States

"Partners in Protection"SM

2010 ANNUAL REPORT

States Self-Insurers Risk Retention Group, Inc.

MISSION STATEMENT

Our mission is to
provide quality,
cost-effective
insurance products
and services
to our public entity
owners in order
to promote
a long-term
risk management
partnership.

States
"Partners in Protection"SM

"PARTNERS IN PROTECTION"[SM]

States has provided excess liability insurance exclusively to public entities for twenty-four years. States is ***the*** company of choice for public entities who want to preserve stability and maintain long-term vision.

STATES BOARDS

States Self-Insurers Trust Board of Trustees

Jeffrey D. Downes
Chair,
Board of Trustees
Chief of Staff/
Deputy Mayor
City of
Montgomery, AL

William C. Kostner
ARM-P
Trustee
Risk Manager
City of
Lincoln, NE

Scott J. Kramer
Trustee
Risk Manager
Montgomery
County
Commission, AL

Eric T. Lagstrom
Trustee & Secretary
Risk Manager
Town of
Ocean City, MD

Hal K. Luttschwager
CPCU, ARM, CLU
Trustee
Risk Manager
County of
Missoula, MT

States Self-Insurers Risk Retention Group, Inc. Board of Directors

Robert W. Esenberg
ARM
President & CEO
Vice President
Berkley Risk
Administrators
Company, LLC
Virginia Beach, VA

David L. Drugg
Vice President
& COO
Vice President
Berkley Risk
Administrators
Company, LLC
Minneapolis, MN

William C. Kostner
ARM-P
Director
Risk Manager
City of
Lincoln, NE

Scott J. Kramer
Director
Risk Manager
Montgomery
County
Commission, AL

Eric T. Lagstrom
Director
Risk Manager
Town of
Ocean City, MD

Hal K. Luttschwager
CPCU, ARM,
CLU
Director
Risk Manager
County of
Missoula, MT

Mary M. Richards
Director
Vice President/
Account
Manager, Towner
Management Group,
Burlington, VT

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STATES COMMITTEES

Audit & Finance Committee

This committee is charged with oversight of the Company's financial matters.

Scott Kramer
Committee Chair
Risk Manager
Montgomery County Commission, AL

Thuy Binh
Chief Business Officer
Bellflower Unified School District, CA

John Grook
Risk Management Administrator
City of Virginia Beach, VA

Dan Hurley ARM-P, CSP
Senior Director Risk Management and Safety, Norfolk Public Schools
Norfolk, VA

Cindy LoPiccolo CMC
Executive Analyst/Legal Department
Park City, UT

Robert O. McCloud, Jr.
Attorney to the Trust & RRG
Atlanta, GA

John Pelham
County Executive
Warren County, TN

Sheryl Sattler
Assistant Vice President
Financial Services, Berkley Risk Administrators Company, LLC
Minneapolis, MN

Pat Wilson
Director of Finance
Murray City Corporation, UT

Marketing & Communications Committee

This committee oversees the marketing, product development, customer service, and advertising, including newsletters and other materials available to States' members and prospective members.

Eric Lagstrom
Committee Chair
Risk Manager
Town of Ocean City, MD

Royanna Carle, CPCU
Program Marketing Director
Berkley Risk Administrators Company, LLC
Minneapolis, MN

Robert Esenberg, ARM
Vice President
Berkley Risk Administrators Company, LLC
Virginia Beach, VA

Marilyn Gillette
County Clerk
Tooele County Corporation, UT

Shawn Guzman
City Attorney
City of St. George, UT

Mike Lombardo
Risk Management Administrator
City of Portsmouth and Portsmouth Public Schools, VA

Tony Southern
Risk Manager
Sumner County Government, TN

Strategic Planning Committee

This committee is charged with developing and facilitating implementation of the Trust's Strategic Plan. It solicits input from States' owner-insureds regarding the quality and scope of products and services provided by the Company. It also communicates recommendations to the Boards of Trustees, to Trust committees and to the Management Company.

