GOVERNMENT ENTITIES MUTUAL INC., PCC

FINANCIAL STABILITY. SHARED RISK.

2015 ANNUAL REPORT

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Letter from the Chairman and President

Andrew Halsall
President and Chief Executive Officer

Dean Boes
Chairman

The most effective companies embrace change and appreciate a new perspective. GEM recently had a change in leadership, and both Dean and I will continue to build on the successes of our predecessors. GEM's vision is unchanged: to be a long-term risk partner for public entities. My promise is to chart the most direct course to get us there.

Andrew Halsall

There were many accomplishments at GEM in 2015. Here are highlights of just a few:

- We developed and implemented retrocessional treaties with strong reinsurance partners, which enabled GEM to increase our Liability limits to $10M. In response, several members have increased their limits with GEM.
- In addition to higher liability limits, the membership took advantage of our new cyber risk program as this risk to public entities increases.
- 2015 marked the completion of a market expansion analysis, which enabled us to establish a more managed growth plan, the first milestone of which was the enhancement to our liability coverage.
- The second phase of the market expansion analysis was to include brokers in an extensive survey determining how better to offer a long-term risk management solution and how to improve our relationships with these key partners.

Our goal for GEM is controlled growth – to build a superior risk portfolio capable of providing meaningful capacity to our members. We are fortunate to have the fundamental elements already in place: members that are committed to long-term partnerships; a diversified risk portfolio; a highly-engaged Board; and strong governance. Further, GEM's infrastructure – a mutual insurance core and the flexibility to form protected cells, supported by skilled staff – is not only scalable but also a platform for innovation. With this foundation, GEM has the capacity to deliver more to our members. Realizing that potential requires a shift from a pure product mindset to a problem-solving and solution perspective, which is what we strive for as an organization.

Unfortunately, we have to report that 2015 closed with a net loss of $9.5 million, the result of prior-year adverse loss development. This compares to 2014, when GEM recorded its highest net income to date, $3.6 million. We are taking steps to mitigate the root causes of the adverse loss development, working closely with specific members. The alignment of interest between GEM and its members makes this a process of collaboration with a commitment to success.

The contrasting results of these two consecutive years demonstrate the real potential for short-term volatility in the classes of risk in which GEM participates. However, it is GEM's capacity to absorb volatility and grow over the longer-term that creates value for our members.

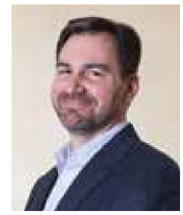
We close by thanking our members for their collaboration and support; it is ultimately they who energize the company. Our talented and dedicated staff continue to deliver at the highest levels of performance and we appreciate their commitment, drive and creativity. It is with the strength of these partnerships that we look forward to the next stage of our journey together.

Dean Boes
Andrew Halsall

Leadership

Dean Boes
(Chair), Wisconsin Municipal Mutual Insurance Company

Parker Chambers
(Vice Chair), Texas Water Conservation Association Risk Management Fund



Brett Davis
Park District Risk Management Agency

Micheon Balmer
(Secretary), California Transit Indemnity Pool

Alan Hulse
Montana Municipal Interlocal Authority

David Harmer
Virginia Transit Liability Pool

Allen Hatten
Washington State Transit Insurance Pool

Gregory Womack
Texas Council Risk Management Fund

Michael Rhyner
Michigan Municipal Risk Management Authority

Thomas Judy
Miami Valley Risk Management Association

GEM Officers

Board of Directors & President

Staff

Andrew Halsall
President and Chief Executive Officer

Christy Dell'Orfano
Underwriting Manager

Carol MacDougall
Staff Assistant

Kathy Tremblay
Staff Assistant

Bridget Rogier, Esq.
Vice President of Claims & Member Services

Diane Caley
Executive Services & Operations

Marietherese D'Agostino
Treasurer

Melanie McDonough
Associate Claims Adjuster

Management's Discussion and Analysis of Financial Conditions and Results of Operations

December 31, 2015

Company Overview

Government Entities Mutual, Inc. PCC ("GEM" or the "Company") was organized as a mutual insurance company in 2002 under the captive statues of the District of Columbia as an association sponsored captive. GEM is a non-profit corporation dedicated to serving the insurance needs of public entity self-insurance pools and public entity insurance companies. The Company commenced operations on January 1, 2003 and writes casualty, workers' compensation, auto physical damage and property insurance and reinsurance. The Company has received a Section 115 letter ruling from the Internal Revenue Service that is exempt from federal income taxes based on its submitted plan of operations.

In December 2009, the Company's Board of Directors approved amendments to the Company's Articles of Incorporation to convert the Company to a protected cell captive insurer under the District of Columbia Insurance Department's captive insurance laws. GEM converted to a Protected Cell Corporation (PCC) as of January 1, 2010. To date the Company has not formed any cells within the PCC.

There are two active classifications of membership within the Company: Founding and Premiere Members. The Board has adopted a Surplus Contribution and Withdrawal Policy that establishes the surplus requirements for each of the membership classes. Founding Members are those who made a surplus contribution prior to October 1, 2003. Premiere Members are eligible entities that made the required surplus contribution after October 1, 2003.

The Company is a non-assessable mutual insurance company. However, the Board may request additional surplus contributions, in such amounts and at such times as may be deemed necessary and appropriate by the Board, in order to maintain adequate surplus to premium ratios for the safe and sound operation of the Company.

If a Member ceases to obtain insurance from the Company, it can either withdraw its surplus account or maintain the account. If the Member elects to withdraw the account, such withdrawal will be completed, at the sole discretion of the Board and approval by the District of Columbia Department of Insurance, Securities and Banking (the Department), no later than five years from the date of notice of withdrawal.

GEM derives its income principally from premiums on the insurance contracts it writes for casualty, workers' compensation and property and secondarily from net investment income. Since GEM is organized as a non-profit company, the Company does not build a profit margin into its underwriting guidelines. Therefore, its profitability depends primarily on its ability to generate investment income and maintain its combined ratio near 100%.

Critical Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the accounting period. Actual results could differ from these estimates.

GEM has identified the estimates inherent in the valuation of investments and loss reserves (including reserves for unreported claims – IBNR) as critical in that they involve a higher degree of judgment and are subject to a significant degree of variability. In developing these estimates, management makes subjective and complex judgments that are inherently uncertain and subject to material change as facts and circumstances develop. Although variability is inherent in these estimates, management believes the amounts provided are appropriate and conservative based upon the facts available as of the date of the financial statements and the assistance of an outside actuarial firm in relation to the IBNR and overall loss reserve adequacy.

