Spirit Mountain Insurance Company Risk Retention Group, Inc.

Independent Auditors' Report,
Financial Statements and Exhibits

As of and for the Years Ended
December 31, 2009 and 2008

Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

Independent Auditors' Report

To the Board of Directors of
Spirit Mountain Insurance Company Risk Retention Group, Inc.:

We have audited the accompanying balance sheets of Spirit Mountain Insurance Company Risk Retention Group, Inc. (the Company) as of December 31, 2009 and 2008, and the related statements of operations and comprehensive income, changes in stockholder's 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 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 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 audits provide a reasonable basis for our opinion.

As discussed in Note 5, as of December 31, 2008, the Company included in stockholder's equity and as an asset, a letter of credit in the amount of $460,625, issued in favor of the Commissioner of Insurance of the District of Columbia. Such amount is included in the computation of capital under the laws of the District of Columbia; however, its recognition as an asset and in stockholder's equity is not in accordance with accounting principles generally accepted in the United States of America.

In our opinion, except for the effect of the inclusion of the letter of credit in stockholder's equity and as an asset as of December 31, 2008, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Spirit Mountain Insurance Company Risk Retention Group, Inc., as of December 31, 2009 and 2008, 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.

Saslow Lufkin & Buggy, LLP

June 22, 2010

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Spirit Mountain Insurance Company Risk Retention Group, Inc.
Balance Sheets
December 31, 2009 and 2008

	2009	2008
Assets		
Cash and cash equivalents	**$ 3,380,341**	$ 3,480,279
Investments, available-for-sale, at fair value	**662,934**	-
Restricted investment trust, at fair value	**498,554**	-
Premiums receivable	**31,109**	212,036
Letter of credit	**-**	460,625
Deferred reinsurance expense	**266,648**	281,015
Advanced reinsurance premiums	**129,454**	-
Prepaid expenses and other assets	**20,765**	16,542
Deferred policy acquisition costs	**205,118**	215,329
Reinsurance recoverable	**136,146**	323,471
Federal income taxes receivable	**61,478**	-
Deferred tax asset	**85,115**	77,267
Total assets	**$ 5,477,662**	$ 5,066,564
Liabilities and Stockholder's Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	**$ 2,017,488**	$ 1,858,162
Unearned premiums	**888,825**	936,717
Accounts payable	**164,345**	136,459
Accrued profit commissions	**230,741**	75,377
Reinsurance payable	**-**	13,616
Federal income taxes payable	**-**	287,368
Total liabilities	**3,301,399**	3,307,699
Stockholder's equity:		
Common stock, $0.25 per share stated value, 10,000,000 shares authorized, 400,000 shares issued and outstanding in 2009, 2,001,000 shares issued and outstanding in 2008	**100,000**	500,250
Additional paid-in capital	**300,000**	500,750
Encumbered letter of credit	**-**	(539,375)
Accumulated other comprehensive loss, net of tax	**(7,091)**	-
Retained earnings	**1,783,354**	1,297,240
Total stockholder's equity	**2,176,263**	1,758,865
Total liabilities and stockholder's equity	**$ 5,477,662**	$ 5,066,564

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

Spirit Mountain Insurance Company Risk Retention Group, Inc.
Statements of Operations and Comprehensive Income
For the Years Ended December 31, 2009 and 2008

	2009	2008
Revenues:		
Net earned premiums	**$ 3,209,982**	$ 2,426,071
Investment income	**3,229**	49,324
Total revenues	**3,213,211**	2,475,395
Losses and expenses:		
Incurred losses and loss adjustment expenses	**419,939**	(108,745)
Amortization of deferred policy acquisition costs	**711,827**	695,962
General and administrative expenses	**723,851**	305,323
Total losses and expenses	**1,855,617**	892,540
Net income before federal and state income tax expense	**1,357,594**	1,582,855
Federal and state income tax expense	**472,480**	557,231
Net income	**885,114**	1,025,624
Other comprehensive loss, net of tax:		
Unrealized holding losses on available-for-sale securities, net of tax benefit of ($3,652) in 2009	**(7,091)**	-
Other comprehensive loss	**(7,091)**	-
Comprehensive income	**$ 878,023**	$ 1,025,624