Hal Luttschwager CPCU, ARM, CLU
Committee Chair
Risk Manager
County of Missoula, MT

James Carpenter
Safety and Loss Prevention Manager
Chesterfield County, VA

David Drugg
Vice President
Berkley Risk Administrators Company, LLC
Minneapolis, MN

Robert Esenberg, ARM
Vice President
Berkley Risk Administrators Company, LLC
Virginia Beach, VA

William Kostner ARM-P
Risk Manager
City of Lincoln, NE

Mel Miles
Personnel Director
Davis County Corporation, UT

Lance Murray RMPE
Risk Manager
City of Fort Collins, CO

Mary Richards
Vice President/ Account Manager
Towner Management Group,
Burlington, VT

Joe Sanders
Risk Manager
City of Hampton & Hampton Public Schools, VA

CHAIR'S LETTER

Jeffrey D. Downes
Chair, Board of Trustees
Chief of Staff / Deputy Mayor
City of Montgomery, AL

As a long time senior leader with the City of Montgomery, I've had the opportunity to observe my organization's evolution from viewing our risk financing decisions as a commodity purchase to that of decisions based on a long-term relationship. Obviously, the public sector allows the opportunity for policy changes every four years or so as elected officials come and go. But when a risk management program establishes stability as a core value and the organization institutionalizes that value in its decisions, a public entity places itself in a far better financial position.

Such was the case when the City of Montgomery made the decision to become a member of States Self-Insurers Risk Retention Group in 1998. Now, in 2011, as I sit as the Chair of States Self-Insurers Trust, I see the same dynamic at play in today's market place. I remember the challenges posed by the short-term "buying of business," the negative policy language interpretations, and "retro" based premium products. I don't ever want to go back to those days.

The value of stability that long-term relationships provide can be hard to sell in certain public entities. With today's struggling economy paired with our industry's budget challenges, risk managers have a hard time looking beyond a commodity buying mindset.

To draw a parallel, when a hiring decision is made, organizations do not want to invest in the training and development of a new employee only to have the employee leave shortly thereafter, and the entity is once again forced to repeat the expensive and time-consuming hiring and training/development processes.

Striving not to operate as islands, we all invest time collaborating and networking with others in order to gain additional resources for our programs. When risk managers endeavor to get their organizations' leaders to realize that risk financing is not solely based upon the lowest premium, the organizations' entire risk management programs become elevated to a whole new level. And, the value of the long-term relationships that you've cultivated leads to long-term stability…which is a core foundation principle of the States program.

I have seen stability in my entity, as I have with other member entities of the States program. Looking ahead, we are hopeful that many other public entities will come to recognize and share these same ideals.

I am proud to serve as a leader for States, and despite a continued soft market, I relish the opportunities ahead. And I will strive to help strategically place our company in a position to take advantage of all that the future has to offer us when we own and control our destiny.

Jeffrey D. Downes

PRESIDENT'S LETTER

Robert W. Esenberg, ARM
President & CEO
Vice President
Berkley Risk Administrators
Company, LLC
Virginia Beach, VA

As a young man, I recall hearing my elder's comments about each new year…"Well, we made it through another one!" And I would think to myself, "life is too exciting; there are too many new things to discover and too many new experiences waiting to be enjoyed to feel like it was a chore to live into the next year."

With the passing of a significant number of years, I have become one of those elders, and while I find myself agreeing with my grey-haired friends that we have made it through another one, I look back at my life and career as one filled with many fantastic memories of my personal experiences, successes and yes, even the failures.

States began during a time of great uncertainty. Public entities needing to protect themselves from potential liabilities were finding it impossible to obtain liability insurance at any cost. Utilizing a new Federal law created to help the American people and businesses, States was formed as a Risk Retention Group in 1987, and began providing excess liability insurance to public entities that had been forced to go without coverage after being abandoned by their insurance carriers.

States was a young, growing company in the late 1980s. Those of us serving on the Board of Trustees experienced some exciting times. We certainly discovered many new things, and learned a great deal about how insurance companies operate. It was a time filled with youthful exuberance. As time flew by, States continued to grow and mature.

Now entering its twenty-fourth year of operation, States has attained a status that makes it the excess liability company of choice for public entities wishing to preserve stability and long-term vision. We have experienced growth during hard insurance markets and sustained a solid membership base during soft insurance markets. Competition from various commercial insurers has come and gone, but States has remained a constant for public entities who remain committed to the proper management of risks through solid loss control and claims management practices regardless of market conditions.

Over the years, States has followed its strategic plan and maintained this plan as a living document. It has been modified to reflect changing conditions as well as the changing needs of its members. Clearly, this plan has provided the guidance that has allowed States to be successful over the years.

Although States' boards and committees regularly review States' strategic plan, I believe it is time to conduct a more formal review process in light of the current and very different economic and regulatory environment we function in today. We have a duty to our members to conduct this review once again, and we will do so during 2011.