Investments

One significant estimate inherent in the valuation of investments is the evaluation of fair value and other than temporary impairment (OTTI). Fair value requires management judgment on the appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided. Fair value for investments is primarily a quantitative assessment. For debt and equity securities, class is determined on the basis and nature and risks of the investments. A full disclosure of GEM's fair value methodology can be found in Note 3 in the Notes to the Audited Financial Statements.

The determination of OTTI is a quantitative and qualitative process, which is subject to judgment in the determination of whether declines in the fair value of investments are other than temporary. The cost basis of fixed maturity investments is adjusted for impairments in value, deemed to be other than temporary, with the associated realized loss reported in net income. Factors considered in evaluating whether a decline in value is other than temporary include: 1) the magnitude of the decline in value; 2) current economic conditions and the financial condition and near-term prospects of the issuer; 3) the amount of time that the fair value has been less than cost; and 4) the estimated period over which the security is expected to recover and whether GEM's cash or working capital requirements and contractual or regulatory requirements may indicate a need to sell the security before its forecasted recovery.

Loss Reserves

Property/casualty reserves are estimates of losses and loss development and as such will differ from the ultimate results. Therefore, one of the critical accounting estimates is the proper amount of reserves to be set aside to meet future liabilities of the current in-force business. Changes in or deviations from the assumptions used to develop the loss reserves can significantly affect GEM's reserve levels and related future operations. Assumptions include company methodology for underwriting and claims handling and current estimates of the legal, inflation rate and social environments.

Annually, GEM retains an outside independent actuary, to provide a loss reserve opinion and establish a range for GEM's loss reserves. GEM's policy is to book reserves no less than the central estimate issued by the actuary. This estimate includes reserves for claims incurred but not yet reported (IBNR). There are two components of IBNR reserves. The first is the provision for claims that have occurred but which the insurance company is not yet aware of, so called pure IBNR. The second part of IBNR reserves is for claims that have been reported to the insurer but the ultimate value of the claim has not yet been established. In this instance the IBNR provides a cushion against adverse development of known claims.

Results of Operations

($ thousands)

Operating Results For Years Ended December 31, 2015 and 2014:	2015	2014	$ Change	% Change
Revenues:				
Net earned premiums	8,335	8,155	180	2.2%
Investment income, net	1,768	1,725	43	2.5%
Realized gains on investments	394	200	194	97.0%
Total Revenues	**$ 10,497**	**$ 10,080**	**$ 417**	**4.1%**
Expenses:				
Loss and loss adjustment expenses	17,764	4,659	13,105	281.3%
G&A expenses	2,120	1,787	333	18.6%
Underwriting expenses	73	73	0	0.0%
Total Expenses	**19,957**	**6,519**	**13,438**	**206.1%**
Net (Loss) Income	**$ (9,460)**	**$ 3,561**	**$ (13,021)**	
Other Comprehensive (Loss) Income:				
Unrealized holding (loss) gain on available for sales securities	(805)	1,326	(2,131)	(160.7%)
Reclassification adjustments for realized gains included in net (loss) income	(394)	(200)	(194)	97.0%
	(1,199)	1,126	(2,325)	
Comprehensive (Loss) Income	**$ (10,659)**	**$ 4,687**	**$ (15,346)**	

Net Income from Operations

GEM reported a net loss from operations for the year ended December 31, 2015 of $9,460 thousand or a decrease of $13,021 thousand as compared to the prior year end net income of $3,561 thousand. The decrease is driven primarily by unfavorable loss development, as more fully described below.

Net Earned Premiums

Net earned premiums increased by $180 thousand or 2.2% to $8,335 thousand at December 31, 2015. The increase is attributable to additional premiums written.

Net Investment Income Including Realized Gains

Investment income of $2,162 thousand, including realized losses on investments, at December 31, 2015 was 12.3% or $237 thousand greater than the same period during 2014. The increase is primarily the result of realized gains from the sale of securities. Included is an increase in net investment income of 2.5%, which substantially represents interest income attributable to the growth in the size of the overall investment portfolio.

Loss and Loss Adjustment Expenses

Loss and loss adjustment expenses increased by 281%, from $4,659 thousand in 2014 to $17,764 thousand in 2015. The increase, arising mainly out of general and automobile liability business, was substantially attributable to adverse development on prior-year losses:

	2015	2014
Current accident year	8,071	8,017
Prior accident years	9,693	(3,358)
Total	**$ 17,764**	**$ 4,659**

Whereas, in 2014, there had been a net reduction of $3,358 thousand in prior-year incurred losses, there was adverse development in 2015 amounting to a net increase of $9,693 thousand.

General, Administrative, and Underwriting Expenses

Other underwriting expenses were $2,193 thousand and $1,860 thousand respectively, for the years ended December 31, 2015 and 2014. The increase was attributed to three items: consulting, travel and insurance. Additional consulting and travel expenses were incurred in the executive search and recruitment process for the hiring of GEM's new Chief Executive Officer. Insurance expense was higher because GEM contributed to the cost of a new insurance program issued to the membership.

Other Comprehensive Income

Other comprehensive income, which for GEM is solely composed of change in fair value of the investment portfolio, was ($1,199) thousand at December 31, 2015 versus $1,126 thousand at December 31, 2014. GEM accounts for the change in other comprehensive income through an adjustment to members' equity which was negatively impacted by the reduction in fair market value. This was a result of the rise in interest rates during 2015, which created an unrealized loss on the bonds, together with declining equity markets.

GEM's Financial Position

($ thousands)

Balance Sheets For Years Ended December 31, 2015 and 2014:	2015	2014	$ Change	% Change
Assets:				
Cash and cash equivalents	5,772	4,519	1,253	27.7%
Investments available for sale, fair value	73,872	73,700	172	0.2%
Total Invested Assets	**$ 79,644**	**$ 78,219**	**$ 1,425**	**1.8%**
Premiums receivable	186	165	21	12.7%
Reinsurance recoverable	2,076	2,946	(870)	(29.5%)
Prepaid reinsurance	1,264	900	364	40.4%
Other assets	517	634	(117)	(18.5%)
Total Assets	**$ 83,687**	**$ 82,864**	**$ 823**	**1.0%**
Liabilities and Members' Equity:				
Unpaid loss and loss adjustment expenses	56,511	45,902	10,609	23.1%
Unearned premiums	3,266	3,081	185	6.0%
Accrued expenses	612	127	485	381.9%
Other liabilities	834	132	702	531.8%
Total Liabilities	**$ 61,223**	**$ 49,242**	**$ 11,981**	**24.3%**
Members' contributions	14,887	15,387	(500)	(3.2%)
Accumulated other comprehensive income	829	2,028	(1,199)	(59.1%)
Retained earnings	6,747	16,207	(9,460)	(58.4%)
Members' Equity	22,463	33,622	(11,159)	(33.2%)
Total Liabilities And Members' Equity	**$ 83,687**	**$ 82,864**	**$ 823**	**1.0%**

Invested Assets

Total invested assets for the year ended December 31, 2015 increased to $79,644 thousand or a 1.8% increase over the December 31, 2014 balance of $78,219 thousand. Free cash flow from operations was invested, predominantly into bonds, with a corresponding increase in the investment portfolio. For the years ended December 31, 2015 and 2014, respectively, GEM did not have any securities within its portfolio that were deemed to be other than temporarily impaired (OTTI).

