Government of the District of Columbia
Department of Insurance, Securities and Banking

William P. White
Acting Commissioner

BEFORE THE INSURANCE COMMISSIONER OF THE DISTRICT OF COLUMBIA

Re: Report on Examination - **Spirit Mountain Insurance Company Risk Retention Group, Inc.,** as of December 31, 2009

ORDER

An Examination of **Spirit Mountain Insurance Company Risk Retention Group, Inc.** ("Company"), as of December 31, 2009 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("Department").

It is hereby ordered on this 7th day of June 2011, that the attached financial condition examination report be adopted and filed as an official record of this Department.

In addition, it is hereby ordered that the Company comply with the recommendations in the attached financial condition examination report.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.

William P. White

William P. White
Acting Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

REPORT ON EXAMINATION

SPIRIT MOUNTAIN INSURANCE COMPANY RISK RETENTION GROUP, INC.

AS OF

DECEMBER 31, 2009

NAIC NUMBER 10754

TABLE OF CONTENTS

Salutation 1
Scope of Examination 1
Status of Prior Examination Findings 2
Subsequent Events 2
History 2
    General 2
    Membership and Capitalization 2
    Dividends 3
Management 3
    Board of Directors 3
    Officers 4
    Committees 4
    Conflicts of Interest 4
    Corporate Records 5
Captive Manager 5
Affiliated Parties and Transactions 5
Fidelity Bond and Other Insurance 7
Pension and Insurance Plans 7
Statutory Deposits 7
Territory and Plan of Operation 7
Insurance Products and Related Market Practices 8
Reinsurance 8
Accounts and Records 9
Financial Statements 10
    Balance Sheet 11
        Assets 11
        Liabilities, Surplus and Other Funds 12
    Statement of Income 13
    Capital and Surplus Account 14
    Analysis of Examination Changes to Surplus 14
    Comparative Financial Position of the Company 15
Notes to Financial Statements 16
Comments and Recommendations 18
Conclusion 19
Signatures 20

Washington, D.C.
March 17, 2011

Honorable William P. White
Acting Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Sir:

In accordance with Section 31-3931.14 of the District of Columbia Official Code, we have examined the financial condition and activities of

Spirit Mountain Insurance Company Risk Retention Group, Inc.

hereinafter referred to as the "Company", at the office of the Company's managing general underwriter ("MGU") known as Patriot Insurance Agency ("Patriot") located 12 Los Encinos Boulevard, Sonoita, Arizona 85637.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from June 7, 2005 through December 31, 2009, including any material transactions and/or events noted occurring subsequent to December 31, 2009, was conducted by the District of Columbia Department of Insurance, Securities and Banking ("Department").

Our examination was conducted in accordance with examination procedures established by the Department and procedures recommended by the National Association of Insurance Commissioners ("NAIC") and, accordingly, included such tests of the accounting records and such other examination procedures as we considered necessary in the circumstances.

Our examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly. Finally, we identified specific prospective risks by obtaining information about the Company, including corporate governance, and assessed controls and procedures to mitigate those risks.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the years 2005 through 2009. We placed substantial reliance on the audited financial statements for the years 2005 through 2008, and consequently performed minimal testing for those periods. We obtained and reviewed the working papers prepared by the independent public accounting firm related to its audit for the year ended December 31, 2009 and related to audits for earlier periods covering the premium cycle. We concentrated our examination efforts on the financial results as of and for the year ended December 31, 2009**.** We placed substantial reliance on the work of the independent auditor and directed our efforts, to the extent practical, to those areas not covered by the firm's work papers.

STATUS OF PRIOR EXAMINATION FINDINGS

This is the first examination of the Company.

SUBSEQUENT EVENTS

On July 12, 2010, Dwayne Lequire, the Company’s treasurer, was convicted of eight counts of embezzlement and one count of conspiracy in Federal Court in Tucson, Arizona. The charges related to his duties as treasurer of Patriot and more specifically to delinquent remittances of premiums due from Patriot to the Company. (These delinquent amounts are addressed in more detail later in this report.). He was sentenced January 31, 2011, receiving probation, and is required to provide restitution to the Company in the amount of $26,710, to be paid in monthly installments over three years. The restitution represents economic damages to the Company of lost interest on the delinquent premium remittances. Mr. Lequire’s conviction did not indicate that any fraudulent activity occurred at the Company.

