

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

FINANCIAL STATEMENTS

DECEMBER 31, 2010 and 2009

NONPROFITS' UNITED WORKERS' COMPENSATION GROUP, INC.

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KAKU & MERSINO, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Nonprofits' United Workers' Compensation Group, Inc.
Sacramento, California

We have audited the accompanying balance sheets of Nonprofits' United Workers' Compensation Group, Inc. as of December 31, 2010 and 2009, and the related statements of income and members' equity, and cash flows for the years 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.

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 financial statements referred to above present fairly, in all material respects, the financial position of Nonprofits' United Workers' Compensation Group, Inc. as of December 31, 2010 and 2009, 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

March 10, 2011

NONPROFITS' UNITED WORKERS' COMPENSATION GROUP, INC.

STATEMENTS OF INCOME AND MEMBERS' EQUITY

YEARS ENDED DECEMBER 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenues		
Premiums Earned	\$ 7,025,374	\$ 5,333,383
Interest and Investment Income	316,994	594,825
Other Income	1,918	24,863
	<u>7,344,286</u>	<u>5,953,071</u>
TOTAL REVENUES		
Expenses		
Program Expenses		
Losses and Loss Expense	4,215,297	3,328,971
Excess Insurance	615,876	492,302
Safety and Loss Control Program	22,977	144,623
Broker Commissions	417,011	307,094
Claims Handling	367,068	356,491
Regulatory Fees & Assessments	50,228	23,424
	<u>5,688,457</u>	<u>4,652,905</u>
Total Program Expenses		
General & Administrative Expenses		
Program Administration	718,000	919,450
Bank Fees	1,932	7,001
Legal and Accounting Services	17,050	18,990
Legislative Advocacy	-	27,000
Investment Fees	37,706	38,516
Insurance	40,530	25,855
Actuarial Services	8,750	16,000
Development Costs	34,010	-
Depreciation	-	4,495
Miscellaneous	7,222	3,462
	<u>865,200</u>	<u>1,060,769</u>
Total General & Administrative Expenses		
	<u>6,553,657</u>	<u>5,713,674</u>
TOTAL EXPENSES		
Other Income/(Expenses)		
Sale of Equipment	<u>(14,002)</u>	<u>-</u>
	<u>776,627</u>	<u>239,397</u>
NET INCOME		
MEMBERS' EQUITY BEGINNING OF YEAR	<u>3,142,001</u>	<u>2,902,604</u>
MEMBERS' EQUITY END OF YEAR	<u>\$ 3,918,628</u>	<u>\$ 3,142,001</u>

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

NONPROFITS' UNITED WORKERS' COMPENSATION GROUP, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows From Operating Activities		
Net Income	\$ 776,627	\$ 239,397
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation		4,495
Loss on Sale of Equipment	15,002	
Unrealized Loss (Gain) on Investments	(123,449)	(499,307)
(Increase)/Decrease in:		
Trading Securities	(111,272)	722,495
Accounts Receivable	(278,889)	(247,149)
Accrued Investment Income Receivable	(571)	2,768
Subrogated Recoveries Receivable		5,654
Prepaid Expenses	151,551	(70,637)
Increase/(Decrease) in:		
Accounts Payable	(89,009)	579
Member Deposits	91,971	156,796
Reserve for Losses and Loss Expense	1,790,243	1,365,251
Net Cash Provided (Used) By Operating Activities	<u>2,222,204</u>	<u>1,680,342</u>
Cash Flows From Investing Activities		
Proceeds from Sale of Equipment	1,000	-
Security Deposit	(1,425,814)	(1,361,198)
Net Cash Provided (Used) By Investing Activities	<u>(1,424,814)</u>	<u>(1,361,198)</u>
Cash Flows From Financing Activities		
	-	-
Net Cash Provided (Used) By Financing Activities	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash	797,390	319,144
Cash and Cash Equivalents at Beginning of Year	<u>1,870,746</u>	<u>1,551,602</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,668,136</u>	<u>\$ 1,870,746</u>

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

NONPROFITS' UNITED WORKERS' COMPENSATION GROUP, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009

Note 1 – Nature of Activities

Nonprofits' United Workers' Compensation Group, Inc, (NPU-WCG) is a non-profit mutual benefit corporation organized under the California Nonprofit Mutual Benefit Corporation Law. NPU-WCG provides a pooled shared risk workers' compensation insurance program for member non-profit organizations. Members of Nonprofits' United Workers' Compensation Group, Inc are private non-profit organizations in the State of California, which are exempt under Section 501(c)(3) of the Internal Revenue Service Code.

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 periods preceding proposed participation in the NPU-WCG must not be negative. An applicant must also be an acceptable risk to NPU-WCG excess insurance carrier.

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 and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Nonprofits' United Workers' Compensation Group, Inc 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 includes cash at financial institutions, money market accounts, and certificates of deposit.

Accounts Receivable

Management expects accounts receivable to be fully collectible, therefore no provision for allowance for doubtful accounts is recorded.

Investments

Debt and equity securities 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.

NONPROFITS' UNITED WORKERS' COMPENSATION GROUP, INC.
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Subrogated Recoveries Receivable

Subrogated Recoveries Receivable represent the portion of paid gross claims that are expected to be recovered from other sources.