States is not an organization that reflects the "we made it through another year" philosophy. Rather, States should be an organization that looks forward to its future with excitement and enthusiasm. Having a strategic plan and strategic initiatives that fit the current needs of the program and its members will help ensure States' success in the future. We cannot afford to live in the past, but rather, must be proactive in facing head on, and adapting to, the changing environment. We are committed to doing so; we look forward to the next year, and to the next chapter in States' story.

STRONG FINANCIAL PARTNERS

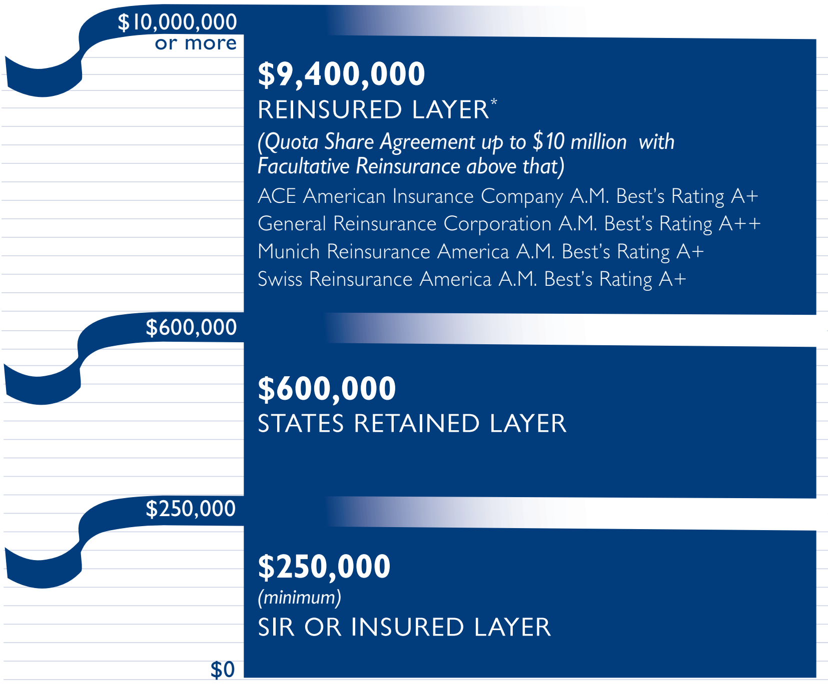
States provides consistent stability for public entities who are committed to proper management of risks through solid loss control and claims management practices regardless of market conditions. States "Partners in Protection"SM members make decisions based on long-term relationships, not short-sighted commodity purchases.

States
"Partners in Protection"SM

PROGRAM STRUCTURE

States Self-Insurers Risk Retention Group, Inc. is available to public entities and individual pool members that have a self-insured retention or an insured layer of protection of $250,000 or more. States then provides the next level of protection up to $10 million or more. Of this amount, the Company retains $600,000 and cedes the balance to reinsurers.

In order for States to remain sound and competitive in the marketplace, we rely on quality, financially sound reinsurers. States' reinsurers have an A.M. Best rating of "A+" or higher, and have been selected because of their track records and their stable, consistent and time-tested commitment to public entities. This enhances States' ability to tailor coverage needs for its members. This type of program structure demonstrates very clearly the principle of "Partners in Protection."℠



As a Partner in Protection, States is committed to offering its members:

1 THE BROADEST LIABILITY PROTECTION PRACTICAL*

States provides excess coverage for a broad range of liability exposures including commercial general liability, automobile liability, civil rights, public officials and law enforcement, as well as incidental medical professional liability coverage — tailored to meet the needs of each public entity.

2 STABLE LONG-TERM PREMIUMS AND LOWER COSTS

Our Company offers stable, exposure-rated premiums and highly controlled costs. This provides you, the member-owner, with a cost-effective program, rather than providing profits to private investors.

3 CLAIMS AND LOSS CONTROL CONSULTING SERVICES

All members receive thorough claim management and loss control reviews. These are the types of "Value Added Services" provided to States members.

*Liability insurance protection only.
The policy form provides the final determination for affording of all coverage and coverage limitations.

PARTNERS COMMITTED TO STABILITY

States' member-owners invest time collaborating and networking with each other in order to gain additional resources for their programs. A core foundation principle of the States program is stability, which is enhanced by long-term relationships.