HISTORY

General:

The Company was licensed as an association captive insurance company, operating as a risk retention group under the captive insurance laws of the District of Columbia on June 7, 2005 and began operations on June 16, 2005.

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 nonprofit organizations offering counseling services.

Membership and Capitalization:

The Company’s insureds ("Members") are members of The International Association of Community Services Organization ("Association"), an Arizona non-for-profit association. The

Company is a wholly-owned subsidiary of the Association. The Company's articles of incorporation authorize the issuance of 10,000,000 shares of common stock with par value $.25 per share. The Company was initially capitalized with a $1,000,000 letter of credit (LOC) in favor of the D.C. Commissioner of Insurance which was procured on behalf of the Company by the Association, the Company's sole owner/policyholder. The LOC was recorded as an increase of $500,000 to common capital stock (2,000,000 shares were issued) and an increase of $500,000 to gross paid-in and contributed surplus. Subsequently, additional shares were issued to the Association and as of December 31, 2008, the Company had 2,001,000 common capital stock shares issued and outstanding.

As of December 31, 2008, the Company had pledged assets totaling $539,375 as collateral for a portion of the $1,000,000 LOC. As of that date the Company appropriately reported the LOC as an asset in the amount of $460,625, which was net of the encumbered assets of $539,375.

On February 28, 2009, with the approval of the Department, the $1,000,000 LOC was retired and the Company's assets pledged as collateral were released. Also on February 28, 2009, a new $500,000 LOC was issued. This LOC subsequently expired on August 28, 2009 and was not renewed. Upon the expiration of the $500,000 LOC, the Company was required by the Department to establish and maintain a trust account in the same amount. See NOTE 1 in the Notes to Financial Statements" section this report for further comments regarding the trust account. Additionally, subsequent to the expiration of the $500,000 LOC, to ensure continued compliance with minimum capital requirements, the Company issued a stock dividend. See the "Dividends" section of this report for further comments regarding this stock dividend.

As a result of the above transactions, as of December 31, 2009, the Company had 400,000 common capital stock shares issued and outstanding. There are restrictions on the transfer of shares, and the shares shall be redeemed by the Company upon notice that the Association desires to terminate or non-renew coverage under the Company's insurance policies.

Dividends:

As a result of the afore-mentioned expiration of the $500,000 LOC, and with the approval of the Department, the Company issued a stock dividend in the amount of $399,000. The stock dividend was recorded as an increase in common capital stock of $99,750 (399,000 shares of common capital stock were issued to the Association), an increase of gross paid-in and contributed surplus of $299,250 and a reduction of unassigned funds of $399,000.

MANAGEMENT

The following individuals served on the Company's Board of Directors as of December 31, 2009:

Name and State of Residence	Principal Occupation
Roberta Renzi Virginia	President, Patriot, and the Association
Jon Harkavy Maryland	Executive Vice-President, Risk Services, LLC
Dwayne Lequire* Arizona	Treasurer, Patriot

The following individuals served as the Company's Officers as of December 31, 2009:

Name	Title
Roberta Renzi	President
Jon Harkavy	Secretary
Dwayne Lequire*	Treasurer

*Dwayne Lequire resigned from his position on July 12, 2010 due to his conviction on Federal fraud charges. On December 9, 2010, Michael FitzGibbons was appointed treasurer by the Board of Directors. On December 21, 2010, the Association appointed Michael FitzGibbons as a Company director.

Committees:

The Company's Board of Directors has not established any committees.

Conflicts of Interest:

Our review of the conflict of interest statements signed by the Company's directors for the period under examination and the subsequent period disclosed several potential conflicts of interest that were appropriately disclosed in the statements. These included potential conflicts that were disclosed by officers and directors of the Company who also served as officers, directors, or employees of the Company's MGU, Patriot, or the Company's captive manager, Risk Services, LLC. However, we also noted a potential conflict of interest that was not disclosed in the conflict of interest statements. Specifically, Risk Services, LLC, the Company's captive manager, receives reinsurance brokerage fees from the Company's reinsurer, AmTrust. The brokerage fee is 10 percent of premium ceded and is paid by AmTrust. Both AmTrust and Risk Services, LLC are under common control of AmTrust Financial Services, Inc., effective July 1, 2010. However, the 2010 conflict of interest statement, signed in December 2010, of an officer and director of the Company, who is also an employee of Risk Services, LLC, did not disclose the brokerage fee and did not disclose Risk Services, Inc's relationship with AmTrust. During our examination we discussed this omission with the Company and with the applicable officer/director of the Company. The Company and the officer/director acknowledged the omission, indicated it was an oversight, and indicated the potential conflict would be disclosed in future conflict of interest statements.

