30, 2006 and 2005, respectively.

The following table reflects the risk financing limits provided by the Program at June 30, 2006:

<u>Type of Coverage</u>	<u>Per Occurrence</u>		
	<u>Deductible</u>	<u>Self- Insurance Retention</u>	<u>Total Risk Financing Limits</u>
Comprehensive and Collision	\$ 500	(1)	(1)

(1) The lesser of a.) The actual cash value; b.) The stated value; c.) The actual cost to repair up to \$100,000. Total limits of coverage equal \$5 million per occurrence.

All of the above limits are subject to change by the Board of Directors and are subject to specific limitations as specified in the memorandum of coverage provided to each Member. It is the policy of VIP to charge to expense, the payments to be made for claims in cases where the amounts are reasonably determinable and where the likelihood of liability exists.

E. BASIS OF ACCOUNTING

VIP maintains its accounting records in accordance with generally accepted principles of accounting. Revenues are recorded when received in cash unless susceptible to accrual, i.e., measurable and available to finance VIP's operations. Major revenue accrual entries include member premium and deductible receivables and investment income receivables. Expenses are recorded when goods or services are received, or in the case of claims, when the insured event is incurred. Major expense accrual entries include reserves for claims and reserve for claims incurred but not reported. Although NonProfits' United Vehicle Insurance Pool is a California exempt corporation, the financial presentation is as an enterprise. FASB 116 definition of a not-for-profit for reporting purposes excludes cooperatives, mutual insurance companies and employee benefit plans.

NONPROFITS' UNITED VEHICLE INSURANCE POOL

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

F. STATEMENT OF CASH FLOWS

For purposes of this statement, NonProfits' United Vehicle Insurance Pool considers earnings on investments to be an integral part of operations and relies on it to meet claim payment and administrative expense obligations. Accordingly, investment income is classified as an operating item.

G. CASH AND EQUIVALENTS

For purposes of the statement of cash flows, cash and cash equivalents include amounts in checking and savings accounts as well as short-term investments with a maturity date of three months or less at the date acquired by NonProfits' United Vehicle Insurance Pool.

H. UNPAID CLAIM LIABILITIES (CLAIMS PAYABLE, CLAIMS INCURRED BUT NOT REPORTED, AND LIABILITY FOR UNALLOCATED LOSS ADJUSTMENT EXPENSES)

VIP establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported (IBNR). The length of time for which such costs must be estimated varies by the coverage involved. Estimated amounts of salvage and subrogation and excess insurance recoverable on unpaid claims are shown as a receivable. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are re-computed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made.

I. UNEARNED CONTRIBUTIONS

Unearned contributions are recorded for amounts that have been billed to members prior to June 30 for the succeeding policy year.

J. FIXED ASSETS AND DEPRECIATION

NonProfits' United Vehicle Insurance Pool capitalizes all assets over \$2,000 and records these assets at historical cost. Depreciation is provided for over the estimated useful lives of the assets using the straight-line method. The estimated useful lives range from three to five years.

NONPROFITS' UNITED VEHICLE INSURANCE POOL

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

K. COMPENSATED ABSENCES

Vested or accumulated paid leave is recorded as an expense and liability of VIP as the benefits accrue to employees. In accordance with accounting standards, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

L. MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term are described elsewhere in this report.

M. INCOME TAXES

VIP accounts for income taxes in accordance with SFAS No. 109, "*Accounting for Income Taxes*", which requires asset and liability approach to financial accounting and reporting income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statements and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce the deferred tax assets to the amount expected to be realized. Income tax expense is payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

VIP is exempt from state taxes under section 23701Z of the Revenue and Taxation Code. VIP is taxable for federal income tax purposes as a property casualty insurance company. The IRS may examine VIP's tax filings. No such examination is currently in progress and Management believes that the effects of any examination would not have a material effect on the financial statements.

NONPROFITS' UNITED VEHICLE INSURANCE POOL

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

2. CASH AND INVESTMENTS

A. CASH AND EQUIVALENTS

Cash consisted of the following at June 30:

	<u>2006</u>	<u>2005</u>
Balance Per Bank	\$ 659,652	\$ 192,211
Plus: Deposits in Transit	-	4,929
Less: Outstanding Checks	<u>73,736</u>	<u>86,228</u>
Cash in Bank	585,916	110,913
Cash Equivalents	<u>465,810</u>	<u>477,585</u>
Total Cash and Equivalents	<u>\$ 1,051,726</u>	<u>\$ 588,498</u>

The carrying amount of NonProfits' United's cash is covered by federal depository insurance of up to \$100,000.

B. INVESTMENTS

NonProfits' United Vehicle Insurance Pool's investment policy allows, within certain limits, investments in US Treasury and Government Agency obligations, municipal obligations, corporate debt and equity securities, and certain commercial paper and repurchase agreements. Investments are recorded at fair value on the balance sheet, with the change in fair value included as a component of investment income. VIP's investments are summarized below:

	June 30, 2006	<u>June 30,</u>	
	<u>Interest Rates</u>	2006	2005
		<u>Fair Value</u>	<u>Fair Value</u>
U.S. Treasuries	5.13 - 6.04%	\$ 1,124,039	\$ 1,105,655
U.S. Agencies	4.63 - 6.41%	3,118,413	2,385,296
Municipal Obligations	4.23 - 6.47%	1,204,879	612,308
Corporate Debt Securities	4.96 - 6.74%	665,253	1,386,878
Equity Securities	N/A	<u>2,087,879</u>	<u>2,459,267</u>
Total Investments		<u>\$ 8,200,463</u>	<u>\$ 7,949,404</u>

As of June 30, 2006, \$2,950,000 of the total investment portfolio was restricted as collateral for the line of credit discussed in Note 3-C.

NONPROFITS' UNITED VEHICLE INSURANCE POOL

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

3. RELATED PARTY TRANSACTIONS

In 2002, the growing workers' compensation crisis inspired the NonProfits' United Vehicle Insurance Pool Board to assist in the efforts to begin a self-insurance option for nonprofits' workers' compensation coverage. The new insurance pool, NonProfits' United Workers' Compensation Group (WCG), is a separate entity with a separate board incorporated in March 2004 and began its operations in January 2005. It is under the same management as NonProfits' United Vehicle Insurance Pool (VIP) and is considered an affiliate of the latter.

A. DUE FROM AFFILIATE

Due from Affiliate consisted of the following as of June 30:

	2006	2005
Short-term Notes Receivable	\$ -	\$ 262,500
Other Receivables	4,614	7,356
Total	<u>\$ 4,614</u>	<u>\$ 269,856</u>

Short-term Notes Receivable consists of the unpaid balance of a \$350,000 loan due on December 31, 2005 made to VIP to assist the latter in purchasing excess workers' compensation insurance, was paid in full. The loan has an interest rate of 5% and is payable in four equal quarterly payments. Other receivables represent reimbursable expenses for start-up costs incurred in behalf of the WCG.

B. NOTE RECEIVABLE FROM AFFILIATE

On October 15, 2004, the Board of Directors of NonProfits' United Vehicle Insurance Pool approved a Program Related Investment loan in the amount of \$1,000,000 for the purpose of establishing the NonProfits' United Workers' Compensation Group and meeting Department of Industrial Relations (DIR) security requirements for WCG. The loan is interest free and was originally repayable by WCG on or before January 2, 2006. However, conditions are such that WCG is entitled to extend this agreement and forestall repayment for a period of one year, advancing the due date to January 2, 2007.

C. LINE OF CREDIT

On December 22, 2004, NonProfits' United Vehicle Insurance Pool's obtained an irrevocable line of credit from Wells Fargo Bank in the amount of \$2,950,000 for the benefit of NonProfits' United Workers' Compensation Group. This line of credit will serve as the security required by DIR to satisfy obligations of WCG under California workers' compensation law should they be unpaid by WCG. WCG is obligated to raise funds sufficient to replace this collateral and substitute its own line of credit to satisfy DIR obligations on or before January 2, 2008. As collateral for this line of credit, \$2,950,000 of the total investment portfolio was restricted. Should DIR increase security obligations in the future, VIP assumes no obligation to increase the line of credit or the collateral. The line of credit had no balance as of June 30, 2006.

NONPROFITS' UNITED VEHICLE INSURANCE POOL

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

D. ADMINISTRATION FEES

On August 18, 2004, NonProfits' United Vehicle Insurance Pool entered into an agreement with the NonProfits' United Workers Compensation Group to manage WCG's normal daily operations and financial affairs including but not limited to, claims administration, injury and illness prevention programs, and general administration. For the year ended June 30, 2006, \$364,940 and for June 30, 2005 \$400,716 was recognized as administration fee revenues.