States
"Partners in Protection"SM

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Stockholder and Board of Directors
States Self-Insurers Risk Retention Group, Inc.
South Burlington, Vermont

We have audited the accompanying statutory balance sheets of States Self-Insurers Risk Retention Group, Inc. (the Company), a wholly-owned subsidiary of States Self-Insurers Trust, as of December 31, 2010 and 2009, and the related statutory statements of income, changes in capital and surplus, and cash flow 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

As described more fully in Note 1 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the State of Vermont Department of Banking, Insurance, Securities and Health Care Administration, which practices differ from U.S. generally accepted accounting principles. The effects on the statutory financial statements of the variances between the statutory basis of accounting and U.S. generally accepted accounting principles are described in Note 1.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the statutory financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flow for the years then ended.

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flow for the years then ended on the statutory basis of accounting described in Note 1.

Strohm Ballweg, LLP

Strohm Ballweg, LLP
Madison, Wisconsin
February 16, 2011

PARTNERS IN STRATEGIC PLANNING

States is proactive in adapting to the changing economic and regulatory environment. States' member-owners continue to evaluate its strategic plan and strategic initiatives in order to provide the stability that ensures ongoing success for the program.

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STATUTORY FINANCIAL STATEMENTS

STATUTORY BALANCE SHEETS

December 31, 2010 and 2009	2010	2009
ADMITTED ASSETS		
Cash and invested assets:		
Bonds	$16,358,579	$15,741,266
Common stocks (mutual funds)	2,182,566	1,806,205
Cash and short-term investments	2,837,824	2,317,102
Cash and invested assets	21,378,969	19,864,573
Investment income due and accrued	142,211	139,407
Reinsurance recoverable on paid losses and loss adjustment expenses	5,236	284,709
Total admitted assets	$21,526,416	$20,288,689
LIABILITIES AND CAPITAL AND SURPLUS		
Liabilities:		
Unpaid losses and loss adjustment expenses		
(net of reinsurance of $33,511,596 in 2010 and $32,123,565 in 2009)	$11,117,276	$10,721,069
Unearned premiums		
(net of reinsurance of $3,728,674 in 2010 and $3,896,016 in 2009)	709,558	750,302
Ceded reinsurance premium payable	1,088,188	1,309,688
Accrued expenses and other liabilities	329,783	266,003
Total liabilities	13,244,805	13,047,062
Capital and surplus:		
Common stock, $5.10 par value, 10,000,000 shares authorized,		
295,680 shares issued and outstanding	1,507,968	1,507,968
Paid-in surplus	3,010,531	3,010,531
Unassigned surplus	3,763,112	2,723,128
Total capital and surplus	8,281,611	7,241,627
Total liabilities and capital and surplus	$21,526,416	$20,288,689

STATUTORY STATEMENTS OF INCOME

Years Ended December 31, 2010 and 2009	2010	2009
UNDERWRITING OPERATIONS		
Net premiums earned:		
Direct premiums earned	$10,210,553	$10,405,088
Reinsurance ceded	(8,565,277)	(8,700,630)
	1,645,276	1,704,458
Net losses incurred:		
Direct losses incurred	5,965,773	(385,757)
Reinsurance recoveries	(4,441,149)	1,854,237
	1,524,624	1,468,480
Operating expenses incurred:		
Direct loss adjustment expenses (LAE)	235,579	145,730
Reinsurance recoveries on LAE	(286,700)	(89,387)
Direct underwriting expenses	2,327,666	2,390,668
Reinsurance ceded commissions	(2,307,808)	(2,334,960)
	(31,263)	112,051
Underwriting gain	151,915	123,927
INVESTMENT AND OTHER INCOME		
Investment income earned	657,761	723,097
Investment expenses	(42,262)	(40,335)
Net realized capital gains (losses)	20,136	(36,020)
Other income	—	15,000
Investment and other income	635,635	661,742
Net income	$787,550	$785,669

STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS

Years Ended December 31, 2010 and 2009	2010	2009
CAPITAL AND SURPLUS, BEGINNING OF YEAR	$7,241,627	$6,230,572
Net income	787,550	785,669
Dividends to stockholder	(100,000)	(50,000)
Change in nonadmitted assets	114,220	(114,200)
Change in net unrealized capital gains/losses	238,214	389,606
Capital and surplus, end of year	$8,281,611	$7,241,627