Corporate Records:

We reviewed the minutes of the meetings of the Board of Directors for the period under examination and evidence of actions subsequent to the examination period. Based on our review, it appears that the minutes documented the Board of Director’s review and approval of the Company's significant transactions and events.

CAPTIVE MANAGER

Risk Services, LLC serves as the Company’s captive manager, providing management services, including accounting, regulatory services, and records retention services to the Company.

AFFILIATED PARTIES AND TRANSACTIONS

The Company is a wholly-owned subsidiary of the Association, which is the insured under the Company’s insurance policies. The Company’s President is also President of the Association and President of Patriot, which is the Company’s MGU and claims processor. Patriot’s duties for the Company are governed by a Program Administrator Agreement (“Agreement”), which gives Patriot producer, underwriting, premium receipt and claims handling duties.

Under terms of the Agreement, within 25 days of the end of each month, Patriot is to transfer premiums collected during the previous month to the Company. The Agreement also provides that Patriot shall pay a 1.5 percent penalty fee per month for amounts remitted over 25 days after the previous month’s end, and after notice of delinquency from the captive manager. Although delays in remittance of premiums from Patriot to the Company occurred during the years under examination, no penalty fees were ever assessed or collected by the Company as provided for under the Agreement. The Department’s estimate of the amount of the penalty fees under the Agreement is $145,718, computed as follows:

Period	Average Month End Balance Due to Company During the Period	Contractual Penalty Fee Due to Company During Period	Cumulative Amounts Due to Company at Period End
2006	$693,312	$51,005	$51,005
2007	$439,300	$56,410	$107,415
2008	$134,074	$20,953	$128,367
2009	$275,228	$17,350	$145,718

During the examination we had extensive discussions with management of the Company regarding the issues surrounding delinquent premium penalty fees, including the fact that Patriot was never given notice of delinquency, and whether assessment of penalties should be pursued at this time. In March 2011, the Board of Directors of the Company determined, for a number of reasons, including the fact that restitution as determined by a Federal Court in the amount of $26,710 representing economic damages to the Company of lost interest on the delinquent premium remittances is being made by the Company's previous treasurer, the restitution penalty fees related to past delinquent premiums would not be asserted or assessed against Patriot. The Company's president, who is also a director of the Company and is president of Patriot, recused herself from the discussions and decisions reached by the board regarding this issue.

We also noted that that Patriot's bank account was frozen for approximately 45 days in 2008 as a result of the Federal Government's criminal investigations of Richard Renzi (discussed below) and Dwayne Lequire. However, the Department was never notified of the freezing of the account and did not become aware of it until this examination commenced. We were informed by management that Patriot was ultimately compensated by the bank based on a determination that the bank was not justified in freezing the account. Management agreed to ensure going forward the Department would be notified of significant events such as this freezing of Patriot's bank account.

In addition, we noted a number of areas where the Agreement contained errors and did not appear to accurately reflect actual practices. For example, the Agreement indicates it shall be governed by the laws of the State of Hawaii. (In February 2011, the Company submitted a revised draft Agreement to the Department for review and approval. The purpose of the revisions is to address the errors in the previous Agreement.)

The Company's captive manager, Risk Services, LLC, is an affiliate of AmTrust International Insurance Limited ("AmTrust"), the Company's reinsurer. Both Risk Services, LLC and AmTrust are under common control of AmTrust Financial Services, Inc. ("AFS") effective July 1, 2010. Risk Services, LLC is the reinsurance broker for the Company's reinsurance and is paid (by Amtrust) a reinsurance brokerage fee of 10 percent of premium for business ceded by the Company to AmTrust.