Recognition of Premium Revenues

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.

Excess Insurance

In the normal course of business, NPU-WCG seeks to reduce the loss that may arise from large risks by purchasing excess insurance. The pooled self-insurance has a self-insured retention (per claim and occurrence) of \$500,000. NPU-WCG has obtained specific excess workers' compensation coverage of \$25,000,000 per occurrence.

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. Claim liabilities are computed using a variety of actuarial techniques to produce estimates that reflect settlements, claim frequency, and other factors. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made.

Unallocated Loss Adjustment Expense Payable

Unallocated loss adjustment expense (ULAE) 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 sheet.

Equipment

Equipment is recorded at cost and depreciated under the straight-line method over the estimated useful lives of the respective assets.

Income Taxes

NPU-WCG is exempt from Federal income tax under section 501(n) of the Internal Revenue Code and, thus, is treated as exempt under section 501(c)(3) of the Internal Revenue Code, and exempt from California state income tax under Code Section 23701z.

Subsequent Events

Management has evaluated subsequent events through March 10, 2011, the date the financial statements were available to be issued.

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Note 3 – Concentration of Credit Risk

The NPU-WCG maintains its cash balances at two financial institutions located in California. The balances at one institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2010, the Company's uninsured cash balances total \$2,606,558.

Note 4 – Investments

All investments are fair value measurements using quoted market prices in active markets for identical assets (level 1).

June 30, 2010:

	<u>Cost</u>	<u>Unrealized Gains/(Losses)</u>	<u>Estimated Fair Value</u>
Government Obligations	\$ 2,102,534	\$ 4,509	\$ 2,107,043
Mortgage Backed Sec.	221,188	(716)	220,472
Municipal Bonds	402,296	(2,824)	399,472
Corporate Obligations	<u>503,417</u>	<u>5,477</u>	<u>508,894</u>
Total Debt Securities	3,229,435	6,446	3,235,881
Total Equity Securities	1,458,719	213,326	1,672,045
Real Asset Funds	<u>40,000</u>	<u>9,386</u>	<u>49,386</u>
Total Investments	<u>\$ 4,728,154</u>	<u>\$ 229,158</u>	<u>\$ 4,957,312</u>

June 30, 2009:

	<u>Cost</u>	<u>Unrealized Gains/(Losses)</u>	<u>Estimated Fair Value</u>
Government Obligations	\$ 1,928,462	\$ 35,060	\$ 1,963,522
Municipal Bonds	302,296	1,113	303,409
Corporate Obligations	<u>556,546</u>	<u>22,152</u>	<u>578,698</u>
Total Debt Securities	2,787,304	58,325	2,845,629
Equity Securities	<u>1,820,628</u>	<u>56,334</u>	<u>1,876,962</u>
Total Investments	<u>\$ 4,607,932</u>	<u>\$ 114,659</u>	<u>\$ 4,722,591</u>

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Note 5 – Security Deposit

NPU-WCG is required to post and maintain a security deposit with the State of California Department of Industrial Relations, Office of Self-Insured Plans (DIR) based on the amount of expected future liabilities for payment of compensation. California Labor Code Section 3701 permits deposit of cash in trust as a security deposit. As of December 31, 2010 and 2009, \$4,380,573 and \$2,954,759 were deposited with the DIR as cash in trust in the form of certificates of deposit.

Note 6 - Equipment

Equipment is recorded at cost \$22,119 and accumulated depreciation as of December 31, 2009 \$7,117. Depreciation expense for the year ending December 31, 2010 and 2009 amounted to \$0 and \$4,495.

Note 7 – Related Party Transactions

NPU-WCG paid \$718,000 and \$919,450 for program administration during 2010 and 2009 to Nonprofits' United Vehicle Insurance Pool (NPU-VIP), respectively. The entities have overlapping Board members and contract between them for administrative services.

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Note 8 – 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. Following are changes in those aggregate liabilities during years ended December 31,

	<u>2010</u>	<u>2009</u>
Reserve for Losses and Loss Expense beginning of year	\$ 6,720,250	\$ 5,355,000
Incurred claims and claim adjustment expense related to:		
Current year	2,406,516	1,386,298
Prior year	<u>1,894,853</u>	<u>2,057,261</u>
Total Incurred	<u>4,301,369</u>	<u>3,443,559</u>
Paid claims and claim adjustment expense related to:		
Current year	625,675	547,480
Prior year	<u>1,885,451</u>	<u>1,530,829</u>
Total Paid	<u>2,511,126</u>	<u>2,078,309</u>
Reserve for Losses and Loss Expense end of year	<u>\$ 8,510,493</u>	<u>\$ 6,720,250</u>

The components of Reserve for Losses and Loss Expense as of December 31, 2010 and 2009 were as follows:

Reserve for open claims	\$ 4,031,245	\$ 2,339,696
Incurred but Not Report (IBNR) and Unallocated loss adjustment expenses (ULAE)	<u>4,479,248</u>	<u>4,380,554</u>
Total Reserve for Losses and Loss Expense	<u>\$ 8,510,493</u>	<u>\$ 6,720,250</u>