STATUTORY STATEMENTS OF CASH FLOW

Years Ended December 31, 2010 and 2009	2010	2009
CASH FROM OPERATIONS:		
Net premiums collected	$1,383,033	$1,152,800
Net investment income received	638,529	766,118
Other income received	—	15,000
Net losses paid	(857,062)	(2,199,174)
Net commissions and operating expenses paid	176,931	128,929
Net cash from operations	1,341,431	(136,327)
CASH FROM INVESTMENTS:		
Proceeds from investments sold, matured, or repaid:		
Bonds	6,861,821	12,224,306
Common stocks (mutual funds)	778,040	—
	7,639,861	12,224,306
Cost of investments acquired:		
Bonds	(7,526,268)	(11,952,736)
Common stocks (mutual funds)	(874,753)	(10,086)
	(8,401,021)	(11,962,822)
Net cash from investments	(761,160)	261,484
CASH FROM FINANCING AND MISCELLANEOUS SOURCES:		
Dividends to stockholder	(100,000)	(50,000)
Other cash provided (applied)	40,451	(8,628)
Net cash from financing and miscellaneous sources	(59,549)	(58,628)
Net change in cash and short-term investments	520,722	66,529
CASH AND SHORT-TERM INVESTMENTS:		
Beginning of year	2,317,102	2,250,573
End of year	$2,837,824	$2,317,102

NOTES TO STATUTORY FINANCIAL STATEMENTS

NOTE 1 : NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS. States Self-Insurers Risk Retention Group, Inc. (the Company), a wholly-owned subsidiary of States Self-Insurers Trust (the Trust), was incorporated as a stock insurance company to provide excess liability insurance to the public sector. The Company writes liability insurance in 13 states, primarily Virginia, Utah, and Maryland, on terms calling for recognition of premium upon the effective date of the policy.

A summary of the Company's significant accounting policies follows:

BASIS OF PRESENTATION. The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the State of Vermont Department of Banking, Insurance, Securities and Health Care Administration (Vermont Department). Prescribed statutory accounting practices include the National Association of Insurance Commissioners (NAIC SAP) *Accounting Practices and Procedures Manual*, which has been adopted by the State of Vermont, as well as state insurance laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. The Company had no such specifically permitted practices.

Statutory accounting practices vary in some respects from U.S. generally accepted accounting principles (GAAP) as applied to governmental units. Such significant differences include the following:

- Investments in debt securities are generally carried at amortized cost and investments in equity securities are generally carried at fair value. Under GAAP, the Company's debt and equity securities are carried at fair value with the unrealized holding gains and losses reported in income.
- Policy acquisition costs, such as commissions and other items, are charged to current operations as incurred; under GAAP, these acquisition costs are deferred and recognized as an expense over the periods covered by the policies.
- Commissions on reinsurance ceded are credited to income at the time the premium is ceded and a liability is established if the commissions earned on reinsurance agreements exceed the cost of acquiring the business to which the reinsurance contract applies. Excess commissions are amortized ratably over the life of the reinsurance contract. Under GAAP, all commissions on ceded premium are deferred and recognized as income over the periods covered by the policies.
- Certain assets designated as "nonadmitted assets" (principally overdue amounts recoverable from reinsurers) are charged against surplus; under GAAP, this amount is recognized as an expense.
- Estimated reinsurance recoverables on unpaid losses and unpaid loss adjustment expenses are netted with the respective accounts; under GAAP, these reinsurance balances are shown on a separate gross basis.
- Statutory financial statements are presented in a form using language and groupings substantially the same as the annual statements of the Company filed with the National Association of Insurance Commissioners (NAIC) and the Vermont Department, which differ from the presentation and disclosure of financial statements presented under GAAP.

A reconciliation of these differences in accounting practices presented in the accompanying statutory financial statements is shown below for the years ended December 31, 2010 and 2009:

	2010	2009
Net income, NAIC SAP	$787,550	$785,669
Change in fair value of investments	483,317	666,908
Change in deferred acquisition costs	(40,408)	(69,920)
Change in unearned ceding commissions	86,584	47,738
Bad debt (expense) collected	114,220	(114,220)
Net income, GAAP	$1,431,263	$1,316,175

	2010	2009
Capital and surplus, NAIC SAP	$8,281,611	$7,241,627
Fair value of investments	347,084	101,981
Deferred acquisition costs	628,607	669,016
Unearned ceding commissions	(971,152)	(1,057,737)
Capital and surplus, GAAP	$8,286,150	$6,954,887

ACCOUNTING ESTIMATES. The preparation of statutory financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near-term are the liabilities for unpaid losses and unpaid loss adjustment expenses. In estimating these liabilities, management uses the methodology discussed in the unpaid losses and unpaid loss adjustment expenses paragraph of this note.