The Company's President is the spouse of Richard Renzi, who is instrumental in developing business for Patriot and provides loss control seminars for Members and potential Members. Mr. Renzi is currently under Federal indictment for several fraud, embezzlement, conspiracy and other charges, which are partially related to his activities with Patriot Insurance Agency. The Company's initial application and approved business plan do not indicate any involvement by Mr. Renzi in the operations of the Company or of Patriot. In addition, Mr. Renzi is neither an owner, officer, director, nor employee of Patriot, and is not an owner, officer, director, nor employee of the Company. However, during our examination, we noted that Mr. Renzi appeared to have significant involvement and influence in the activities and operations of the Company. See the "Comments and Recommendations" section of this report, under the caption "Management of the Company" for further comments regarding this condition.

FIDELITY BOND AND OTHER INSURANCE

The Company has no employees, and its business operations are managed by Risk Services, LLC and Patriot. Although the Company has no fidelity bond coverage, its service providers maintain various forms of coverage. Effective September 29, 2010, the Company obtained $1,000,000 of directors and officers liability coverage.

Patriot, the Company's MGU and claims processor obtained $1,000,000 of directors and officers coverage effective September 28, 2010, and $500,000 fidelity bond coverage effective January 1, 2011. Patriot had no fidelity bond coverage at December 31, 2009, which was in violation of the Agreement. During the examination we discussed this condition with management and management indicated compliance with the Agreement in all respects, including requirements for maintaining insurance coverage, would be ensured going forward.

Risk Services, LLC, the Company's captive manager is covered under two directors and officers liability policies totaling $10,000,000. Additionally, the captive manager is covered under two fidelity bond policies totaling $10,000,000.

Coverage currently maintained by the Company and the service providers is deemed adequate based on NAIC guidelines.

PENSION AND INSURANCE PLANS

The Company has no employees and therefore has no employee pension or insurance plans.

STATUTORY DEPOSITS

As of December 31, 2009, the Company did not have any statutory deposits in the District of Columbia and was not required to maintain any such deposits. In addition, the Company was not required to maintain statutory deposits with any other jurisdictions.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2009, the Company was licensed in the District of Columbia and was registered as a risk retention group in all 50 states. The Company wrote premiums in all 50 states in 2009, totaling $2,975,277.

The Company insures Members of the Association through an Association master claims-made policy and certificates of insurance issued to 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 liability coverage, and $300,000 per occurrence and in the aggregate per facility for employers' non-ownership auto liability coverage.

The Company has no employees and its business operations are managed by its captive manager and the MGU, which also processes claims. Written agreements with the Company are in place for both service providers. The Company does not have an internal audit function. Any change to information filed with the Company's application and plan of operation is required to be submitted to the Department for prior approval.

INSURANCE PRODUCTS AND RELATED MARKET PRACTICES

This examination was a financial examination, and generally did not include market conduct procedures. An examination of the market conduct affairs of the Company has never been conducted. A market conduct examination would include detailed reviews of the Company's sales and advertising, agent licensing, underwriting practices, timeliness of claims processing, and complaint handling practices and procedures.

The scope of our examination did not include market conduct procedures, including, but not limited to, market conduct procedures in the following areas:

- Policy Forms
- Fair Underwriting Practices
- Advertising and Sales Materials
- Treatment of Policyholders:
    - Claims Processing (Timeliness)
    - Complaints

REINSURANCE

The Company's approved plan of operation requires the Company to maintain reinsurance coverage. From July 1, 2005 until June 30, 2009, the Company reinsured portions of its risks with Imagine Insurance Company Limited ("Imagine"). Effective April 29, 2008, Imagine's liability was commuted for policies with effective dates of July 1, 2005 through June 30, 2006. Effective July 1, 2009, Imagine's liability was also commuted for policies with effective dates of July 1, 2006 through June 30, 2009. The commutation was effective July 1, 2009. As a result of these commutations, the Company has assumed all liability for claims reported between July 1, 2005 and June 30, 2009. The Company executed the second commutation prior to receiving approval from the Department. See the "Comments and Recommendations" section of this report, under the caption "Reinsurance Commutation" for further comments regarding this condition. In addition, the Company improperly recorded the second commutation in the June 30, 2009 financial statements, prior to the effective date of July 1, 2009. As a result, the Department required the Company to resubmit its June 30, 2009 financial statements without the commutation transaction. The Company then properly recorded the transaction in the September 30, 2009 financial statements after receiving transaction approval from the Department.

