

**NONPROFITS' UNITED
VEHICLE INSURANCE POOL**

FINANCIAL STATEMENTS

JUNE 30, 2007 and 2006

**NONPROFITS' UNITED
VEHICLE INSURANCE POOL**

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KAKU & MERSINO, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Nonprofits' United
Oakland, California

We have audited the accompanying balance sheet of Nonprofits' United as of June 30, 2007, and the related statements of income, retained earnings, 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 financial statements of Nonprofits' United as of June 30, 2006, were audited by other auditors whose report dated January 31, 2007, expressed an unqualified opinion on those statements.

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 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 provides a reasonable basis for our opinion.

In our opinion, the June 30, 2007 financial statements referred to above present fairly, in all material respects, the financial position of Nonprofits' United as of June 30, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Kaku + Mersino, LLP

KAKU & MERSINO, LLP

October 4, 2007

NONPROFITS' UNITED
VEHICLE INSURANCE POOL
BALANCE SHEETS
JUNE 30, 2007 and 2006

ASSETS	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Investments		
Debt Securities	\$ 6,943,518	\$ 6,112,583
Equity Securities	<u>2,877,976</u>	<u>2,087,880</u>
Total Investments	<u>9,821,494</u>	<u>8,200,463</u>
Cash & Cash Equivalents	410,328	1,051,726
Premium & Deductible Receivables	30,454	67,899
Income Tax Receivable	245,357	63,276
Accounts Receivable - affiliate		4,614
Accrued Interest and Dividends	60,856	47,009
Prepaid Expenses	84,191	11,857
Losses Recoverable	187,227	197,896
Note Receivable - affiliate		1,000,000
Deferred Tax Asset	315,577	165,352
Deposits	10,625	8,125
Property and Equipment, net	87,516	110,105
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 11,253,625</u>	<u>\$ 10,928,322</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts Payable	\$ 48,179	\$ 201,274
Unearned Premiums	136,132	243,415
Accrued Vacation Payable	45,630	24,786
Deferred Expenses	11,850	16,590
Claims Liability	5,883,052	4,898,416
	<hr/>	<hr/>
TOTAL LIABILITIES	<u>6,124,843</u>	<u>5,384,481</u>
Net Assets		
Unrestricted	<u>5,128,782</u>	<u>5,543,841</u>
TOTAL NET ASSETS	<u>5,128,782</u>	<u>5,543,841</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,253,625</u>	<u>\$ 10,928,322</u>

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

NONPROFITS' UNITED
VEHICLE INSURANCE POOL
STATEMENTS OF INCOME and CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 2007 and 2006

	<u>Year Ended</u> <u>June 30, 2007</u>	<u>Year Ended</u> <u>June 30, 2006</u>
Operating Revenues		
Members' Contributions	\$ 4,920,234	\$ 5,391,936
Administration Income	497,835	364,940
Investment Income	617,411	144,864
Other Income	80,581	(34)
TOTAL OPERATING REVENUES	6,116,061	5,901,706
Operating Expenses		
Insurance Expense	1,649,299	1,456,084
Claims		
Provision for Liability Claims	2,243,731	1,756,188
Provision for Physical Damage Claims	401,059	332,387
Liability Deductible	(93,278)	(152,690)
Liability Subrogation Recoveries	(252,218)	(112,258)
Physical Damage Subrogation Recoveries	(110,807)	(48,091)
Physical Damage Deductible		(4,500)
Claims & Legal	300,688	
Commissions	316,024	
Unallocated Claims Expenses and Administration	6,751	36,251
General & Administrative		
Salaries & Benefits	1,214,352	977,250
Professional Services	403,830	436,620
Facilities and Equipment	185,209	167,625
Travel & Conference	192,171	129,180
Marketing & Advertising	44,534	47,610
Office Supplies & Expenses	112,264	85,402
Excellence in Safety Award	8,981	171,415
Loss Control	11,176	27,240
Depreciation	46,079	26,394
Contributions	1,500	-
TOTAL OPERATING EXPENSES	6,681,345	5,332,107
INCOME/(LOSS) BEFORE TAXES	(565,284)	569,599
Income Tax Expense/(Benefit)		
Current	(234,600)	230,086
Deferred	84,375	(290,300)
Total Income Tax	(150,225)	(60,214)
NET INCOME/(LOSS)	(415,059)	629,813
BEGINNING RETAINED EARNINGS	5,543,841	4,914,028
ENDING RETAINED EARNINGS	\$ 5,128,782	\$ 5,543,841