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

Spirit Mountain Insurance Company Risk Retention Group, Inc.
Statements of Changes in Stockholder's Equity
For the Years Ended December 31, 2009 and 2008

	Common Stock		Additional Paid-in	Encumbered Letter of	Accumulated Other Comprehensive	Retained	
	Shares	Amount	Capital	Credit	Loss, net of tax	Earnings	Total
Balance as of January 1, 2008	2,001,000	$ 500,250	$ 500,750	$ (531,612)	$ -	$ 271,616	$ 741,004
Reduction of letter of credit	-	-	-	(7,763)	-	-	(7,763)
Net income	-	-	-	-	-	1,025,624	1,025,624
Balance as of December 31, 2008	2,001,000	500,250	500,750	(539,375)	-	1,297,240	1,758,865
Retirement of letter of credit	(2,000,000)	(500,000)	(500,000)	539,375	-	-	(460,625)
Common stock dividend	399,000	99,750	299,250	-	-	(399,000)	-
Other comprehensive loss	-	-	-	-	(7,091)	-	(7,091)
Net income	-	-	-	-	-	885,114	885,114
Balance as of December 31, 2009	400,000	$ 100,000	$ 300,000	$ -	$ (7,091)	$ 1,783,354	$ 2,176,263

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

Spirit Mountain Insurance Company Risk Retention Group, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Net income	**$ 885,114**	$ 1,025,624
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred federal income taxes	**(4,195)**	(17,168)
Amortization of debt securities	**338**	-
Changes in assets and liabilities:		
Premiums receivable	**180,927**	(8,268)
Deferred reinsurance expense	**14,367**	(16,217)
Advanced reinsurance premiums	**(129,454)**	-
Prepaid expenses and other assets	**(4,223)**	(12,306)
Deferred policy acquisition costs	**10,211**	(13,018)
Reinsurance recoverable	**187,325**	116,615
Federal income taxes receivable	**(61,478)**	-
Unpaid losses and loss adjustment expenses	**159,326**	(235,909)
Unearned premiums	**(47,892)**	54,058
Accounts payable	**27,886**	(17,635)
Accrued profit commissions	**155,364**	(393,863)
Reinsurance payable	**(13,616)**	(6,464)
Federal income taxes payable	**(287,368)**	243,399
Net cash provided by operating activities	**1,072,632**	718,848
Cash flows from investing activities:		
Purchases of investments	**(1,075,267)**	-
Change in restricted trust	**(97,303)**	-
Cash used in investing activities	**(1,172,570)**	-
Change in cash and cash equivalents	**(99,938)**	718,848
Cash and cash equivalents, beginning of year	**3,480,279**	2,761,431
Cash and cash equivalents, end of year	**$ 3,380,341**	$ 3,480,279
Supplemental disclosure:		
Cash paid for federal and state income taxes	**$ 825,521**	$ 331,000
Non-cash financing activity:		
Reduction of letter of credit	**$ (460,625)**	$ (7,763)
Common stock dividend	**$ 399,000**	$ -

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

Spirit Mountain Insurance Company Risk Retention Group, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

Note 1 - General

Reporting Entity - Spirit Mountain Insurance Company Risk Retention Group, Inc. (the Company) received its certificate of authority on June 7, 2005, from the Commissioner of Insurance of the District of Columbia Department of Insurance, Securities and Banking (the Department) and commenced operations on June 16, 2005, to transact business as an association captive insurance company. The Company provides professional and general liability coverage, employers' non-ownership auto liability coverage, supplemental medical professional liability coverage and directors and officers insurance to community service facilities (the Members), which are members of The International Association of Community Services Organizations (the Association). The Company is a wholly owned subsidiary of the Association.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), which differ from statutory accounting practices prescribed or permitted for insurance companies by regulatory authorities, except for the inclusion of the letter of credit in stockholder's equity and as an asset as of December 31, 2008, as discussed more fully in Note 5.

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, "*FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - A Replacement of FASB Statement No. 162*". This guidance establishes the FASB Accounting Standards Codification, (ASC or the Codification) as the source of authoritative GAAP for nongovernmental entities. The Codification supersedes all existing non-SEC accounting and reporting standards. This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. As the Codification will not change existing GAAP, the adoption of this guidance did not have an impact on the financial condition or results of operations of the Company.