Effective July 1, 2009, the Company reinsured portions of its risks with AmTrust International Insurance Limited ("AmTrust") with coverage of $750,000 excess of $250,000 per occurrence, subject to the aggregate limits on the Members' coverage. AmTrust is rated "A" (Excellent) by A.M. Best. The maximum recoverable is 300 percent of the annual ceded premium paid and 200 percent of the ceded premium paid over the four-year term of the agreement. As of December 31, 2009, the Company reported estimated reinsurance recoverable on unpaid losses, and ceded unearned premiums, totaling approximately $136,000 and $267,000, respectively. If the reinsurer was not able to meet its obligations under the treaty, the Company would be liable for any defaulted amounts.

ACCOUNTS AND RECORDS

The primary locations of the Company's books and records are at the office of its captive manager in Sarasota, Florida and at the office of its MGU, in Sonoita, Arizona.

The Company's general accounting records are maintained by its captive manager. The MGU maintains a premium bordereau, which is reported to the captive manager monthly. Claim payment and case reserve data is also maintained by the MGU, who reports the claims data to the captive manager monthly. Our testing of the premium and loss cycles, including premium billings and remittances and claim payments and reserves, indicated that premiums and losses were properly accounted for throughout the examination period, in all material respects.

Historically, the underwriting and policy administration systems application data maintained by Patriot had not been reconciled to the premium bordereau. As a result, the examiners recommended and management completed the reconciliation of the premium bordereau to the underwriting system for 2009 and 2010, with reconciling items investigated and resolved. There were no material errors noted as a result of these reconciliations. Management agreed to ensure that the monthly reconciliation of the underwriting and policy administration systems application data to the monthly bordereau, and to the cash account, continues to be prepared and reviewed with significant differences timely investigated and resolved.

Patriot is also in the process of implementing a premium bank account lockbox. Management agreed to ensure that the new premium bank account lockbox procedures are properly implemented, such that premiums are timely and fully remitted to the Company in compliance with the Agreement. Management also agreed to ensure the Company's premiums and other insurers' premiums, which are to be collected through the premium bank account lockbox, shall be segregated from the other non premium related cash activity of Patriot and shall be processed in a separate bank account.

FINANCIAL STATEMENTS

The following financial statements, prepared in accordance with accounting practices generally accepted in the United States ("GAAP"), as prescribed by the Department, reflect the financial condition of the Company as of December 31, 2009, as determined by this examination:

STATEMENT	PAGE
Balance Sheet:	11
Assets	11
Liabilities, Surplus and Other Funds	12
Statement of Income	13
Capital and Surplus Account	14
Analysis of Examination Changes to Surplus	14
Comparative Financial Position of the Company	15

The accompanying Notes to Financial Statements are an integral part of these financial statements.

BALANCE SHEET

ASSETS

	December 31, 2009
Bonds **(NOTE 1)**	$ 762,969
Cash ($3,477,644) and short-term investments ($301,216) **(NOTE 1)**	3,778,860
Subtotals, cash and invested assets	$ 4,541,829
Investment income due and accrued	$ 4,631
Uncollected premiums and agents' balance in course of collection	31,108
Reinsurance-other amounts receivable under reinsurance agreements **(NOTE 2)**	136,146
Current federal and foreign income tax recoverable and interest thereon	61,479
Net deferred tax asset	85,115
Aggregate write-ins for other than invested assets:	
Deferred acquisition costs	205,119
Prepaid expenses	16,134
Deferred reinsurance expense	266,647
Total assets	$ 5,348,208

LIABILITIES, SURPLUS AND OTHER FUNDS

	December 31, 2009
Losses **(NOTE 2)**	$ 1,613,990
Loss adjustment expenses **(NOTE 2)**	403,497
Other expenses (excluding taxes, licenses and fees)	342,296
Taxes, licenses and fees (excluding federal and foreign income taxes)	52,791
Unearned premiums	888,824
Ceded reinsurance premiums payable (Advanced reinsurance premiums)	(129,454)
Total liabilities	$ 3,171,944
Common capital stock	100,000
Gross paid-in and contributed capital	300,000
Unassigned funds (surplus)	1,776,264
Surplus as regards policyholders	$ 2,176,264
Total liabilities and surplus as regards policyholders	$ 5,348,208