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

NONPROFITS' UNITED
VEHICLE INSURANCE POOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 and 2006

	<u>Year Ended</u> <u>June 30, 2007</u>	<u>Year Ended</u> <u>June 30, 2006</u>
Cash Flows From Operating Activities		
Reconciliation of Changes in Net Income (Loss) to Net Cash Increase/(Decrease) in Net Assets	\$ (415,059)	\$ 629,813
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	46,079	26,394
Unrealized Loss (Gain) on Investments	(321,450)	419,648
(Increase)/Decrease in:		
Trading Securities	(1,299,581)	
Premium & Deductible Receivables	37,445	(29,075)
Income Tax Receivable	(182,081)	
Accounts Receivable - affiliate	4,614	265,242
Accrued Interest and Dividends	(13,847)	(10,455)
Prepaid Expenses	(72,334)	72,377
Losses Recoverable	10,669	(70,109)
Deferred Tax Asset	(150,225)	(290,300)
Deposits	(2,500)	1,582
Increase/(Decrease) in:		
Accounts Payable	(153,095)	92,894
Unearned Premiums	(107,283)	198,114
Accrued Vacation Payable	20,844	(21,374)
Deferred Expenses	(4,740)	(4,740)
Claims Liability	984,636	133,236
Taxes Payable		(165,915)
Net Cash Provided (Used) By Operating Activities	(1,617,908)	1,247,332
Cash Flows From Investing Activities		
Purchase of Property and Equipment	(23,490)	(113,396)
Purchase of Investments		(9,646,518)
Proceeds from Sale of Investments		8,975,811
Net Cash Provided (Used) By Investing Activities	(23,490)	(784,103)
Cash Flows From Financing Activities		
Note Receivable repayment	1,000,000	-
Net Cash Provided (Used) By Financing Activities	1,000,000	-
Net Increase (Decrease) in Cash	(641,398)	463,229
Cash at Beginning of Year	1,051,726	588,497
Cash at End of Year	\$ 410,328	\$ 1,051,726

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

NONPROFITS' UNITED
VEHICLE INSURANCE POOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 and 2006

NOTE 1. NATURE OF OPERATIONS

ORGANIZATION

Nonprofits' United, also referred to as Vehicle Insurance Pool (VIP), is a non-profit organization incorporated in the State of California. However, it is a taxable entity under federal laws as a property casualty insurance company. Nonprofits' United provides for a pooled self-insured program for automobile liability for member non-profit organizations pursuant to authorization under Section 5005.1 of the California Corporation Code. Nonprofits' United is not subject to the rules, regulation and supervision of the National Association of Insurance Commissioners (NAIC). Members of Nonprofits' United are private non-profit organizations in the State of California, which are exempt under Section 501(c)(3) of the Internal Revenue Service Code.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Nonprofits' United follows accounting and reporting policies for insurance enterprises.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and money market funds.

INVESTMENTS

Debt and equity securities are held principally for resale in the near term, are classified as trading securities and recorded at their fair values. Realized and unrealized gains and losses are included in investment income.

PROPERTY & EQUIPMENT

Property & equipment are recorded at cost and depreciated under the straight-line method over the estimated useful lives of the respective assets.

RECOGNITION OF PREMIUM REVENUES

Premiums are generally recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future are deferred and reported as Unearned Premiums.

NONPROFITS' UNITED
VEHICLE INSURANCE POOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 and 2006

DEFERRED POLICY ACQUISITION COSTS

Commissions and other costs of acquiring insurance that vary with and are primarily related to the production of new and renewal business are deferred and amortized over the terms of the policies.

INCOME TAXES

Nonprofits' United is taxable for federal income tax purposes as a property casualty insurance company and is exempt from state taxes pursuant to California Revenue Code Section 23701z.

Income tax provisions are based on the asset and liability method. Deferred federal income taxes have been provided for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Such differences are related principally to the deduction of claim losses due to loss discounting and recognition principles for deferred revenues.

ADVERTISING

Advertising costs are expensed as incurred. Advertising costs totaling \$14,193 and \$13,186 were expensed in the year ended June 30, 2007 and 2006, respectively. There were no advertising costs capitalized during the year ended June 30, 2007 and 2006.

CLAIMS LIABILITY

The liability for losses and loss-adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on actuarial reports, for losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently. The reserve for losses and loss-adjustment expenses is reported net of receivables for subrogation.

REINSURANCE

In the normal course of business, Nonprofits' United seeks to reduce the loss that may arise from catastrophes or other events by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. The pooled self-insurance automobile liability covers losses in excess of each member's deductible levels to \$500,000. Members have an option to purchase additional coverage up to \$10,000,000, which Nonprofit's United reinsures. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured policy.

NONPROFITS' UNITED
VEHICLE INSURANCE POOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 and 2006

NOTE 3. CONCENTRATIONS OF CREDIT RISK

Nonprofits' United maintains cash in money market accounts that are not federally insured and in bank deposit accounts that, at times, may exceed federally insured limits. As of June 30, 2007, uninsured cash and cash equivalent balances total \$217,417. Nonprofits' United has not experienced any losses in such accounts. Management believes the organization is not exposed to any significant credit risk related to cash and cash equivalents.

NOTE 4. INVESTMENTS

As discussed in Note 6, \$2,950,000 of investments are pledged as collateral for a related party. Investments, carried in the accompanying balance sheet at estimated fair value, consist of the following as of June 30, 2007 and 2006. Investment income is net of investment fees of \$25,000.

June 30, 2007	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>
U.S. treasury	\$ 1,131,934	\$	\$ 16,955	\$ 1,114,979
Asset backed securities	331,043	37	5,192	325,888
Commercial multi family	1,149,117	23	32,508	1,116,632
Mortgage securities	2,326,274	208	33,248	2,293,234
Taxable municipal	1,498,541	7	31,899	1,466,649
Corporate obligations	<u>636,113</u>	<u>1,221</u>	<u>11,198</u>	<u>626,136</u>
Total debt securities	7,073,022	1,496	131,000	6,943,518
Equity securities	<u>2,539,639</u>	<u>360,880</u>	<u>22,543</u>	<u>2,877,976</u>
Total investments	<u>\$ 9,612,661</u>	<u>\$ 362,376</u>	<u>\$ 153,543</u>	<u>\$ 9,821,494</u>
 June 30, 2006				
U.S. treasury and agency	\$ 1,344,665	\$	\$ 45,152	\$ 1,299,513
Asset backed securities	250,720		7,330	243,390
Commercial multi family	1,157,092		49,032	1,108,060
Mortgage securities	1,636,109	63	44,683	1,591,489
Taxable municipal	1,249,520		44,642	1,204,878
Corporate obligations	<u>685,382</u>	<u>728</u>	<u>20,857</u>	<u>665,253</u>
Total debt securities	6,323,488	791	211,696	6,112,583
Equity securities	<u>1,989,592</u>	<u>208,033</u>	<u>109,745</u>	<u>2,087,880</u>
Total investments	<u>\$ 8,313,080</u>	<u>\$ 208,824</u>	<u>\$ 321,441</u>	<u>\$ 8,200,463</u>

NONPROFITS' UNITED
VEHICLE INSURANCE POOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 and 2006

NOTE 5. PROPERTY & EQUIPMENT

Property & equipment are summarized by major classifications as follows:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Furniture & Equipment	\$ 184,602	\$ 179,112
Automobiles	45,345	27,345
Leasehold Improvements	<u>10,437</u>	<u>10,437</u>
	240,384	216,894
Less Accumulated Depreciation	<u>(152,868)</u>	<u>(106,789)</u>
	<u>\$ 87,516</u>	<u>\$ 110,105</u>

Depreciation expense of \$46,079 and \$26,394, was recognized for the years ended June 30, 2007 and 2006, respectively.

NOTE 6. RELATED PARTY TRANSACTIONS

In 2002, the workers' compensation crisis inspired Nonprofits' United 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 and is considered an affiliate.