Cash and Cash Equivalents - The Company classifies all securities with original maturity dates of three months or less from the date of purchase as cash equivalents. Cash equivalents include money market funds. Cash balances are insured by the Federal Depository Insurance Corporation (FDIC) up to $250,000 per depositor per bank. In addition, FDIC coverage for balances in non-interest bearing transaction deposit accounts is unlimited until June 30, 2010, if the bank elects to participate. Amounts in excess of the FDIC limits are uninsured. The Company's banking activity is maintained with two national banks and, from time-to-time, exceeds FDIC limits. It is the Company's policy to monitor these banks' financial strength on an ongoing basis.

The carrying value of money market funds as of December 31, 2009 and 2008 is stated at $1 cost per share, which is also the fair value. Money market funds are not insured by the FDIC and are not a risk-free investment. Although a money market fund seeks to preserve its $1 per share value, it is possible that a money market fund's value can decrease below $1 per share.

Investments - The Company accounts for investments in debt securities in accordance with FASB ASC 320, "*Investments - Debt and Equity Securities*". Management determines the appropriate classification of its investments in debt securities at the time of purchase and reevaluates such determinations at each balance sheet date. As of December 31, 2009, all of the Company's investments are classified as available-for-sale and are carried at fair value. Unrealized gains and losses relating to available-for-sale securities are reported, net of taxes, as a separate component of stockholder's equity as accumulated other comprehensive loss. Realized investment gains and losses are determined on a specific identification basis.

Note 2 - Summary of Significant Accounting Policies (continued)

The amortized costs of debt securities are adjusted using the interest method for amortization of premiums and accretion of discounts. Such amortization and accretion are included within investment income.

The Company reports fair value in accordance with FASB ASC 820, "*Fair Value Measurement and Disclosures*". For financial statement elements currently required to be measured at fair value, FASB ASC 820 redefines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. The new definition of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability which is referred to as the exit price. FASB ASC 820 provides guidance on how to measure fair value, when required, under existing accounting standards. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, 2, and 3).

Level 1 - Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date.

Level 2 - Observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets and liabilities.

Level 3 - Unobservable inputs reflecting the Company's estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

Other-Than-Temporary Impairment of Investments **-** When a decline in fair market value is deemed to be other-than-temporary, a provision for impairment is charged to earnings, included in net realized investment gains (losses), and the cost basis of that investment is reduced.

In fiscal year 2009, the Company adopted FASB ASC 320-10, "*Investments - Debt and Equity Securities*" (which encompassed FASB Staff Position FAS 115-2 and FAS 124-2, "*Recognition and Presentation of Other-Than-Temporary Impairments*"), which relates to debt securities.

This guidance requires the Company to evaluate whether it intends to sell an impaired debt security or whether it is more likely than not that it will be required to sell an impaired debt security before recovery of the amortized cost basis. If either of these criteria are met, an impairment equal to the difference between the debt security's amortized cost and its fair value is recognized in earnings.

For impaired debt securities that do not meet these criteria, the Company determines if a credit loss exists with respect to the impaired security. If a credit loss exists, the credit loss component of the impairment (i.e., the difference between the security's amortized cost and its projected net present value) is recognized in earnings and the remaining portion of the impairment is recognized as a component of comprehensive income. During 2009, the Company did not record any other-than-temporary impairments.

Comprehensive Income **-** The Company accounts for comprehensive income in accordance with FASB ASC 220, "*Reporting Comprehensive Income*". Comprehensive income is a measurement of certain changes in stockholder's equity that result from transactions and other economic events other than transactions with members. For the Company, these consist of changes in unrealized gains and losses on the investment portfolio, which are used to adjust net income to arrive at comprehensive income. The cumulative amount of these changes is reported in the balance sheets within accumulated other comprehensive loss.

Note 2 - Summary of Significant Accounting Policies (continued)

Deferred Policy Acquisition Costs **-** Policy acquisition costs, representing premium taxes and underwriting costs, are deferred and expensed over the term of the related policies.

Reinsurance **-** In the normal course of business, the Company seeks to reduce its loss exposure by reinsuring certain levels of risk with reinsurers. Reinsurance is accounted for in accordance with FASB ASC 944, "*Accounting and Reporting for Reinsurance of Short Duration and Long Duration Contracts*". Ceded premiums are expensed over the terms of their related policies. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsurance policy. As these estimates change, the adjustment is recorded in the current period.