RISK AND UNCERTAINTIES. The Company's operating results and financial condition are affected by numerous factors and circumstances unique to the property/casualty insurance industry, some of which it can neither predict nor control. Among them are (1) statutorily imposed regulatory capital requirements can limit an insurer's ability to underwrite new business or retain otherwise desirable risks; (2) an insurer's ability to enter into suitable reinsurance agreements is subject to prevailing conditions in reinsurance markets; (3) competitive pressure on pricing, while generally cyclical, is often intense; (4) fluctuations in interest rates affect the value and income yield of an insurer's investment portfolio in the short-term, and often affect default and prepayment rates over time; (5) inflationary pressures affect the magnitude of losses and loss adjustment expenses; (6) emerging legal precedents and trends may have a significant specific impact on settlement amounts and cost of defending claims; and (7) losses may not fully emerge for several years following the year in which the insured event occurred.

CASH AND SHORT-TERM INVESTMENTS. For purposes of reporting cash flow, the Company follows statutory accounting practices and considers cash in checking accounts, certain money market funds, and other highly liquid debt instruments purchased with a remaining maturity of one year or less to be cash and short-term investments. Cash and short-term investments are carried at cost which approximates fair value.

The Company has on deposit in a financial institution a balance in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The Company does not believe it is exposed to any significant credit risk on this account.

The Company also has a short-term investment consisting of the Victory Government Reserves Money Market Fund. The value of this investment was $2,231,036 and $1,995,605 as of December 31, 2010 and 2009, respectively. This investment was approximately 10 percent of total admitted assets at those dates.

INVESTMENTS. Investments are valued in accordance with the valuation methods prescribed by the NAIC. Investments in bonds are carried at amortized cost using the scientific interest method; however, bonds with an NAIC designation of three or lower are carried at the lower of amortized cost or fair value. Loan-backed bonds (mortgage-backed securities) are amortized using anticipated prepayments and are accounted for using the retrospective method for significant changes in the estimated cash flow. Prepayment assumptions for loan-backed bonds are obtained from internal estimates. These assumptions are consistent with the current interest rate and economic environment. Investments in common stocks consist of mutual funds carried at fair value.

Realized gains and losses on the sale of investments are recognized on the specific identification basis and are included in income. Unrealized gains and losses from changes in the fair value of stocks and certain bonds are credited or charged directly to surplus.

FAIR VALUE MEASUREMENTS. Financial assets recorded on the balance sheet at fair value are categorized based on the reliability of inputs to the valuation techniques as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Estimating the future cash flows of loan-backed securities also involves assumptions regarding the underlying collateral such as prepayment rates, default and recovery rates, existence of subordinated classes capable of absorbing losses, and third-party servicing abilities.

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES. The liabilities for unpaid losses and loss adjustment expenses are determined using case basis evaluations and statistical analyses and represent estimates of the ultimate net cost of all reported and unreported losses which are unpaid at year end.

All estimates of unpaid losses and loss adjustment expenses are continually reviewed, and any adjustments determined to be necessary are reflected in current operations. Since these liabilities are based on estimates, the ultimate settlement of losses and related expenses will vary from the amounts included in the financial statements. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the liabilities for unpaid losses and loss adjustment expenses are adequate. The liabilities for unpaid losses and loss adjustment expenses are reported net of reinsurance.

Because of the nature of the risks insured, the estimates of unpaid losses and loss adjustment expenses are susceptible to significant changes based on ultimate settlements. While management believes the liabilities as established are adequate, the independent actuary has indicated that there is an inherent uncertainty that could result in a material adverse deviation from the liabilities recorded.

PREMIUM RECOGNITION. Premiums from policies written are recognized as revenue on a pro-rata basis over the respective terms of the policies. Unearned premiums represent the portion of premiums written which relate to future periods, net of reinsurance.

REINSURANCE. Reinsurance premiums, commissions, loss and loss adjustment expense recoveries, and receivables related to reinsured business are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

FEDERAL INCOME TAXES. All of the Company's income is excludable under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes or deferred income tax assets are included in the accompanying statutory financial statements.

SUBSEQUENT EVENTS. Subsequent events were evaluated through February 16, 2011, which is the date the financial statements were available to be issued.