STATEMENT OF INCOME

	Year Ended December 31, 2009
UNDERWRITING INCOME	
Premiums earned	$ 3,209,984
UNDERWRITING DEDUCTIONS	
Losses incurred	$ 283,799
Loss expenses incurred	136,141
Other underwriting expenses incurred	1,442,591
Total underwriting deductions	$ 1,862,531
Net underwriting gain	1,347,453
NET INVESTMENT INCOME	
Net investment income earned	$ (380)
Net income before federal income taxes	$ 1,347,073
Federal income tax expense	461,959
Net income	$ 885,114

CAPITAL AND SURPLUS ACCOUNT

Initial capital and surplus contributions:		
Letter of Credit	$	1,000,000
Net loss, 2005		(49,758)
Net change in surplus as regards policyholders, 2005		950,242
Surplus as regards policyholders, December 31, 2005	$	950,242
Net income, 2006		128,399
Net change in surplus as regards policyholders, 2006		128,399
Surplus as regards policyholders, December 31, 2006	$	1,078,641
Net income, 2007		192,976
Issuance of common stock		1,000
Net change in surplus as regards policyholders, 2007		193,976
Surplus as regards policyholders, December 31, 2007	$	1,272,617
Net income, 2008		1,025,624
Reduction of letter of credit		(539,375)
Net change in surplus as regards policyholders, 2008		486,249
Surplus as regards policyholders, December 31, 2008	$	1,758,866
Net income, 2009		885,114
Retirement of entire letter of credit		(460,625)
Change in unrealized capital loss		(7,091)
Net change in surplus as regards policyholders, 2009		417,398
Surplus as regards policyholders, December 31, 2009	$	2,176,264

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

There were no changes to the Company’s surplus as regards policyholders as a result of this examination.

COMPARATIVE FINANCIAL POSITION OF THE COMPANY

The comparative financial position of the Company for the periods since inception is as follows:

	As of and for the Year Ended December 31,				
	2009	2008	2007	2006	2005
Assets	$ 5,348,208	$ 5,066,564	$ 4,936,730	$ 3,598,165	$ 1,884,209
Liabilities	3,171,944	3,307,698	3,664,113	2,519,524	933,967
Surplus as regards policyholders	2,176,264	1,758,866	1,272,617	1,078,641	950,242
Premiums written	3,176,459	2,463,912	1,983,571	1,971,298	1,096,996
Premiums earned	3,209,984	2,426,071	2,020,384	1,898,489	515,131
Net investment income (loss)	(380)	45,126	71,388	26,133	(9,450)
Net income (loss)	$ 885,114	$ 1,025,624	$ 192,976	$ 128,399	$ (49,758)

Amounts in the preceding financial statements as of and for the years ended December 31, 2005 through December 31, 2008 were taken from the Company's Annual Statements as filed with the Department. Amounts as of and for the year ended December 31, 2009 are amounts per examination.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Bonds and Cash:

As of December 31, 2009 the Company reported "Bonds" totaling $762,969 and "Cash" totaling $3,477,644, of which $2,474,456 was held in one institution.

a. Included in the above balances were bonds totaling $401,251 and cash totaling $97,303 which were held in a trust account. In conjunction with the August 2009 retirement of the Company's $500,000 letter of credit, the Company was required to establish and maintain a trust account with a minimum balance of $500,000 maintained at all times. Accordingly, in August 2009, the Company executed an "Institutional Custody Agreement" with a third-party trustee. Under terms of the Agreement, the trustee serves as custodian of the funds which are held for the benefit of the Department. Except upon written direction of the Commissioner, withdrawals from the account may not be made if as a result of a withdrawal the balance in the account would fall below $500,000. Funds in the account must be comprised of cash and conservative fixed income investments. The Company has discretion over the investments in the account within guidelines established by the Department, and is entitled to receive investment income on the funds. As of December 31, 2009, the Company held assets in the account with a market value of $498,554, comprised of cash of $97,303 and bonds of $401,251. The value of the account fell below the $500,000 minimum due to fluctuations in the market value of bonds in the account. During the first quarter of 2010, the Company "topped off" the account such that the balance exceeded the minimum requirement.

b. The above-mentioned $2,474,456 held in one institution exceeds the amount insured by the Federal Deposit Insurance Corporation ("FDIC"). We addressed with management the potential risk to the Company from maintaining balances in excess of the FDIC insured limits in a single institution. Management agreed potential risk existed and indicated steps would be taken to address this risk in the future.