Premiums Receivable

Premiums receivable were $186 thousand at December 31, 2015, compared with $165 thousand at December 31, 2014.

Reinsurance Recoverable

Reinsurance recoverable was $2,076 thousand at December 31, 2015 versus $2,946 thousand at December 31, 2014. This reduction of $870 thousand was driven primarily by decreases in ceded Property case reserves and IBNR reserves.

Prepaid Reinsurance

Prepaid reinsurance increased to $1,264 thousand at December 31, 2015, from $900 thousand for the prior year. The prior-year balance comprised entirely of ceded unearned premium. The ceded unearned premium as of December 2015 was $1,055 thousand, increased due to the fact that all Liability business is now subject to the new reinsurance treaty, whereas previously reinsurance was placed selectively on a facultative basis. The remaining $209 thousand represented the unearned portion of a deposit premium paid to reinsurers under the terms of the new reinsurance treaty.

Other Assets

Other assets decreased by $117 thousand to $517 thousand at December 31, 2015 compared to $634 thousand at December 31, 2014. There were three major components of the decrease of $117 thousand. First, prepaid expenses reduced by $82 thousand, primarily because certain payments were made in January 2015 rather than December 2014. Second, fixed assets depreciated by $50 thousand in 2015. Third, there was an offsetting amount of $21 thousand, representing ceded reinsurance commission receivable.

Loss Reserves

Loss reserves for unpaid losses and loss adjustment expenses increased by 23.1% to $56,511 thousand at December 31, 2015 versus $45,902 thousand the previous year. This increase is substantially due to the adverse loss development on prior-year losses mentioned earlier. The loss reserves as of December 31, 2014 had included an amount of $3,000 thousand above the actuarial point estimate, representing a reserve stabilization fund. Pursuant to the provisions of the reserve stabilization fund policy, the Company utilized these additional reserves in the year ended December 31, 2015, to offset the prior-year loss development.

Unearned Premiums

The Company writes only 12-month insurance policies, so all of the $3,266 thousand unearned premium reserve carried in 2015 will be fully earned in 2016.

Accrued Expenses
Accrued expenses were $612 thousand at December 31, 2015, compared to $127 thousand the previous year. Included in the 2015 balance is a return of contributed surplus of $400 thousand payable to a former member of GEM which withdrew from the Company during 2015.

Other Liabilities
Other liabilities increased to $834 thousand at December 31, 2015 from $132 thousand the previous year. Included in the 2015 balance is $739 thousand related to investment transactions initiated at the year-end but not settled.

Members' Equity

GEM's members' equity at December 31, 2015 was $22,463 thousand, a decrease of $11,159 thousand from the December 31, 2014 balance of $33,622 thousand. The decrease resulted from the net loss of $9,460 thousand combined with unrealized losses of $1,199 thousand in the investment portfolio and a reduction in contributed surplus of $500 thousand as a result of the withdrawal of a member.

At December 31, 2015, GEM had paid-in capital (members' contributions) from its members' of $14,887 thousand and retained earnings and accumulated other comprehensive income of $7,576 thousand.

Liquidity Sources and Requirements

GEM's two primary liquidity sources are cash flows from premiums and investment income from its investment portfolio. GEM generated a positive cash flow from operations of $1,888 thousand for the year ended December 31, 2015, as compared with a positive cash flow of $6,966 thousand in 2014.

A secondary source of liquidity is the investment portfolio which is primarily invested in high quality bonds that are readily marketable. During 2014, GEM generated $32,323 thousand of proceeds from investments sold or matured and used $32,861 thousand to acquire new bonds and common stock.

In addition, during 2015, GEM applied cash to a distribution of member capital of $100 thousand.

Cash and cash equivalents, defined as short-term investments or long-term investments with a maturity under three months, increased to $5,772 thousand at December 31, 2015 from $4,519 thousand at December 31, 2014, which is the difference between the positive cash flow from operations and the cash consumed by investment activities.

Enterprise Risks

Liquidity Risk

Liquidity risk is the risk that GEM will not have access to sufficient funds to meet its liabilities when due. GEM's liquidity management consists of policies and procedures to ensure that adequate liquidity is available at all times. The liquidity position is assessed on a monthly basis and both normal and stressed market conditions are considered as part of this process. Where liquidity gaps exist, they are primarily more than three years in the future since GEM's invested assets have a duration of approximately 4.06 years while its liabilities have longer durations due to the type of insurance risk.

Market Risk

GEM has exposure to market risk arising from its insurance operations and investment activities. Market risk can be defined as the risk of potential fluctuation in earnings, cash flows and fair value of its assets and liabilities due to changes in the level of market rates and prices. Since GEM is a regulated entity, market risk can also arise from changes in the political or regulatory landscape that impact GEM as a captive reinsurance company or impact GEM's members as public entity risk pools.

Interest Rate Risk

GEM's exposure to interest rate changes results from its significant holdings of fixed rate investments. GEM manages its interest rate risk through the use of investment managers and investment consultants. GEM consults with its investment manager and investment consultant in order to ensure that the construction of its investment portfolio is designed to specifically satisfy the cash flow needs from its insurance activities on an on-going basis

The investment portfolio is constrained in terms of quality of investments and the maturity and duration of the securities in order to make sure that GEM is not subject to undue interest rate risk.

Other Required Disclosures

Off-Balance Sheet Arrangements – None

Participation in High Yield Financings, Highly Leveraged Transactions or Non-Investment Grade Loans and Investments – None

Preliminary Merger and Acquisition Negotiations – None

Independent Auditor's Report

To The Board of Directors and Members of
Government Entities Mutual, Inc., PCC:

We have audited the accompanying financial statements of Government Entities Mutual, Inc., PCC (the Company), which comprise the balance sheet as of December 31, 2015, and the related statements of comprehensive (loss) income, changes in Members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Government Entities Mutual, Inc., PCC as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Government Entities Mutual, Inc., PCC as of December 31, 2014, were audited by Saslow Lufkin & Buggy, who combined with Crowe Horwath LLP as of July 1, 2015, and whose report dated May 11, 2015, expressed an unmodified opinion on those statements.