NOTE 2 : INVESTMENTS

INVESTMENTS IN BONDS. The amortized cost and estimated fair value of investments in bonds as of December 31, 2010 and 2009, are as follows:

2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U. S. government corporations and agencies	$9,689,987	$135,114	$106,190	$9,718,911
Foreign securities	303,257	8,751	—	312,008
Corporate securities	6,200,046	336,552	35,194	6,501,404
Mortgage-backed securities	165,289	8,051	—	173,340
	$16,358,579	$488,468	$141,384	$16,705,663

2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U. S. government corporations and agencies	$8,853,181	$28,721	$118,176	$8,763,726
Foreign securities	344,598	1,618	24,083	322,133
Corporate securities	6,089,428	235,145	29,108	6,295,465
Mortgage-backed securities	454,059	8,302	440	461,921
	$15,741,266	$273,786	$171,807	$15,843,245

The amortized cost and estimated fair value of bonds at December 31, 2010, by contractual maturity, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$1,100,845	$1,108,773
Due after one year through five years	6,710,580	7,033,472
Due after five years through ten years	6,334,632	6,414,342
Due after ten years through twenty years	2,047,233	1,975,736
Mortgage-backed securities	165,289	173,340
	$16,358,579	$16,705,663

INVESTMENTS IN COMMON STOCKS. The cumulative net unrealized capital loss on common stocks (mutual funds) was $74,562 and $313,702 at December 31, 2010 and 2009, respectively.

SUMMARY OF UNREALIZED LOSSES. The following tables show unrealized losses on the Company's portfolio sorted by security type and by length of time that the securities were in an unrealized loss position as of December 31, 2010 and 2009:

December 31, 2010

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds:						
U.S. government agencies	$3,194,104	$106,190	$ —	$ —	$3,194,104	$106,190
Corporate securities	589,232	33,861	49,608	1,333	638,839	35,194
	3,783,336	140,051	49,608	1,333	3,832,943	141,384
Common stocks (mutual funds)	—	—	2,182,566	117,000	2,182,566	117,000
	$3,783,336	$140,051	$2,232,174	$118,333	$6,015,509	$258,384

December 31, 2009

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds:						
U.S. government agencies	$5,488,554	$111,796	$252,265	$6,380	$5,740,819	$118,176
Foreign securities	50,043	22	220,940	24,061	270,983	24,083
Corporate securities	448,109	5,336	276,489	23,772	724,598	29,108
Mortgage-backed securities	—	—	155,807	440	155,807	440
	5,986,706	117,154	905,501	54,653	6,892,207	171,807
Common stocks (mutual funds)	—	—	1,806,205	313,702	1,806,205	313,702
	$5,986,706	$117,154	$2,711,706	$368,355	$8,698,412	$485,509

GAINS AND LOSSES ON INVESTMENTS SOLD, MATURED, OR REPAID. Gains from the sale of investments were $42,445 in 2010 and $31,702 in 2009. Losses from the sale of investments were $22,309 in 2010 and $67,722 in 2009.

Declines in fair value that are determined to be other than temporary (OTTI) are included in the statutory statement of income as realized capital losses. The Company determines a decline to be other than temporary by reviewing and evaluating relevant objective and subjective factors for each security, including the extent of the depressed value, the length of time the value has been depressed, the Company's intent and ability to hold the security, a security's current performance, the current and projected financial condition of the issuer, the issuer's projected ability to service and repay its debt obligations, the industry in which the issuer operates, and the status of the market as a whole. There were no declines deemed other than temporary in 2009 or 2010.

SUMMARY OF SIGNIFICANT VALUATION TECHNIQUES FOR FINANCIAL ASSETS. Certain invested assets included within the statutory balance sheets are recorded at fair value. The fair value measurement level corresponding to these invested assets are described below.

LEVEL 1 MEASUREMENTS

COMMON STOCKS (MUTUAL FUNDS): Comprised of actively traded, exchange listed, U.S. and international equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that are accessible to the Company.

SHORT-TERM INVESTMENTS: Comprised of actively traded money market mutual funds that have daily quoted net asset values for identical assets that are accessible to the Company.

The following summarizes the assets measured at fair value as of December 31, 2010:

	Level 1	Level 2	Level 3	Total
Common Stocks (Mutual Funds)	$2,182,566	$ —	$ —	$2,182,566
Money Market Mutual Funds	2,538,104	—	—	2,538,104
Total assets at fair value	$4,720,670	$ —	$ —	$4,720,670

The Company does not have any liabilities measured at fair value at December 31, 2010. The Company also did not have any transfers between levels in 2010.