Federal Income Taxes **-** The Company accounts for income taxes in accordance with FASB ASC 740 "*Income Taxes*". FASB ASC 740 is an asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the tax and financial reporting bases of certain assets and liabilities.

During 2009, the Company was required to adopt certain provisions of FASB ASC 740, which provide a new framework for how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. With these changes, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Company did not record any unrecognized tax benefits as of and for the year ended December 31, 2009. Therefore, the provisions of FASB ASC 740, which were adopted during 2009, had no impact on the annual effective tax rate. The Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months.

The Company's policy is to include interest and penalties related to unrecognized tax benefits as a component of general and administrative expenses. As of December 31, 2009, the Company did not record any penalties or interest associated with unrecognized tax benefits. All federal tax years from 2005 and forward are open and subject to examination.

Unpaid Losses and Loss Adjustment Expenses **-** The liability for unpaid losses and loss adjustment expenses and the related reinsurance recoverable includes estimates for reported losses, plus supplemental amounts for projected incurred but not reported losses calculated based upon loss projections utilizing actuarial studies of a similar group of insureds and industry data. In establishing the liability for losses and loss adjustment expenses and the related reinsurance recoverable, the Company utilizes the findings of an independent consulting actuary. Management believes that the aggregate liability for unpaid losses and loss adjustment expenses and the related reinsurance recoverable at year end represents their best estimate, based upon available data, of the amount necessary to cover the ultimate cost of losses; however, because of the limited population of insured risks and the limited historical experience, it is not presently possible to determine whether actual loss experience will conform to the assumptions used in determining the estimated amounts for such liability and the related reinsurance recoverable at the balance sheet date. Accordingly, the ultimate liability and recoverable could be significantly in excess of or less than the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments will be reflected in current operations.

Note 2 - Summary of Significant Accounting Policies (continued)

Use of Estimates - The preparation of financial statements in conformity with accounting GAAP 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 reported period. Actual results could differ from those estimates.

Revenue Recognition - Premiums written are earned ratably over the terms of the policies to which they relate. Premiums written relating to the unexpired portion of policies in force at the balance sheet date are recorded as unearned premiums.

Premium Deficiency - The Company recognizes premium deficiencies when there is a probable loss on an insurance contract. Premium deficiencies are recognized if the sum of expected losses and loss adjustment expenses, expected dividends to the stockholder, unamortized deferred policy acquisition costs and maintenance costs exceed unearned premiums and anticipated investment income. No premium deficiencies have been recognized in 2009 and 2008.

Subsequent Events - Subsequent events have been evaluated through June 22, 2010, which is the date the financial statements were available to be issued. Management believes there are no subsequent events having a material impact on the financial statements.

Note 3 - Investments

Investments classified as available-for-sale and investments in the restricted investment trust, as of December 31, 2009, are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments, available-for-sale:				
U.S. treasury and government agency bonds	$ 456,847	$ -	$ (5,679)	$ 451,168
Corporate bonds	215,403	-	(3,637)	211,766
Total investments, available-for-sale	$ 672,250	$ -	$ (9,316)	$ 662,934
Restricted investment trust:				
Cash and cash equivalents	$ 97,303	$ -	$ -	$ 97,303
U.S. treasury and government agency bonds	402,678	-	(1,427)	401,251
Total restricted investment trust	$ 499,981	$ -	$ (1,427)	$ 498,554

Note 3 - Investments (continued)

The amortized cost and fair value of debt securities classified as available-for-sale and investments in the restricted investment trust as of December 31, 2009, by contractual maturity, are shown below.

	Amortized Cost	Fair Value
Investments, available-for-sale:		
Due to mature:		
After one year through five years	$ 486,604	$ 482,412
After five years through ten years	185,646	180,522
Total investments, available-for-sale	$ 672,250	$ 662,934
Restricted investment trust:		
Due to mature:		
One year or less	$ 301,736	$ 301,216
After one year through five years	100,942	100,035
Total restricted investment trust	$ 402,678	$ 401,251

There were no sales or maturities of investments during 2009. As of December 31, 2009, the Company held 11 securities with unrealized losses totaling $10,743 and the fair value amounted to $1,064,185. All of these securities have been in an unrealized loss position for a period of less than twelve months. The Company regularly reviews the carrying value of its investments for declines that could be considered other-than-temporary. Based upon the evaluation of the criteria as identified in Note 2, the Company does not consider these securities to be impaired on an other-than-temporary basis as of December 31, 2009.

Note 3 - Investments (continued)

Investments, classified as available-for-sale, money market funds and investments in the restricted investment trust held by the Company as of December 31, 2009 are recorded at fair value in accordance with FASB ASC 820, as further described in Note 2. The Company measures the fair value of these securities as of December 31, 2009, as follows:

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments, available-for-sale and money market funds:			
U.S. treasury and government agency bonds	$ -	$ 451,168	$ -
Corporate bonds	-	211,766	-
Money market funds	822,569	-	-
Total investments, available-for-sale and money market funds	$ 822,569	$ 662,934	$ -
Restricted investment trust:			
U.S. treasury and government agency bonds	$ -	$ 401,251	$ -
Cash and cash equivalents	97,303	-	-
Total restricted investment trust	$ 97,303	$ 401,251	$ -

The Company held no investments as of December 31, 2008. The Company measured the fair value of its money market funds, in the amount of $539,375, using a Level 1 fair value in accordance with FASB ASC 820, as these securities are primarily either traded on a national exchange or traded daily, and therefore have quoted market prices that are assessable and utilized by the Company to measure fair value as of December 31, 2008.

Note 4 - Insurance Activity

The Company insures Members of the Association through a master policy and certificates of insurance are issued to the Members. The Company issues claims-made professional and general liability coverage, employers' non-ownership auto liability coverage, supplemental medical professional liability coverage and directors and officers insurance to its Members. Annual limits provided to the Members are a maximum of $1,000,000 per occurrence and $3,000,000 in the aggregate for each facility for all professional and general liability coverage and supplemental medical professional liability coverage, $1,000,000 per occurrence and in the aggregate per facility for directors and officers insurance coverage, and $300,000 per occurrence and in the aggregate per facility for employers' non-ownership auto liability coverage. Defense costs erode the policy limits for all coverages.

From July 1, 2005 until June 30, 2009, the Company reinsured portions of the insurance risk it underwrites with Imagine Insurance Company Limited (the Former Reinsurer) in order to limit its retained risk. Effective April 29, 2008, the Former Reinsurer's liability in respect to policies written with effective dates during the agreement year of July 1, 2005 through June 30, 2006 was commuted which relieved the Former Reinsurer of its liability with respect to these policies. In exchange for this commutation, the Former Reinsurer paid the Company the agreed amount of $350,663, which represents 50% of the net reinsurance premium written less incurred losses for policies written with attachment dates during the agreement year of July 1, 2005 through June 30, 2006.

Effective July 1, 2009, the Former Reinsurer's liability in respect to policies written with effective dates during the agreement years of July 1, 2006 through June 30, 2009 was also commuted, which relieved the Former Reinsurer of its liability with respect to these policies. In exchange for this commutation, the Former Reinsurer paid the Company the agreed amount of $1,259,873, which represents approximately 50% of the net reinsurance premium written for policies written with attachment dates during the agreement years of July 1, 2006 through June 30, 2009.

The Company has accounted for these commutations on a gross basis through ceded premiums and incurred losses and loss adjustment expenses. As a result of these commutations, the Company has assumed all liability for claims reported between reported between July 1, 2005 and June 30, 2009.

Effective July 1, 2009, the Company reinsured portions of the insurance risk it underwrites with AmTrust International Insurance, Ltd. (the Reinsurer) in order to limit its retained risk. The Company obtained reinsurance for $750,000 per occurrence excess of $250,000 per occurrence, subject to the aggregate limits on the direct policies. The maximum recoverable is 300% of the annual ceded premium paid and 200% of the ceded premium paid over the term of the agreement. Defense costs erode the policy limits.

The Company is required to pay a deposit premium of $600,000, adjustable to 30% of gross net written premium, subject to a minimum premium of $700,000.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Additionally, failure of reinsurers to honor their obligations could result in significant losses to the Company. The Company obtained reinsurance through the Reinsurer, who received a rating of A- (excellent) by A.M. Best as of December 31, 2009. The Company continually evaluates the Reinsurer's financial condition. There can be no assurance that reinsurance will continue to be available to the Company to the same extent, and at the same cost, as it has in the past. The Company may choose in the future to reevaluate the use of reinsurance to increase or decrease the amounts of risk it cedes to its reinsurers.

Note 4 - Insurance Activity (continued)

Premiums written and related reinsurance amounts for the years ended December 31, 2009 and 2008, are summarized as follows:

	Premiums Written		Premiums Earned	
	2009	**2008**	**2009**	**2008**
Direct premiums	**$ 2,975,277**	$ 3,018,928	**$ 3,023,169**	$ 2,964,870
Ceded premiums	**201,181**	(555,016)	**186,813**	(538,799)
Net premiums	**$ 3,176,458**	$ 2,463,912	**$ 3,209,982**	$ 2,426,071

The Company recorded reinsurance recoverables of ($187,325) and ($116,615), which increased incurred losses for the years ended December 31, 2009 and 2008, respectively. Activity in the liability for unpaid losses and loss adjustment expenses for the years ended December 31, 2009 and 2008, is summarized as follows:

	2009	**2008**
Balance at beginning of year	**$ 1,858,162**	$ 2,094,071
Less: reinsurance recoverable	**323,471**	440,086
	1,534,691	1,653,985
Incurred related to:		
Current year	**1,412,757**	1,348,664
Prior years	**(992,818)**	(1,457,409)
Total incurred	**419,939**	(108,745)
Paid related to:		
Current year	**(3,791)**	(5,000)
Prior years	**(69,497)**	(5,549)
Total paid	**(73,288)**	(10,549)
Net balance at end of year	**1,881,342**	1,534,691
Add: reinsurance recoverable	**136,146**	323,471
Balance at end of year	**$ 2,017,488**	$ 1,858,162

As a result of changes in estimates of insured events in prior years, incurred losses and loss adjustment expenses decreased by $992,818 and $1,457,409 in 2009 and 2008, respectively, which was primarily due to favorable loss development in most accident years.

Note 5 - Stockholder's Equity

Issuance of Stock and Letter of Credit **-** The Company is wholly owned by the Association. As of December 31, 2008, the majority of the common stock issued was funded through a standby letter of credit (LOC). As of December 31, 2008, the Company maintained a LOC with J.P. Morgan Chase Bank, N.A., in the amount of $1,000,000, which was partially collateralized by the Company's assets. The encumbered portion of the $1,000,000 LOC was recorded as a reduction of stockholder's equity. The Company included, in stockholder's equity and as an asset, the unencumbered portion of the LOC, which amounted to $460,625 as of December 31, 2008. The letter of credit was issued in favor of the Commissioner of Insurance of the District of Columbia and qualifies as capital under the laws of the District of Columbia. Such inclusion during 2008 was not in accordance with GAAP.

Retirement of the Letters of Credit **-** On February 28, 2009, the $1,000,000 LOC was retired, a new LOC in the amount of $500,000 was issued and the Company's assets pledged as collateral as of December 31, 2008 were released. On that date, the retirement of the LOC was recorded as a reduction of common stock and additional paid-in capital of $500,000 each. The reduction resulted in the retirement of 2,000,000 shares. The encumbered amount of the LOC was recorded as an addition to stockholder's equity of $539,375. The $500,000 LOC expired on August 28, 2009 and was not renewed.

Restricted Investment Trust **-** As a result of the retirement of the LOC, the Company was required to establish a trust account for the benefit of the Commissioner of the Department in order to provide security for the Company's minimum capital requirements. No funds can be withdrawn from the trust account without the permission of the Commissioner. As of December 31, 2009, the Company held assets in the trust account with a market value of $498,554. These deposits include $97,303 of cash and cash equivalents and $401,251 of investments as of December 31, 2009. The Company has discretion over the investments in the trust account within guidelines established by the Department and is entitled to receive distributions of the investment income. The Company is required to periodically replenish the account to a $500,000 balance.

Stock Dividend **-** In response to the retirement of the LOC, and with the approval of the Department, the Company issued a stock dividend of 399,000 shares of common stock to the Association. The stock dividend was recorded as an increase in common stock of $99,750, an increase of additional paid-in capital of $299,250 and a reduction of retained earnings of $399,000.

The common stock of the Company has various restrictions on the transfer of shares as described in the stock subscription agreement. The shares shall be redeemed by the Company upon the provision by the stockholder to the Company of notice that the stockholder desires to terminate or non-renew coverage under all policies of insurance providing current and ongoing coverage to the stockholder or its members. The purchase price for the redemption of the shares shall be equal to the lesser of $1.00 per share or the book value per share as of the end of the most recent fiscal year. The redemption of the shares shall be subject to the prior approval of the Department.

Statutory Capital **-** In accordance with the laws of the District of Columbia for the purpose of submitting its financial statements to the District of Columbia for regulatory purposes, the Company is required to use GAAP with the exception of variances either prescribed by the District of Columbia laws and regulations or permitted by the Department. The Company is required to maintain minimum total capitalization of $400,000.

No dividends can be paid by a Risk Retention Group domiciled in the District of Columbia without obtaining the approval of the Department. There were no dividends declared or paid during 2008.

Note 6 - Federal Income Taxes

The components of the provision for federal and state income tax expense are as follows for the years ended December 31, 2009 and 2008:

		2009		2008
Current	**$**	**476,675**	$	574,399
Deferred		**(4,195)**		(17,168)
Total	**$**	**472,480**	$	557,231

The provision for federal and state income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to pre-tax net income. The significant items causing the difference for the years ended December 31, 2009 and 2008, are as follows:

		2009			2008	
Income tax expense - statutory rate	**$**	**461,582**	**34.0%**	$	538,171	34.0%
State income tax expense		**6,944**	**0.5%**		-	0.0%
Other		**3,954**	**0.3%**		19,060	1.2%
Total	**$**	**472,480**	**34.8%**	$	557,231	35.2%

The tax effect of temporary differences, which result in deferred tax assets and liabilities, are as follows as of December 31, 2009 and 2008:

		2009		2008
Deferred tax assets:				
Loss reserve discounting	**$**	**70,518**	$	58,874
Unearned premiums		**42,308**		44,588
Organization costs		**20,769**		21,389
Accrued expenses		**17,608**		25,628
Unrealized losses		**3,652**		-
		154,855		150,479
Deferred tax liabilities:				
Deferred policy acquisition costs		**(69,740)**		(73,212)
Net deferred tax asset	**$**	**85,115**	$	77,267

Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset will be realized. The amount of deferred tax asset considered realizable could be reduced in the near term if estimates of future taxable income are reduced. As of December 31, 2009 and 2008, no valuation allowance was recorded.

Note 7 - Service Agreements and Related Party Transactions

The Company has no employees. Accounting and reporting services, record retention, and other management services are provided by Risk Services, LLC (the Manager), pursuant to a management agreement. The term of the agreement is for ten years, with the option to renew. The Manager will be compensated in an amount equal to 2% of gross written premiums, subject to a minimum of $60,000 per year. Expenses under this agreement, included in general and administrative expenses on the statements of operations and comprehensive income, amounted to $47,296 and $60,379 for the years ended December 31, 2009 and 2008, respectively. A director and an officer of the Company are also employees of the Manager.

The Company entered into an agreement with Patriot Insurance Agency (the Agency) whereby the Agency will perform the following duties: marketing and underwriting of policies, endorsements, notices of cancellation, notices of non-renewal, coding, premium collection, and all related activities incidental to the issuance of policies. The Agency will also handle claims administrative duties on behalf of the Company. The Agency will be compensated in an amount equal to 20% of gross written premium. The term of the agreement is for ten years expiring on June 15, 2015, with an option to renew. In addition, the agreement provides for a profit commission bonus, which is based upon the loss ratio of the Company. The profit commission bonus also includes an amount equal to 25% of return ceded premium resulting from a commutation. Expenses incurred under this agreement amounted to $1,069,512 and $680,127 for the years ended December 31, 2009 and 2008, respectively. Of these expenses, $177,743 and $187,174 as of December 31, 2009 and 2008, respectively, are reflected as deferred policy acquisition costs on the balance sheets. Amounts paid under this agreement amounted to $319,093 and $481,528 for the years ended December 31, 2009 and 2008. The owner of the Agency is also the president of the Company and the Association. In addition, the treasurer of the Agency also serves as a director and an officer of the Company.