Crowe Horwath LLP

Simsbury, Connecticut
May 19, 2016

Balance Sheets For Years Ended December 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	5,771,777	4,518,930
Certificate of deposit	1,006,023	1,006,023
Investments, available for sale, at fair value	72,865,509	72,693,536
Premiums receivable	186,499	165,236
Reinsurance recoverable	2,076,297	2,946,357
Prepaid reinsurance	1,263,688	900,397
Deferred policy acquisition costs	7,347	6,932
Prepaid expenses and other assets	71,350	136,926
Accrued interest receivable	387,126	388,679
Fixed assets, net of accumulated depreciation of $499,688 and $452,051 in 2015 and 2014, respectively	50,989	101,028
Total Assets	**$ 83,686,605**	**$ 82,864,044**
Liabilities And Members' Equity		
LIABILITIES		
Unpaid losses and loss adjustment expenses	56,510,932	45,901,811
Unearned premiums	3,266,047	3,080,772
Premium taxes payable	22,971	21,456
Accounts payable and accrued expenses	611,761	126,630
Payable for unsettled investment transactions	738,807	-
Employee benefits payable	72,719	111,146
Total Liabilities	**$ 61,223,237**	**$ 49,241,815**
Members' Equity		
Members' contributions	14,887,369	15,387,369
Accumulated other comprehensive income	828,633	2,027,984
Retained earnings	6,747,366	16,206,876
Total Members' Equity	**22,463,368**	**33,622,229**
Total Liabilities And Members' Equity	**$ 83,686,605**	**$ 82,864,044**

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

Note 1 - General

Reporting Entity

Government Entities Mutual, Inc., PCC (the Company) is domiciled in the District of Columbia and is capitalized by Member public entity risk pools. The Company was originally formed as an association sponsored reinsurance captive on behalf of a group of public entity risk pools. The Company received its certificate of authority on December 19, 2002, and commenced operations on January 1, 2003. The Company provides reinsurance to its Members on an excess of loss or quota share basis for liability, workers' compensation, auto physical damage, property and cyber.

The Company's Board of Directors approved amendments to the Company's articles of incorporation to convert the Company to a protected cell captive insurer under the captive insurance laws of the District of Columbia. The change to a protected cell captive insurer became effective January 2010. As of December 31, 2015, the Company has not created any protected cells.

A protected cell captive insurer in the District of Columbia has the ability to establish separate protected cells within the Company whereby the assets and liabilities of any one cell are financially and legally protected from the assets and liabilities of other cells. Should any individual cell become insolvent, the creditors of that cell will only have access to the assets of that specific cell and will not have recourse against the assets of other cells within the Company.

Note 2 - Summary of Significant Accounting Policies

Basis of Reporting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Use of Estimates

The preparation of financial statements in conformity with 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.

Statements Of Comprehensive (Loss) Income
Years Ended December 31, 2015 and 2014

	2015	2014
Revenues		
Net earned premiums	8,334,776	8,154,457
Investment income, net	1,767,589	1,725,211
Realized gains on investments	394,200	200,280
Total Revenues	**$10,496,565**	**$ 10,079,948**
Expenses		
Losses and loss adjustment expenses	17,763,731	4,659,481
General and administrative expenses	2,119,788	1,786,883
Underwriting expenses incurred	72,556	72,626
Total Expenses	**19,956,075**	**6,518,990**
Net (Loss) Income	**$ (9,459,510)**	**$ 3,560,958**
Other Comprehensive (Loss) Income		
Unrealized holding (losses) gains on available for sales securities	(805,151)	1,325,828
Reclassification adjustments for realized (losses) included in net income.	(394,200)	(200,280)
Total Other Comprehensive (Loss) Income	**(1,199,351)**	**1,125,548**
Comprehensive (Loss) Income	**$ (10,658,861)**	**$ 4,686,506**

Statements Of Changes In Members' Equity
Years Ended December 31, 2015 and 2014

	Members' Contributions	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at Jan. 1, 2014	**$15,387,369**	**$902,436**	**$12,645,918**	**$28,935,723**
Net income	–	–	3,560,958	3,560,958
Other comprehensive income	–	1,125,548	–	1,125,548
Balance at Dec. 31, 2014	**$15,387,369**	**$ 2,027,984**	**$16,206,876**	**$33,622,229**
Capital Distribution	(500,000)	–	–	(500,000)
Net loss	–	–	(9,459,510)	(9,459,510)
Other comprehensive loss	–	(1,199,351)	–	(1,199,351)
Balance at Dec. 31, 2015	**$14,887,369**	**$828,633**	**$6,747,366**	**$22,463,368**

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

Note 2 - Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Company classifies certain securities with original maturity dates of three months or less from the date of purchase as cash equivalents. Cash equivalents are comprised of money market funds as of December 31, 2015 and 2014. The amount held in money market account as of December 31, 2015 and 2014 was $2,443,065 and $871,233, respectively. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. Northway bank provides the Company with a daily repurchase agreement that collateralizes all of the funds in excess of the FDIC limits.

Certificate of Deposit

As of December 31, 2015 and 2014, the Company holds a certificate of deposit that has a maturity of less than one year. The certificate of deposit is carried at cost, which approximates fair value. Early withdrawal of the Company's certificate of deposit is subject to penalty.

Investments

The Company accounts for its investments in accordance with FASB ASC 320, Investments - Debt and Equity Securities. The Company's management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date.

Investments held as of December 31, 2015 and 2014, were classified as available for sale, and accordingly, were reported at their estimated fair value, with unrealized gains and losses being reported as a separate component of Members' equity as accumulated other comprehensive income. Realized investment gains and losses on investments sold, determined on a specific identification basis, are included in realized gains on investments on the statements of comprehensive (loss) income.

The amortized cost of debt securities is adjusted using the interest method for amortization of premiums and accretion of discounts. Such amortization and accretion are included in net investment income on the statements of comprehensive income.