NOTE 2 – Losses and Loss Adjustment Expenses:

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling $1,613,990 and $403,497, respectively. These reserves represent management's best estimate of the amounts necessary to pay all claims and related claims adjustment expenses that have been incurred but are still unpaid as of December 31, 2009. Reserve credits taken as of December 31, 2009 for cessions to reinsurers totaled $136,146, which is reported as "Other amounts receivable under reinsurance agreements." If the reinsurers are unable to meet their obligations under the reinsurance treaty, the Company would be liable for any defaulted amounts. The Company does not discount its reserves.

The methodologies utilized by the Company to compute reserves, and the adequacy of the losses and loss adjustment expenses reserves as of December 31, 2009, were reviewed as part of the examination. As part of our review, we relied on the Company's independent actuary, who concluded that the Company's reserves appear to be sufficient. In addition, as part of our examination of the Company's reserves, we engaged an examination actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary. The independent actuary utilized in the examination concluded that the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary appear sufficient and that reserves as reported in the Company's financial statements are reasonable and adequate.

COMMENTS AND RECOMMENDATIONS

Management of the Company:

As indicated in the “Affiliated Parties and Transactions” section of this report, during our examination, we noted significant involvement and influence in the activities and operations of the Company by Richard Renzi, spouse of the Company’s president, even though the Company’s initial application and approved business plan do not indicate any involvement by Mr. Renzi in the operations of the Company or of Patriot, and even though Mr. Renzi is neither an owner, officer, director, or employee of Patriot, and is not an owner, officer, director or employee of the Company. **To reflect the role of Mr. Renzi in the Company’s business plan, we recommend that the Company update its business plan with the Department to clarify the position, role and authority of Mr. Renzi with regard to the operations of the Company and of Patriot.**

Reinsurance Commutation:

In a letter to the Department dated July 14, 2009, the Company indicated it intended to commute, effective July 1, 2009 and subject to Department approval, its reinsurance in effect for the period July 1, 2006 to June 30, 2009. In a letter dated July 17, 2009, the Department approved the commutation. However, we were later informed by the captive manager that the Company had executed the commutation prior to the Department’s July 17 approval.

We recommend the Company not execute any future commutations, or other business plan changes requiring approval, without the Department’s prior approval. Any future substantive or material changes to the Company’s plan of operation shall be submitted to the Department for review and approval prior to implementation. Any questions regarding what may or may not constitute a change in the plan of operation should be clarified with the Department prior to implementation.

CONCLUSION

Our examination determined that as of December 31, 2009 the Company's financial statements include the following:

Assets	$	5,348,208
Liabilities		3,171,994
Common capital stock		100,000
Gross paid-in and contributed surplus		300,000
Unassigned funds (surplus)		1,776,264
Surplus as regards policyholders		2,176,264
Total liabilities and surplus as regards policyholders	$	5,348,208

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2009, and the accompanying statement of income properly presents the results of operations for the year then ended.

Chapter 39 ("CAPTIVE INSURANCE COMPANIES") of Title 31 ("Insurance and Securities") of the D.C. Official Code specifies the level of capital and surplus required for the Company. We concluded that the Company's capital and surplus funds exceeded the minimum requirements during the period under examination.

SIGNATURES

In addition to the undersigned, the following examiner representing the District of Columbia Department of Insurance, Securities and Banking participated in this examination:

Dana W. Rudmose, CIE, AIR, Rudmose & Noller Advisors, LLC

The actuarial portion of this examination was completed by Kristine Fitzgerald, ACAS, MAAA, FSA with Actuarial & Technical Solutions, Inc.

Respectfully submitted,

Mark G. Noller
Examiner-In-Charge
Rudmose & Noller Advisor, LLC

Under the Supervision of,

Xiangchun Li

Xiangchun (Jessie) Li, CFE
Supervising Examiner
District of Columbia Department of Insurance, Securities and Banking

Government of the District of Columbia
Department of Insurance, Securities and Banking

William P. White
Acting Commissioner

May 9, 2011

Roberta Renzi
President
Spirit Mountain Insurance Company Risk Retention Group, Inc.
C/o Risk Services, LLC
2233 Wisconsin Avenue, N.W., Suite 310
Washington, DC 20007

RE: Examination of **Spirit Mountain Insurance Company Risk Retention Group, Inc.** as of December 31, 2009

Dear Ms. Renzi:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination ("Report") of the affairs and financial condition of **Spirit Mountain Insurance Company Risk Retention Group, Inc.** ("Company") as of December 31, 2009.