- A. Accounts Receivable Affiliate - \$4,614 of receivable represents reimbursed costs incurred in behalf of WCG for the year ending June 30, 2006.
- B. Note Receivable – Affiliate - Note in the amount of \$1,000,000 to the Nonprofits' United Workers' Compensation Group. The note was interest free, uncollateralized and repaid in April 2007.
- C. Letter of Credit – On December 22, 2004 Nonprofits' United obtained an irrevocable letter of credit from a financial institution in the amount \$2,950,000 for the benefit of WCG. The letter of credit is to serve as security required by the State of California, Department of Industrial Relations (DIR) to satisfy obligations of WCG under workers' compensation law should DIR be unpaid by WCG. WCG is obligated to raise funds sufficient to replace this collateral on or before January 2, 2008. The letter of credit is collateralized by all of Nonprofits' United's property, claims, demands, right, title and interest in all deposit accounts. The letter of credit has a zero balance and no activity for the years ended June 30, 2007 and 2006.
- D. Administrative Fees – Nonprofits' United entered into an agreement with WCG to manage daily operations and fiscal services. Administration fees of \$497,835 and \$364,940 were recognized as revenue for the years ended June 30, 2007 and 2006.

NONPROFITS' UNITED
VEHICLE INSURANCE POOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 and 2006

NOTE 7. LOSSES RECOVERABLES

Losses recoverables represent the portion of paid gross claims that are expected to be recovered from other sources. The estimated amounts managements expects to fully recover as of June 30, 2007 and 2006 is \$187,227 and 197,896, respectively.

NOTE 8. LINE OF CREDIT

Nonprofits' United has a revolving line of credit with a financial institution with a maximum amount available of \$150,000. The line bears interest at the prime rate plus 1 percent per annum, and is payable monthly. Personal property is secured as collateral. The line matures on January 10, 2008. There has been no borrowings against the line of credit to date.

NOTE 9. PENSION PLAN

Nonprofits' United offers a profit sharing pension plan 401(k). Eligible employees receive an 8% contribution of gross salary. The contribution expense to the plan was \$46,644 and \$22,396 for the years ended June 30, 2007 and 2006.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Letter of Credit

As discussed in Note 6, Nonprofits' United has pledged property and securities for a letter of credit of \$2,950,000 to an affiliated agency.

Operating Leases

Nonprofits' United leases various office space and equipment under noncancellable operating leases. Rental expenses for those leases consisted of \$92,684 and \$58,305 for the years ended June 30, 2007 and 2006.

Future minimum rental payments under agreements classified as operating leases with noncancellable terms in excess of one year are as follows:

Year Ending <u>June 30</u>	<u>Amount</u>
2007	\$ 106,572
2008	110,915
2009	113,145
2010	20,439
2011	<u>0</u>
Total minimum rental payments	<u>\$ 351,071</u>

NONPROFITS' UNITED
VEHICLE INSURANCE POOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 and 2006

NOTE 11. CLAIMS LIABILITY

Activities in the claims liability is summarized as follows:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Unpaid claims and claim adjustment expense beginning of year	\$ 4,700,520	\$ 4,637,393
Incurred related to:		
Current year	3,285,141	2,720,431
Prior year	(640,352)	(889,364)
Increase provision for recoveries	<u>(456,302)</u>	<u>(60,031)</u>
Total Incurred	<u>2,188,487</u>	<u>1,771,036</u>
Paid related to:		
Current year	641,621	839,922
Prior year	744,042	983,377
Recovery and recovery adjustments	<u>(379,708)</u>	<u>(115,390)</u>
Total Paid	<u>1,005,955</u>	<u>1,707,909</u>
Unpaid claims and claim adjustment expense end of year	<u>\$ 5,883,052</u>	<u>\$ 4,700,520</u>

The components of unpaid claims and claim adjustment expenses as of June 30, 2007 and 2006 were as follows:

Reserve for open claims	\$ 5,307,541	\$ 3,708,914
IBNR and claims development	<u>850,000</u>	<u>1,189,502</u>
Total claims liability	6,157,541	4,898,416
Less losses recoverable	<u>(274,489)</u>	<u>(197,896)</u>
Net outstanding claims at pooled layer	<u>\$ 5,883,052</u>	<u>\$ 4,700,520</u>

NOTE 12. INCOME TAXES

Deferred tax asset for year ended June 30, 2007 and 2006 is \$315,577 and \$165,352. The U.S. Federal statutory income tax rate applicable to ordinary income is 34 percent. Nonprofits' United has a net operating loss carryover of approximately \$234,000, which management expects to reclaim previous taxes paid. Income taxes of \$180,000 and \$478,000 were paid in years ending June 30, 2007 and 2006, respectively.