Statements Of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
***Cash Flows From Operating Activities*:**		
Net (loss) income	(9,459,510)	3,560,958
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation	47,637	55,137
Amortization of debt securities	299,628	249,263
Realized (losses)	(394,200)	(200,280)
Changes in assets and liabilities:		
Premiums receivable	(21,263)	119,359
Reinsurance recoverable	870,060	6,615,794
Prepaid reinsurance	(363,291)	341,176
Deferred policy acquisition costs	(415)	1,170
Prepaid expenses and other assets	65,576	(9,752)
Amount due from Member	-	433,165
Accrued interest receivable	1,553	(4,336)
Unpaid losses and loss adjustment expenses	10,609,121	(3,713,578)
Unearned premiums	185,275	(519,778)
Premium taxes payable	1,515	(927)
Accounts payable and accrued expenses	85,131	(26,512)
Employee benefits payable	(38,427)	65,646
Net Cash Provided By Operating Activities	**$ 1,888,390**	**$ 6,966,505**
Cash Flows From Investing Activities:		
Maturity of certificate of deposit	1,006,023	1,000,000
Purchase of certificate of deposit	(1,006,023)	(1,006,023)
Purchases of available for sale investments	(31,854,790)	(32,481,209)
Proceeds from sales of available for sale investments	29,548,845	22,363,907
Proceeds from maturities of available for sale debt securities	1 ,768,000	2,211,416
Disposal (purchases) of fixed assets	2,402	(26,009)
Net Cash Used In Investing Activities	**$ (535,543)**	**$(7,937,918)**
Cash Flows From Financing Activities:		
Distribution of Member capital	(100,000)	-
Net cash used in investing activities	(100,000)	-
Change In Cash and Cash Equivalents	1,252,847	(971,413)
Cash and Cash Equivalents, Beginning of Year	4,518,930	5,490,343
Cash and Cash Equivalents, End of Year	**$ 5,771,777**	**$ 4,518,930**
Supplemental Disclosure:		
Unsettled investment transactions	738,807	-

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

Note 2 - Summary of Significant Accounting Policies (continued)

Investments (continued)

The Company measures its investments in accordance with FASB ASC 820, Fair Value Measurements and Disclosures, which defines fair value, provides a framework for measuring fair value under GAAP and requires certain disclosures about fair value measurements. The definition of fair value under FASB ASC 820 focuses on the price that would be received to sell the asset, 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 broad levels as follows:

Level 1 - Valuation is based upon quoted prices in active markets for identical securities.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specific (contractual) term, the Level 2 input must be observable for substantially the full term of the asset.

Level 3 - Valuation is based upon significant unobservable inputs (including the Company's own assumptions determining the fair value of investments).

The Company has recorded its investments at fair value, as more fully described in Note 3.

The fair values of investments are measured using quoted market prices or dealer quotations, when available. When quoted market prices are not available, fair value is measured using quoted market prices for similar securities.

Other Than Temporary Impairments on Investments

When a decline in fair market value is deemed to be other than temporary, a provision for impairment is charged to earnings, and the cost basis of that investment is reduced.

The Company determines other than temporary impairments on debt securities in accordance with the provisions of FASB ASC 320. 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 is met, an impairment loss 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 of future cash flows) is recognized in earnings and the remaining portion of the impairment is recognized as a component of other comprehensive income. No impairments related to debt securities were recorded in 2015 or 2014.

For equity securities, the Company's management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in an unrealized loss position, extent to which the fair value is less than the cost, the financial condition and near term prospects of the issuer and the Company's ability and intent to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. No impairments related to equity securities were recorded in 2015 or 2014.

Premiums Receivable

Premiums receivable are stated at the amount the Company expects to collect balances outstanding at year-end. Based on management's assessments of the credit history with policyholders having outstanding balances and current relationships with them, management has concluded that realization of losses on balances outstanding at year-end will be insignificant.

Fixed Assets

Fixed assets, consisting of computer equipment, software, furniture and fixtures, are stated at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the respective assets. Depreciation expense for the years ended December 31, 2015 and 2014 was $47,637 and $55,137, respectively.

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 policyholders, unamortized deferred policy acquisition costs, and maintenance costs exceed unearned premiums and anticipated investment income. No premium deficiencies have been recognized in 2015 and 2014.

Reinsurance

In the normal course of business, the Company seeks to reduce its loss exposure by ceding certain levels of risk to reinsurers. Reinsurance is accounted for in accordance with FASB ASC 944, Financial Services - *Insurance*. Ceded premiums are expensed over the period that coverage is provided. Prepaid reinsurance premiums are calculated on a pro-rata basis for the unexpired term of the policy in force. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsurance contracts. As these estimates change, the adjustment is recorded in the current period.

Unpaid Losses and Loss Adjustment Expenses

The liability for unpaid losses and loss adjustment expenses and related reinsurance recoverable includes case basis estimates of reported losses, plus supplemental amounts for incurred but not reported losses calculated based upon loss projections utilizing the Company's historical and industry data. In establishing the liability for losses and loss adjustment expenses and related reinsurance recoverable, the Company utilizes the findings of an independent consulting actuary. Management believes that its aggregate liability for unpaid losses and loss adjustment expenses and related reinsurance recoverable at year-end represents management's 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 limited historical data, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liability at the balance sheet date. Accordingly, the ultimate liability could be in excess of, or less than, the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

Deferred Policy Acquisition Costs

Deferred policy acquisition costs consist of premium taxes, which have been deferred and amortized over the terms of the policies to which they relate. Amortization of acquisition costs amounted to $22,556 and $22,626 for the years ended December 31, 2015 and 2014, respectively, and are included in underwriting expenses incurred within the statements of comprehensive (loss) income.

Comprehensive (Loss) Income

The Company reports comprehensive (loss) income in accordance with FASB ASC 220, Comprehensive Income. Comprehensive (loss) income is a measurement of certain changes in Members' equity that results from transactions and other economic events other than transactions with Members. For the Company, these events consist of changes in unrealized gains and losses on the investment portfolio, which are used to adjust net income to arrive at comprehensive (loss) income. The cumulative amount of these changes is reported in the balance sheets within accumulated other comprehensive income. The Company has provided information about the amounts reclassified out of accumulated other comprehensive income by component within Note 9.

Income Taxes

The Company is exempt from federal taxes in accordance with Section 115(1) of the Internal Revenue Code.

The Company accounts for uncertain tax positions in accordance with FASB ASC 740, *Income Taxes,* which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, on a tax return. FASB ASC 740 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. FASB ASC 740 permits the recognition of tax positions that meet a "more likely than not" threshold, based on the technical merits of the position.