4. PREPAID EXPENSES

Prepaid expenses consisted of the following as of June 30:

	<u>2006</u>	<u>2005</u>
Prepaid Insurance	\$ 4,173	\$ 13,985
Others	7,684	70,249
Total	<u>\$ 11,857</u>	<u>\$ 84,234</u>

5. LOSSES RECOVERABLE

Losses recoverable represent the portion of gross claims expected to be recovered from other sources. As of June 30, 2006, the projected recoverable is as follows:

<u>Policy Year</u>	<u>Subrogation</u>
1999	\$ 8,969
2001	8,150
2003	30,648
2004	47,670
2005	75,206
2006	27,253
	<u>\$ 197,896</u>

NONPROFITS' UNITED VEHICLE INSURANCE POOL

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

6. FIXED ASSETS

NonProfits' United's fixed assets consist of the following:

	<u>2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>2006</u>
Furniture, Fixtures, and Equipment	\$ 93,061	\$ 86,051	\$ -	\$ 179,112
Leasehold Improvements	10,437	-	-	10,437
Vehicles	-	27,345	-	27,345
Total	<u>103,498</u>	<u>113,396</u>	<u>-</u>	<u>216,894</u>
Less: Accumulated Depreciation	<u>(80,395)</u>	<u>(26,394)</u>	<u>-</u>	<u>(106,789)</u>
Net Fixed Assets	<u>\$ 23,103</u>	<u>\$ 87,002</u>	<u>\$ -</u>	<u>\$ 110,105</u>

Depreciation expense was \$26,394 and \$7,339 for the fiscal years ended June 30, 2006 and 2005, respectively.

7. LINE OF CREDIT

NonProfits' United Vehicle Insurance Pool obtained a \$150,000 Union Bank of California Line of Credit on May 17, 2002 renewable annually. The interest rate on the line of credit is Wall Street Journal West Coast Prime Rate plus 2.25%. The Prime Rate at June 30, 2006 was approximately 8.25%. A fee of \$250 is advanced annually against the line of credit. The line of credit had no balance at June 30, 2006.

8. OPERATING LEASES

The following is a schedule by years of future minimum rental payments required under all operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2005:

Year ending June 30:	
2007	\$ 79,172
2008	81,402
2009	83,633
December 31, 2009	<u>42,374</u>
Total Minimum Payments Required	<u>\$ 286,581</u>

The rental expense was \$58,305 and \$77,534 for the years ended June 30, 2006 and 2005, respectively.

NONPROFITS' UNITED VEHICLE INSURANCE POOL

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

9. CLAIMS LIABILITIES

VIP establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustment expenses. The following represents changes in those aggregate liabilities for all program during the year ended June 30:

	<u>2006</u>	<u>2005</u>
Unpaid Claims and Claim Adjustment Expenses at Beginning of the Fiscal Year	\$ 4,637,393	\$ 3,865,390
Incurred Claims and Claim Adjustment Expenses:		
Provisions for Insured Events of the Current Fiscal Year	2,720,431	3,212,985
(Increases) Decreases in Provision for Recoveries	(60,031)	(60,821)
Increases (Decreases) in Provision for Insured Events of Prior Fiscal Years	<u>(889,364)</u>	<u>(536,893)</u>
Total Incurred Claims and Claim Adjustment Expenses	<u>1,771,036</u>	<u>2,615,271</u>
Payments/Recoveries:		
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	839,922	586,909
Recoveries and recovery adjustments	(115,390)	(162,041)
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Year	<u>983,377</u>	<u>1,418,400</u>
Total Payments	<u>1,707,909</u>	<u>1,843,268</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year	<u>\$ 4,700,520</u>	<u>\$ 4,637,393</u>

The components of unpaid claims and claim adjustment expenses as of June 30, 2006 and 2005 were as follows:

Reserve for Open Claims	\$ 3,708,914	\$ 2,280,887
IBNR and Claims Development	<u>1,189,502</u>	<u>2,484,293</u>
Total Claims Liability (current and noncurrent portions)	4,898,416	4,765,180
Less Losses Recoverable	<u>(197,896)</u>	<u>(127,787)</u>
Net Outstanding Claims at Pooled Layer	<u>\$ 4,700,520</u>	<u>\$ 4,637,393</u>

NONPROFITS' UNITED VEHICLE INSURANCE POOL

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

10. DEFERRED TAX LIABILITY

A deferred tax liability arises due to certain timing differences between the accounting under generally accepted accounting principles and under the requirements for tax accounting under Internal Revenue Service guidelines. The differences are largely from the timing of deduction of claims losses due to loss discounting and recognition principles for deferred revenues. As of June 30, 2006 and 2005, deferred tax liability amounted to (\$165,352) and \$124,948, respectively.

11. RETIREMENT PLAN

NonProfits' United offers a salary reduction plan under IRS section 401(k). Eligible employees may contribute up to 15% of their gross earnings. The employer matching contributions vary from year to year based on budget. Employees vest in the employer contributions over a 5-year period.

12. REISSUANCE OF REPORT

Subsequent to the issuance of the audit report dated September 7, 2006, the Chief Claims and Development Officer determined that the claim reserves on five claims were significantly understated. The facts available at June 30, 2006 should have warranted that these claim reserves be increased by \$787,500. Upon determination of this large difference, management elected to have the financial statements corrected for this error. The financial statements were restated to reflect the effect of this change and related tax and deferred tax adjustments.