NOTE 3 : LIABILITIES FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in the liabilities for unpaid losses and loss adjustment expenses for the years ended December 31, 2010 and 2009, is summarized as follows (000's omitted):

	2010	2009
Balance, beginning of year	$42,845	$46,296
Less reinsurance recoverables	32,124	34,885
Net balance at January 1	10,721	11,411
Incurred related to:		
Current year	1,404	1,472
Prior years	70	53
Total incurred	1,474	1,525
Paid related to:		
Current year	6	23
Prior years	1,072	2,192
Total paid	1,078	2,215
Net balance at December 31	11,117	10,721
Plus reinsurance recoverables	33,512	32,124
Balance, end of year	$44,629	$42,845

As a result of changes in estimates of insured events in prior years, net loss and loss adjustment expenses incurred were increased by $70,000 in 2010 and by $53,000 in 2009 due to higher than anticipated losses and related expenses.

NOTE 4 : REINSURANCE

The Company, in the ordinary course of its business, reinsures certain risks with other companies through contractual agreements, commonly referred to as reinsurance ceded. These agreements serve to limit the Company's potential losses for large individual losses. A contingent liability exists with respect to reinsurance ceded to the extent that any reinsurer is unable to meet its obligation assumed under the reinsurance agreement.

The Company cedes a portion of its insurance risks to other insurance companies through excess-of-loss reinsurance agreements. The Company's retention ranges from $400,000 to $600,000 with limits up to $10 million per occurrence. Additional limits of up to $20 million are available through facultative reinsurance agreements.

As of December 31, 2010, the Company had unsecured aggregate recoverables for losses, loss adjustment expenses, and unearned premiums from individual insurers that exceed 3 percent of capital and surplus as follows:

Swiss Reinsurance America Corporation	$13,200,000
General Reinsurance Corporation	8,795,000
Munich-American Reinsurance Company	9,624,000
ACE Reinsurance Company	3,235,000
Everest Reinsurance	990,000

The maximum amount of return commission that would have been due to reinsurers if the Company's ceded reinsurance was cancelled at December 31, 2010, was $1,025,385. If the ceded reinsurance agreements were cancelled, the Company would also have received unearned premium reserves of $3,728,674.

NOTE 5 : RELATED PARTY TRANSACTIONS

The Company has a management agreement (the Agreement) with Berkley Risk Administrators Company, LLC (the Manager) in which certain employees of the Manager are also board members of the Company. Under the terms of the Agreement, subject to the oversight and direction of the Company's Board of Directors, the Manager has authority to do most things necessary and incidental to the conduct of the Company's business. The Manager also provides the Company with all executive and administrative personnel, as well as the facilities and equipment necessary to operate. The Company pays the Manager a management fee equal to fifteen percent per annum of gross written premiums plus a contingent fee of ten percent of profits, as defined. The Company incurred management fees of $1,500,370 and $1,520,685 in 2010 and 2009, respectively. The contingent fees accrued as of December 31, 2010 and 2009, were $159,029 and $146,242, respectively.

NOTE 6 : STATUTORY CAPITAL AND SURPLUS

The Vermont Department requires a minimum capital and surplus level of $1 million and any payment of dividends by the Company requires the approval of the Vermont Department. Payments of dividends are restricted by the provisions of the Vermont Insurance Code that permit them to be paid only from unassigned surplus and are limited to 10 percent of capital and surplus, or $828,000 at December 31, 2010.

The Board of Directors of the Company declared and paid dividends of $100,000 and $50,000 to the Trust for the years ended December 31, 2010 and 2009, respectively.

The Company is required to maintain a minimum surplus level and is also subject to risk based capital (RBC) requirements promulgated by the NAIC and adopted by the Vermont Department. The RBC standards establish uniform minimum capital requirements for insurance companies. The RBC formula applies various weighting factors to financial balances or various levels of activities based on the perceived degree of risk.

The Company's capital and surplus is above the minimum capital and surplus requirements and RBC threshold requirements at December 31, 2010. Because of the nature of the Company's loss and loss adjusting expense reserves, the consulting actuary indicates that there is a significant risk of material adverse deviation from the carried net reserves. Given the Company's capital and surplus position, any such adverse deviation would have a significant impact on the Company's financial statements.

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