The Company did not record any unrecognized tax benefits for the years ended December 31, 2015 and 2014. The Company anticipates that it will not have a change in unrecognized tax benefits during the next twelve months that would have a material impact on the Company's financial statements. The Company's policy is to recognize interest and penalties related to income taxes as a component of general and administrative expenses. For the years ended December 31, 2015 and 2014, the Company did not record any penalties or interest associated with unrecognized tax benefits. All tax years from 2012 and forward are open and subject to examination. Company's financial statements. The Company's policy is to recognize interest and penalties related to income taxes as a component of general and administrative expenses. For the years ended December 31, 2014 and 2013, the Company did not record any penalties or interest associated with unrecognized tax benefits. All tax years from 2012 and forward are open and subject to examination.

Subsequent Events

Subsequent events have been evaluated through May 19, 2016, which is the date the financial statements were available to be issued.

Note 3 - Investments

Investments, classified as available for sale and carried at fair value as of December 31, 2015, are as follows:

	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities				
Corporate and foreign debt securities	24,739,784	390,375	(263,757)	24,866,402
U.S. government obligations	3,849,642	13,644	(10,419)	3,852,867
Foreign government obligations	800,000	5,968	(1,030)	804,938
Municipal bonds	4,386,706	77,055	(8,847)	4,454,914
Treasury inflation protected securities	1,880,601	-	(30,065)	1,850,536
Mortgage and asset backed securities	33,287,126	429,949	(183,316)	33,533,759
Total Debt Securities	**$ 68,943,859**	**$ 916,991**	**$ (497,434)**	**$ 69,363,416**
Equity Securities - Mutual Funds				
Large value fund	1,936,097	453,530	-	2,389,627
Foreign large blend fund	390,098	9,534	-	399,632
Small blend fund	257,285	-	(7,760)	249,525
Mid-cap blend fund	257,306	11,554	-	268,860
Diversified emerging markets	252,230	-	(57,781)	194,449
Total Equity Securities	**3,093,016**	**474,618**	**(65,541)**	**3,502,093**
Total	**$ 72,036,875**	**$ 1,391,609**	**$ (562,975)**	**$ 72,865,509**

Investments, classified as available for sale and carried at fair value as of December 31, 2014, are as follows:

	Original or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities				
Corporate and foreign debt securities	22,616,278	699,660	(64,160)	23,251,778
U.S. government obligations	2,807,871	31,748	(1,177)	2,838,442
Municipal bonds	5,512,832	148,477	(5,734)	5,655,575
Treasury inflation protected securities	1,345,689	-	(3,186)	1,342,503
Mortgage and asset backed securities	35,314,153	749,100	(179,915)	35,883,338
Total Debt Securities	**$ 67,596,823**	**$ 1,628,985**	**$ (254,172)**	**$ 68,971,636**
Equity Securities - Mutual Funds				
Large value fund	1,936,098	623,405	-	2,559,503
Foreign large blend fund	379,155	23,483	(1,845)	400,793
Small blend fund	253,637	5,317	-	258,954
Mid-cap blend fund	253,409	19,105	(5)	272,509
Diversified emerging markets	246,430	465	(16,754)	230,141
Total Equity Securities	**3,068,729**	**671,775**	**(18,604)**	**3,721,900**
Total	**$ 70,665,552**	**$ 2,300,760**	**$ (272,776)**	**$ 72,693,536**

Proceeds from sales and maturities of available for sale investments amounted to $29,548,845 and $1,768,000, respectively, in 2015. Proceeds from sales and maturities of available for sale investments amounted to $22,363,907 and $2,211,416, respectively, in 2014. Gross realized gains on sales amounted to $481,176 and $318,235 in 2015 and 2014, respectively. Gross realized losses on sales amounted to $86,976 and $117,955 in 2015 and 2014, respectively.

The amortized cost and fair value of debt securities available for sale, shown by contractual maturity, as of December 31, 2015 are as follows:

Due to mature:	Amortized Cost	Fair Value
One year or less	2,147,550	2,155,095
After one year through five years	14,367,624	14,594,273
After five years through ten years	18,176,493	18,134,829
After ten years	965,066	945,460
Mortgage and asset backed securities	33,287,126	33,533,759
Total Debt Securities	**$ 68,943,859**	**$ 69,363,416**

Note 3 - Investments (continued)

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2015:

	Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities				
Corporate and foreign debt securities	7 ,996,745	(196,790)	3,153,644	(66,967)
U.S. government obligations	3,140,021	(9,601)	145,177	(818)
Foreign government obligations	248,970	(1,030)	-	-
Municipal bonds	309,633	(6,597)	350,611	(2,250)
Treasury inflation protected securities	524,354	(3,380)	1,326,181	(26,685)
Mortgage and asset backed securities	9,136,398	(65,712)	9,199,676	(117,604)
Total Fixed Maturities	**$ 21,356,121**	**$ (283,110)**	**$ 14,175,289**	**$ (214,324)**
Equity Securities - Mutual Funds				
Diversified emerging markets	-	-	194,451	(57,781)
Small blend fund	249,524	(7,760)	-	-
Total Equity Securities	**249,524**	**(7,760)**	**194,451**	**(57,781)**
Total	**$ 21,605,645**	**$ (290,870)**	**$ 14,369,740**	**$ (272,105)**

As of December 31, 2015, the Company holds 167 securities in an unrealized loss position, of which 106 have been in an unrealized loss position for a period of less than 12 months and 61 have been in an unrealized loss position for greater than 12 months. Based upon the evaluation of the criteria as identified in Note 2, the Company does not consider these securities to be other than temporarily impaired as of December 31, 2015.

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position, as of December 31, 2014:

	Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities				
Corporate and foreign debt securities	2,699,809	(19,174)	1,511,632	(44,986)
U.S. government obligations	193,607	(426)	48,229	(751)
Municipal bonds	339,322	(678)	576,333	(5,056)
Treasury inflation protected securities	1,332,901	(2,967)	9,601	(219)
Mortgage and asset backed securities	4,597,808	(21,547)	8,292,501	(158,368)
Total Fixed Maturities	**$ 9 ,163,447**	**$ (44,792)**	**$ 10,438,296**	**$ (209,380)**
Equity Securities - Mutual Funds				
Diversified emerging markets	221,276	(16,754)	–	–
Foreign large blend fund	24,012	(1,845)	–	–
Mid-cap blend fund	3,405	(5)	–	–
Total Equity Securities	**248,693**	**(18,604)**	**–**	**–**
Total	**$ 9,412,140**	**$ (63,396)**	**$ 10,438,296**	**$ (209,380)**

As of December 31, 2014, the Company holds 116 securities in an unrealized loss position, of which 62 have been in an unrealized loss position for a period of less than 12 months and 54 have been in an unrealized loss position for greater than 12 months. Based upon the evaluation of the criteria as identified in Note 2, the Company does not consider these securities to be other than temporarily impaired as of December 31, 2014.