Please submit, to my attention, a written response calling attention to any errors or omissions in the draft Report. In addition, the Company's response shall include a response to the recommendations included in the "Comments and Recommendations" section of this Report. The response should indicate the Company's agreement or disagreement with the recommendations, as well as a summary of the corrective measures which will be taken by the Company for the recommendations. If the Company disagrees with the recommendations, the response shall indicate the reason(s) for the disagreement, as well as an explanation of alternative measures to be taken by the Company to address the conditions which led to the recommendations.

The response must be in writing and shall be furnished to this Department by June 6, 2011. In addition to a hard-copy response, please also furnish the response electronically via e-mail to me, in a Microsoft "Word" format, to sean.odonnell@dc.gov.

Sincerely,

Sean O'Donnell

Sean O'Donnell
Director of Financial Examination,
Risk Finance Bureau

Enclosure

SPIRIT MOUNTAIN INSURANCE COMPANY RISK RETENTION GROUP, INC.
607 14th St., N.W., Suite 900
Washington, DC 20005

VIA E-MAIL & U.S. MAIL
E-mail: sean.o'donnell@dc.gov

June 2, 2011

P. Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau
Department of Insurance, Securities and Banking
810 First Street, NE, Suite 701
Washington DC 20002

Re: Spirit Mountain Insurance Company Risk Retention Group, Inc. ("SMIC")
NAIC Company Code: 10754; FEIN: 20-3011260

Dear Mr. O'Donnell:

The following responses are submitted with respect to the comments and recommendations contained in the Report on Examination of the Company for the period June 7, 2005 through December 31, 2009 forwarded by the Risk Finance Bureau on May 9, 2011:

1. To reflect the role of Mr. Renzi in the Company's business plan, we recommend that the Company update its business plan with the Department to clarify the position, role and authority of Mr. Renzi with regard to the operations of the Company and of Patriot.

Company Response:
Pursuant to the Department's recommendation, the Company shall submit an update to its business plan on file with the Department to clarify Mr. Renzi's role with the operations of the Company and of Patriot.

2. We recommend the Company not execute any future commutations, or other business plan changes requiring approval, without the Department's prior approval. Any future substantive or material changes to the Company's plan of operation shall be submitted to the Department for review and approval prior to implementation. Any questions regarding what may or may not constitute a change in the plan of operation should be clarified with the Department prior to implementation.

Company Response:
The Company shall in future submit any substantive or material changes to the Company's plan of operation, including any proposed commutations, to the Department for its review and prior approval.

Thank you. Should you have any questions, please don't hesitate to contact me by telephone at (202) 471-5944 or by e-mail at jharkavy@riskservcos.com.

Sincerely,

Jon Harkavy

Jon Harkavy
Executive Vice President/General Counsel
Risk Services, LLC
As Managers for
**Spirit Mountain Insurance Company
Risk Retention Group, Inc.**

JH/hr

Government of the District of Columbia

Department of Insurance, Securities and Banking

William P. White
Acting Commissioner

June 7, 2011

Roberta Renzi
President
Spirit Mountain Insurance Company Risk Retention Group, Inc.
C/o Risk Services, LLC
2233 Wisconsin Avenue, N.W., Suite 310
Washington, DC 20007

RE: Examination of **Spirit Mountain Insurance Company Risk Retention Group, Inc.,** as of December 31, 2009

Dear Ms. Renzi:

We are in receipt of your response, dated June 2, 2011, regarding the Report on Examination of Spirit Mountain Insurance Company Risk Retention Group, Inc. ("Company"), as of December 31, 2009. The response is deemed adequate.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available. The Department of Insurance, Securities and Banking will forward the adopted Report electronically to each Commissioner whose name is set forth on Page 1 of the Report, as well as to each jurisdiction in which the Company is registered and to the National Association of Insurance Commissioners.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention at the Department.

Please contact me at 202-442-8153 if you have any questions.

Sincerely,

Sean O'Donnell

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures