

**NONPROFITS' UNITED WORKERS'
COMPENSATION GROUP, INC.**

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

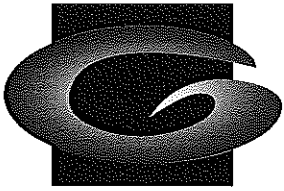
**FOR THE YEAR ENDED DECEMBER 31, 2006
AND FROM INCEPTION (DECEMBER 27, 2004)
THROUGH DECEMBER 31, 2005**

NONPROFITS' UNITED WORKERS' COMPENSATION GROUP, INC.

TABLE OF CONTENTS

DECEMBER 31, 2006 AND 2005

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Balance Sheets	2
Statements of Income	3
Statements of Members' Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	7



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

**To the Board Members
NonProfits' United Workers' Compensation Group, Inc.
Sacramento, California**

We have audited the accompanying balance sheets of NonProfits' United Workers' Compensation Group, Inc. (NPU-WCG) as of December 31, 2006 and 2005, and the related statements of income, members' equity, and cash flows for the year ended December 31, 2006 and for the period from inception (December 27, 2004) through December 31, 2005. These financial statements are the responsibility of NPU-WCG's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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 NPU-WCG as of December 31, 2006 and 2005, and the results of its operations and cash flows for the year ended December 31, 2006, and the period from inception (December 27, 2004) through December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.

June 13, 2007

NONPROFITS' UNITED WORKERS' COMPENSATION GROUP, INC.

BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and equivalents	\$ 2,444,663	\$ 1,693,740
Cash - restricted for DIR		232,099
Accounts receivable	787,769	188,034
Prepaid expenses		18,481
Investments - restricted for DIR	<u>2,650,000</u>	<u>1,198,533</u>
TOTAL ASSETS	<u>\$ 5,882,432</u>	<u>\$ 3,330,887</u>
LIABILITIES, RESERVES, AND MEMBERS' EQUITY		
LIABILITIES		
Accounts payable	\$ 194,032	\$ 275,637
Member deposits	458,583	
Reserve for losses and loss expense	3,764,267	1,796,000
Loan payable	<u>1,000,000</u>	<u>1,000,000</u>
Total Liabilities and Reserves	5,416,882	3,071,637
MEMBERS' EQUITY		
Retained earnings	<u>465,550</u>	<u>259,250</u>
TOTAL LIABILITIES, RESERVES, AND MEMBERS' EQUITY	<u>\$ 5,882,432</u>	<u>\$ 3,330,887</u>

NONPROFITS' UNITED WORKERS' COMPENSATION GROUP, INC.

STATEMENTS OF INCOME

YEAR ENDED DECEMBER 31, 2006 AND PERIOD FROM INCEPTION
(DECEMBER 27, 2004) THROUGH DECEMBER 31, 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Premiums earned	\$ 5,384,304	\$ 4,667,144
Interest and investment income	<u>149,016</u>	<u>50,218</u>
Total Revenues	<u>5,533,320</u>	<u>4,717,362</u>
EXPENSES		
Losses and loss expenses incurred	2,686,426	1,952,461
Excess insurance	862,574	641,209
DIR/OSIP & SISF assessments	23,390	23,147
Administrative expenses:		
Program administration	995,170	997,704
Safety and loss control program	277,305	207,056
Broker commissions	182,780	135,290
Claims handling	83,559	45,975
Bank fees and interest	61,573	50,137
Underwriter commissions	45,910	27,597
Insurance	36,933	20,934
Legal and accounting services	26,056	23,208
Actuarial services	14,000	8,000
Program development costs		317,059
Miscellaneous	<u>31,344</u>	<u>8,335</u>
Total Expenses	<u>5,327,020</u>	<u>4,458,112</u>
Net Income	<u>\$ 206,300</u>	<u>\$ 259,250</u>

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

NONPROFITS' UNITED WORKERS' COMPENSATION GROUP, INC.

STATEMENTS OF MEMBERS' EQUITY

YEAR ENDED DECEMBER 31, 2006 AND PERIOD FROM INCEPTION
(DECEMBER 27, 2004) THROUGH DECEMBER 31, 2005

Retained Earnings at Inception (December 27, 2004)	\$ -
Net Income From Inception Through December 31, 2005	<u>259,250</u>
Retained Earnings at December 31, 2005	259,250
Net Income 2006	<u>206,300</u>
Retained Earnings at December 31, 2006	<u>\$ 465,550</u>

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

NONPROFITS' UNITED WORKERS' COMPENSATION GROUP, INC.

STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2006 AND PERIOD FROM INCEPTION
(DECEMBER 27, 2004) THROUGH DECEMBER 31, 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums received from members	\$ 5,243,152	\$ 4,479,110
Investment income received	149,016	50,218
Excess insurance paid	(885,964)	(641,209)
Losses and loss adjustment expenses paid	(718,159)	(156,461)
Administrative expenses paid	<u>(1,817,754)</u>	<u>(1,607,286)</u>
Net Cash Provided by Operating Activities	1,970,291	2,124,372
CASH FLOWS FROM INVESTING ACTIVITIES:		
Security deposit	<u>(1,451,467)</u>	<u>(1,198,533)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loan	<u>-</u>	<u>1,000,000</u>
NET INCREASE IN CASH AND EQUIVALENTS	518,824	1,925,839
CASH AND EQUIVALENTS, Beginning	<u>1,925,839</u>	<u>-</u>
CASH AND EQUIVALENTS, Ending	<u>\$ 2,444,663</u>	<u>\$ 1,925,839</u>
Cash reconciliation:		
Cash and equivalents	2,444,663	1,693,740
Cash - restricted for DIR	<u>-</u>	<u>232,099</u>
Cash and equivalents	<u>\$ 2,444,663</u>	<u>\$ 1,925,839</u>

NONPROFITS' UNITED WORKERS' COMPENSATION GROUP, INC.

STATEMENTS OF CASH FLOWS - CONTINUED

YEAR ENDED DECEMBER 31, 2006 AND PERIOD FROM INCEPTION
(DECEMBER 27, 2004) THROUGH DECEMBER 31, 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 206,300	\$ 259,250
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
(Increase) decrease in:		
Accounts receivable	(599,735)	(188,034)
Prepaid expenses	18,481	(18,481)
Increase (Decrease) in:		
Accounts payable	(81,605)	275,637
Member deposits	458,583	
Reserve for losses and loss expense	<u>1,968,267</u>	<u>1,796,000</u>
Net Cash Provided by Operating Activities	<u>\$ 1,970,291</u>	<u>\$ 2,124,372</u>

NONPROFITS' UNITED WORKERS' COMPENSATION GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

1. NATURE OF OPERATIONS

Formation and Membership

The NonProfits' United Workers' Compensation Group, Inc. (NPU-WCG) was established December 27, 2004, as a low cost alternative for workers' compensation protection for California non-profit entities. NPU-WCG is a California mutual benefit non-profit corporation. The three core members are Fresno County Economic Opportunities Commission, Paratransit Services, Inc., and Gold County Telecare, Inc. During the 2006 calendar year, nine additional affiliate members joined NPU-WCG for a total membership count of 44 at year-end.

To be eligible for membership in NPU-WCG, an employer must have a primary 3-digit industrial code classification of 624, Social Assistance, in the State of California. The average of an applicant's net worth for the three (3) year period preceding proposed participation in the NPU-WCG must not be negative. Applicants must have a current workers' compensation insurance loss experience modification factor below 1.75. The applicant must be an acceptable risk to NPU-WCG's excess insurance carrier.

Self-insurance

NPU-WCG provides its members with workers' compensation coverage. NPU-WCG has a self-insured retention (per claim and occurrence) of \$500,000.

Specific Excess Insurance

NPU-WCG limits the maximum net loss that can arise from large risks by purchasing excess insurance. NPU-WCG has obtained specific excess workers' compensation and employer's liability coverage of \$25,000,000 per occurrence (\$1,000,000 for employers' liability) through Insurance Corporation of Hannover.

Governance and Administration

The business and property of NPU-WCG is supervised by a Board of Trustees that consists of 9 trustees. The Board of Trustees serves alternating two-year terms and elections are held annually at the annual membership meeting, except that the first term will run four years, through January 1, 2009. Pursuant to Title 8 of the California Code of Regulations, at least two-thirds of the trustees shall be employees or officers of the group members. Additionally, if any Group Member pays a premium that amounts to twenty percent (20%) or more of the total members' annual premiums paid by all group members, that member is entitled to two seats on the Board of Trustees, and may nominate two (2) candidates for that purpose.

NPU-WCG contracts with Gregory B. Bragg and Associates, Inc., for claims administration. Brokerage services are provided by Driver Alliant Insurance Services. Underwriting services are provided by Alliant Specialty Insurance Services. During 2006 and 2005 NPU-WCG contracted with Bickmore Risk Services for Administrative services. Effective January 1, 2007, NPU-WCG no longer contracts for administrative services and now self administers its operations.

NONPROFITS' UNITED WORKERS' COMPENSATION GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

2. SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

NPU-WCG prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

B. REVENUE RECOGNITION

Premiums are earned on a pro-rata basis over the rating period of the policy, which is generally one year. Unearned premiums, if any, represent the portion of premiums applicable to the unexpired portion of the rating period of policies in force.

C. CASH AND EQUIVALENTS

For purposes of the statement of cash flows, cash and equivalents include all checking and savings accounts, and all highly liquid debt instruments purchased with a maturity of three months or less.

D. RESERVE FOR LOSSES AND LOSS EXPENSE

NPU-WCG 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). Because actual claim costs depend on complex factors, the process used in computing claims liabilities is unlikely to result in an exact amount. Claims liabilities are recomputed annually using a variety of actuarial techniques to produce current estimates that reflect recent settlements, claim frequency, and other factors. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made.