The fair value measurement level selected within the fair value hierarchy discussed in Note 2 is based on using the lowest level of input that is significant to the fair value measurement. The valuation techniques used by the Company maximize the use of observable inputs and minimize the use of unobservable inputs. Investments in money market funds and mutual funds were recorded using Level 1 fair values based on observable quoted market prices from national securities exchanges.

Prices for government, agency, municipal, corporate, mortgage backed, and asset backed securities of the Company are based on observable market data for the same or similar securities, including quoted prices in markets that are not active, or matrix pricing or other similar techniques that use observable market inputs, such as benchmark yields, expected prepayment speeds and volumes, and issuer ratings and, consequently, are classified as Level 2. To a lesser extent, indicative quotes are obtained from independent brokers. Broker prices may be classified as Level 2 or Level 3, depending on the availability of observable inputs. All prices are validated through internal price models.

Note 3 - Investments (continued)

The following table sets forth by level, within the fair value hierarchy, the Company's investments at fair value as of December 31, 2015 and 2014:

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2015			
Debt Securities			
Corporate and foreign debt securities	–	24,866,402	–
U.S. government obligations	–	3,852,867	–
Foreign government obligations	–	804,938	–
Municipal bonds	–	4,454,914	–
Treasury inflated protected securities	–	1,850,536	–
Mortgage and asset backed securities	–	33,533,759	–
Mutual Funds			
Large value fund	2,389,627	–	–
Foreign large blend fund	399,632	–	–
Small blend fund	249,525	–	–
Mid-cap blend fund	268,860	–	–
Diversified emerging markets	194,449	–	–
Total	**$ 3,502,093**	**$ 69,363,416**	**–**

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014			
Debt Securities			
Corporate and foreign debt securities	–	23,251,778	–
U.S. government obligations	–	2,838,442	–
Municipal bonds	–	5,655,575	–
Treasury inflated protected securities	–	1,342,503	–
Mortgage and asset backed securities	–	35,883,338	–
Mutual Funds			
Large value fund	2,559,503	–	–
Foreign large blend fund	400,793	–	–
Small blend fund	258,954	–	–
Mid-cap blend fund	272,509	–	–
Diversified emerging markets	230,141	–	–
Total	**$ 3,721,900**	**$ 68,971,636**	**–**

Note 4 - Insurance Activity

The Company provides general liability, workers' compensation, auto liability, property, and cyber risk reinsurance protection to its members on an excess of loss or quota share basis. The Company participates in various insurance layers depending on the specific underlying insurance program of the individual members. The coverages provided are in excess of varying self-insured retentions (SIR), which also vary by member. The Company procures reinsurance coverage to limit its net exposure, and the amount of the Company's retention is determined based upon the specific insurance limits written for each individual member. The Company's maximum net retention for policies with effective period in each fiscal year is as follows for each line of business:

	Net Retained Maximum Limit	
	2015	2014
Property (per occurrence)	$ –	$ 1,000,000
Property (aggregate)	$ –	$ 5,000,000
General Liability (per occurrence)	$ 3,000,000	$ 3,000,000
Auto Liability (per occurrence)	$ 3,000,000	$ 3,000,000
Worker's Compensation (per occurrence)	$ 1,500,000	$ 1,500,000
Cyber (per occurrence)	$ 50,000	$ 750,000
Cyber (per aggregate)	$ 150,000	$ 3,000,000

Prior to September 1, 2015, the Company procured reinsurance on a facultative basis. Effective September 1, 2015, the Company entered into a treaty reinsurance agreement, which provides coverage to the Company for all Members' general liability coverage. The first layer of coverage is a 40% quota share of $2,000,000 per occurrence. The premium is 40% of subject written related to this layer of coverage. The contract provides a 20% ceding commission on all premiums ceded to the two retrocessionaires.

Reinsurance provided to the Company related to the second layer of coverage for general liability is 95% of $8,000,000 in excess of $2,000,000 per occurrence with an annual aggregate of $30,400,000. The premium is 90% of subject written related to this layer of coverage.

Effective January 1, 2015, the Company provides cyber risk coverage on a quota share basis, retaining 5% of $1,000,000 per occurrence with an annual aggregate of 5% of $3,000,000. In fiscal year 2014, the Company provided direct cyber risk coverage with net retained limits described above.

The reinsurance contracts reduce the exposure to large losses by permitting recovery of a portion of the losses and loss adjustment expenses. The reinsurance contracts do not relieve the Company from its primary obligations to its policyholders. Additionally, failure of a reinsurer to honor its obligations for claims incurred in prior years and reported in the current or future years could result in significant losses to the Company. Reinsurance recoverable as of December 31, 2015 and 2014 are due from U.S. and foreign reinsurers, all with A.M. Best ratings of A (Excellent) or higher.

The Company recorded reinsurance recoveries (expense) of $290,758 and ($426,941) in 2015 and 2014, respectively, which is reflected as a decrease (increase) in losses and loss adjustment expenses incurred in the statements of comprehensive (loss) income. The change in reinsurance recoveries is offset by unpaid losses and loss adjustment expenses and paid losses and relates to development on reinsured claims.

Premiums assumed and the related reinsurance amounts for the years ended December 31, 2015 and 2014, are as follows:

	2015		2014	
	Written	Earned	Written	Earned
Assumed	10,209,482	10,024,207	9,535,942	10,055,720
Ceded	(1,843,796)	(1,689,431)	(1,560,087)	(1,901,263)
Net	**$ 8,365,686**	**$ 8,334,776**	**$ 7,975,855**	**$ 8,154,457**

Activity in the liability for unpaid losses and loss adjustment expenses for the Company is summarized as follows for the years ended December 31, 2015 and 2014:

	2015	2014
Balance at January 1	45,901,811	49,615,389
Less: reinsurance recoverable (unpaid losses)	(2,946,357)	(9,562,151)
Net Balance At January 1	**$ 42,955,454**	**$ 40,053,238**
Incurred Related To:		
Current year	8,070,688	8,017,028
Prior years	9,693,043	(3,357,547)
Total Incurred	**$ 17,763,731**	**$ 4,659,481**
Paid Related To:		
Current year	–	–
Prior years	(6,284,550)	(1,757,265)
Total Paid	**$ (6,284,550)**	**$ (1,757,265)**
Net Balance At December 31	**54,434,635**	**42,955,454**
Add: Reinsurance recoverable (unpaid losses)	2,076,297	2,946,357
Balance At December 31	**$ 56,510,932**	**$ 45,901,811**

The total incurred losses increased in 2015 by a total of $17,763,731 which included an increase of $9,693,043 in prior year loss activity due to unfavorable development on liability claims. Subsequent to December 31, 2015, management became aware of $5,450,192 of unfavorable development on claims related to prior policy periods.