Note 8 - Commitments and Contingencies

Various documents maintained by the Company, the Agency and other service providers of the Company have been subpoenaed for review by a federal grand jury relating to a criminal investigation of an affiliated party of the Agency. Management believes this event will not have a material effect on the Company's financial statements.

Note 9 - Reconciliation to the Annual Statement

There were no differences between the annual statements as filed with the Department and the audited financial statements as of December 31, 2009 and 2008.

Saslow
Lufkin &
Buggy, LLP
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

June 22, 2010

To the Board of Directors of
Spirit Mountain Insurance Company Risk Retention Group, Inc.:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Spirit Mountain Insurance Company Risk Retention Group, Inc. (the Company) as of December 31, 2009 and for the year then ended, and have issued our report thereon dated June 22, 2010. In connection therewith, we advise you as follows:

1. We are independent certified public accountants with respect to the Company and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Connecticut and District of Columbia Boards of Public Accountancy.

2. The engagement partner and engagement senior manager, who are certified public accountants, have twenty-nine years and eleven years, respectively, of experience in public accounting and are experienced in auditing insurance enterprises. Members of the engagement team, all of whom have had experience in auditing insurance enterprises and 60% of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.

3. We understand that the Company intends to file its audited financial statements and our report thereon with the District of Columbia Department of Insurance, Securities and Banking and other state insurance departments in states in which the Company is licensed and that the insurance commissioners of those states will be relying on that information in monitoring and regulating the financial condition of the Company.

   While we understand that an objective of issuing a report on the financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, the Company and insurance commissioners should understand that the objective of an audit of the financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America.

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Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material errors or misstatements caused by fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by insurance commissioners.

It is the responsibility of the management of the Company to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain internal control that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

The Insurance Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the financial position of insurers and should not rely solely upon the independent auditors' report.

4. We will retain the work papers prepared in the conduct of our audit until the date the District of Columbia Department of Insurance, Securities and Banking has filed a Report of Examination covering 2009, but not longer than seven years. After notification to the Company, we will make the work papers available for review by the District of Columbia Department of Insurance, Securities and Banking at the offices of the insurer, at our offices, at the Insurance Department or at any other reasonable place designated by the Director of Insurance. Furthermore, in the conduct of the aforementioned periodic review by the District of Columbia Department of Insurance, Securities and Banking, photocopies of pertinent audit work papers may be made (under the control of the accountant) and such copies may be retained by the District of Columbia Department of Insurance, Securities and Banking.

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5. The engagement partner has served in that capacity with respect to the Company since 2005, is licensed by the Connecticut and District of Columbia State Boards of Public Accountancy, and is a member in good standing of the American Institute of Certified Public Accountants.

6. To the best of our knowledge and belief, we are in compliance with the requirements of section 7 of the NAIC's Model Rule (Regulation) "Requiring Annual Audited Financial Reports" regarding qualifications of independent certified public accountants.

This letter is intended solely for the information and use of the Board of Directors, management and the District of Columbia Department of Insurance, Securities and Banking and other state insurance departments, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Saslow Lufkin & Buggy, LLP

Saslow Lufkin & Buggy, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

June 22, 2010

To the Board of Directors of
Spirit Mountain Insurance Company Risk Retention Group, Inc.

In planning and performing our audit of the financial statements of Spirit Mountain Insurance Company Risk Retention Group, Inc. (the Company) as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. During our audit, we noted the following significant deficiency in the Company's internal control:

> We noted that the premium register, used to maintain the policies issued to the insureds and used to calculate the earning of premium associated with these policies, had a number of inaccuracies. Specifically, a number of inception dates on the premium register differed from the inception dates stated on the policy declaration pages. The differences in inception dates ranged from 5 to 60 days with a majority of the differences being less than 10 days.

A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Additionally, this report is being prepared consistent with the guidance in the NAIC/AICPA Working Group letter to regulators on the interpretation of Section 11 of the NAIC Model Audit Rule dated March 9, 2005. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above as of December 31, 2009.

This communication is intended solely for the information and use of the Board of Directors, management, others within the Company, and the District of Columbia Department of Insurance, Securities and Banking and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Saslow Lufkin & Buggy, LLP

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