E. UNALLOCATED LOSS ADJUSTMENT EXPENSE PAYABLE

Amounts have been actuarially estimated for the cost expected to be incurred in connection with the settlement of unpaid claims that cannot be related to a specific claim. This estimated liability has been included in reserve for losses and loss expense on the balance sheets.

F. INCOME TAXES

NPU-WCG is exempt from Federal income tax under section 501(n) of the Internal Revenue Code and exempt from California state income tax under California Code of Regulations, Title 8, Section 154070(a).

NONPROFITS' UNITED WORKERS' COMPENSATION GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

G. SIGNIFICANT ESTIMATES

The preparation of 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.

3. CASH AND INVESTMENTS

Cash and equivalents consisted of the following at December 31:

	<u>2006</u>	<u>2005</u>
Deposits:		
Cash in Banks	\$ (49,686)	\$ (180,990)
Cash Equivalents:		
Cash in Money Market Funds	<u>2,494,349</u>	<u>2,106,829</u>
Total Cash and Equivalents	<u>\$ 2,444,663</u>	<u>\$ 1,925,839</u>

The negative balance in Cash in Banks is due to NPU-WCG's use of a sweep money market account, which is linked to both operating accounts. The sweep account's balance of \$2,494,349 is included in cash equivalents. Each evening, the sweep account deposits funds in the accounts to cover any checks that have been posted to the accounts during that day, leaving a peg of \$35,000 in the general operating account and a zero balance in the workers' compensation claims account. Using this system, interest can be earned on all funds until checks are presented for payment. The negative balances of \$49,686 and \$189,990 represents the outstanding checks that were issued through December, 2006 and 2005, but had not yet cleared as of year-end.

NPU-WCG maintains its cash in bank deposit accounts that, at times, may exceed FDIC limits of \$100,000. NPU-WCG has not experienced any losses in such accounts. Management believes NPU-WCG is not exposed to any significant credit risk related to cash.

NONPROFITS' UNITED WORKERS' COMPENSATION GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

4. SECURITY DEPOSIT

NPU-WCG is required to deposit funds with the State of California Department of Industrial Relations, Office of Self-Insured Plans (DIR). As of December 31, 2006, \$2,650,000 was deposited with the DIR in the form of a 262-day certificate of deposit issued by Bank of the West. An interest-free letter of credit for \$2,950,000 has been made available to the DIR on behalf of NPU-WCG by NPU-VIP, a related entity with common membership. This amount is not included in the financial statements as no cash has been drawn on this letter of credit.

5. RESERVE FOR LOSSES AND LOSS EXPENSE

NPU-WCG establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the fund year ended December 31:

	<u>2006</u>	<u>2005</u>
Reserve for losses and loss expenses -- beginning of year	\$ 1,796,000	\$ _____
Incurred claims and claim adjustment expenses:		
Provision for insured events – current fiscal year	2,953,924	1,952,461
Provision for insured events – prior fiscal years	<u>(267,498)</u>	<u>_____</u>
Total incurred	<u>2,686,426</u>	<u>1,952,461</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events – current fiscal year	398,410	156,461
Claims and claim adjustment expenses attributable to insured events – prior fiscal years	<u>319,749</u>	<u>_____</u>
Total payments	<u>718,159</u>	<u>156,461</u>
Reserve for losses and loss expenses – end of year	<u>\$ 3,764,267</u>	<u>\$ 1,796,000</u>

Summary:

Claims reserves	\$ 535,636	\$ 285,023
Claims incurred but not reported and ULAE	<u>3,228,631</u>	<u>1,510,977</u>
Total reserve for losses and loss expenses – end of year	<u>\$ 3,764,267</u>	<u>\$ 1,796,000</u>

NONPROFITS' UNITED WORKERS' COMPENSATION GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

6. RESERVE FOR LOSSES AND LOSS EXPENSE BY CLAIM YEAR

The liability for reserve for losses and loss expense is based upon actual claims and estimates of open claims settlement provided by the claims administrator and an actuary. Claims liabilities were discounted at a rate of 4.0%. The following tables represent the discounted claims by claim year:

Claim Year	Ultimate Loss Per Actuary	Claims Paid	Reserves	ULAE & IBNR
2004-05	\$ 1,686,311	\$ 477,558	\$ 177,144	\$ 1,031,609
2006	<u>2,953,924</u>	<u>398,410</u>	<u>358,492</u>	<u>2,197,022</u>
Total	<u>\$ 4,640,235</u>	<u>\$ 875,968</u>	<u>\$ 535,636</u>	<u>\$ 3,228,631</u>

7. RELATED PARTY TRANSACTIONS

NPU-WCG paid \$248,375 and \$503,014 for program administration during 2006 and 2005, respectively, and \$200,000 in development expenses in 2005 to NPU-VIP. NPU-WCG is related to NPU-VIP through common membership and management.

To assist with meeting the DIR legal and financial requirements NPU-WCG obtained an interest free loan of \$1,000,000 from NPU-VIP due January 2, 2007. The loan was subsequently fully paid in April 2007. As explained in Note 4, the funds from this loan are held in a separate account for the benefit of the DIR by NPU-WCG and are used to provide security as required by the DIR.