The unfavorable development has been appropriately reflected in the accompanying financial statements as of December 31, 2015.

The total incurred losses increased in 2014 by a total of $4,659,481, which included a decrease of $3,357,547 in prior year loss activity due to favorable development on property claims.

Note 5 - Leasing Arrangements and Related Party Transactions

The Company maintains a long-term operating lease for office accommodation in New Hampshire which was effective October 1, 2014, with a five year term, expiring September 30, 2019. The annual rental fees charged include Company's pro rata share of taxes and common area charges. The rental expense related to this lease for the years ended December 31, 2015 and 2014 was $52,603 and $10,870, respectively, and is included within the Company's general and administrative expenses in the statements of comprehensive (loss) income. Minimum future lease payments required under this operating lease are as follows:

	Minimum Future Lease Payment
2016	$ 44,840
2017	$ 45,926
2018	$ 47,013
2019	$ 48,100

The Company leased office space from one of its Members under a five year lease agreement that expired on December 31, 2013. The lease agreement was renewed for one year, expiring December 31, 2014. Annual rental payments of $12,752 are included within the Company's general and administrative expenses in the statements of comprehensive (loss) income for the year ended December 31, 2014.

Note 6 - Members' Equity

There are three classifications of membership within the Company: Founding, Premiere and Associate Members. The Board has adopted a Surplus Contribution and Withdrawal Policy that establishes the surplus requirements for each of the membership classes. Founding Members are those who made a surplus contribution prior to October 1, 2003. Premiere Members are eligible entities that made the required surplus contribution after October 1, 2003. In 2011, The Company's Board of Directors amended the By-laws for Associate Membership whereby Associate Members would contribute a lower initial surplus. The Company currently has no Associate Members.

The Company is a non-assessable mutual insurance company. However, the Board may request additional surplus contributions, in such amounts and at such times as may be deemed necessary and appropriate by the Board, in order to maintain adequate surplus to premium ratios for the safe and sound operation of the Company.

Founding and Premiere Members shall have one vote for each $100,000 of the Member's allocated surplus account. Associate Members will receive one vote once the total surplus contribution of $100,000 is attained.

If a Member ceases to obtain insurance from the Company, it can either withdraw its surplus account or maintain the account. If the Member elects to withdraw the account, such withdrawal will be completed, at the sole discretion of the Board and approval by the District of Columbia Department of Insurance, Securities and Banking (the Department), no later than five years from the date of notice of withdrawal. Founding and Premiere Members withdrawing from the Company within a five year period of becoming a Member will forfeit all contributed surplus and any amounts allocated to the Members' surplus account. Associate Members' electing to withdraw from the Company will forfeit all of their initial surplus contribution. As of December 31, 2015, a Member has elected to not renew insurance coverage and request withdrawal of surplus held with the Company. The Board of Directors and the Department approved to pay the contributed surplus back over a five year term beginning December 31, 2015. A distribution of $100,000 was paid in cash as of December 31, 2015 and the remaining $400,000 is recorded on the balance sheets in accounts payable and accrued expenses.

The following is a schedule of Member surplus contributions as of December 31, 2015 and 2014:

	2015	2014
Founding Members		
PDRMA	$ 2,400,000	$ 2,400,000
NH PRIMEX	$ 2,250,000	$ 2,250,000
MMRMA	$ 1,144,795	$ 1,144,795
ENDURIS	$ 975,708	$ 975,708
DVIT	$ 926,866	$ 926,866
MMIA	$ 750,000	$ 750,000
WSTIP	$ 750,000	$ 750,000
WCIA	$ 750,000	$ 750,000
MVRMA	$ 750,000	$ 750,000
TCRMF	$ 1,000,000	$ 1,000,000
MPR	$ 500,000	$ 500,000
VTLP	$ 500,000	$ 500,000

	2015	2014
Founding Members		
WMMIC	$ 500,000	$ 500,000
TASBRMF	$ –	$ 500,000
Premiere Members		
CALTIP	$ 655,000	$ 655,000
TWCARMF	$ 500,000	$ 500,000
NPAIP	$ 500,000	$ 500,000
Associate Members		
SCCPLT	$ 25,000	$ 25,000
SDRMA	$ 5,000	$ 5,000
AMLJIA	$ 5,000	$ 5,000
Totals	**$ 14,887,369**	**$ 15,387,369**

District of Columbia captive insurance statutes require $500,000 minimum unimpaired paid-in capital and surplus be maintained by a mutual/association protected cell company. The Company has filed its Annual Statement with the Department on a statutory basis.

Note 6 - Members' Equity (continued)

The following table reconciles the financial statements to the annual statutory statement filed with the Department as of and for the years ended December 31, 2015 and 2014.

	Assets	Liabilities	Members' Equity	Net (Loss) Income
December 31, 2015:				
As reported within audited financial statements	83,686,605	61,223,237	22,463,368	(9,459,510)
Deferred acquisition costs	(7,347)	(13,810)	6,463	13,395
Market value adjustment	(453,315)	–	(453,315)	2,531
Reclassifications	(3,076,678)	(3,076,678)	–	–
Non-admitted assets	(53,129)	–	(53,129)	–
Other	–	(4)	4	2
As Reported Within The Annual Statement On A Statutory Basis	**$ 80,096,136**	**$ 58,132,745**	**$ 21,963,391**	**$ (9,443,582)**
December 31, 2014:				
As reported within audited financial statements	82,864,044	49,241,815	33,622,229	3,560,958
Deferred acquisition costs	(6,932)	–	(6,932)	1,170
Market value adjustment	(1,374,545)	–	(1,374,545)	15,651
Reclassifications	(3,846,754)	(3,846,754)	–	–
Non-admitted assets	(206,477)	–	(206,477)	23,845
Other	–	(1)	1	–
As Reported Within The Annual Statement On A Statutory Basis	**$ 77,429,336**	**$ 45,395,060**	**$ 32,034,276**	**$ 3,601,624**

Note 7 - Employee Benefit Plans

The Company has established a 401(k) employer contribution plan. The Company will provide an immediately vested contribution to this plan in the amount equal to 10% of the employee's gross salary, which is voluntary and up to management discretion. Employees earning over the social security wage base of $118,500 and $117,000 in 2015 and 2014, respectively, will receive an additional 6.2%, respectively, on the amount earned between the social security wage base and their annual salary. The Company has recorded these contributions of $89,889 and $85,645 within general and administrative expenses on the statements of comprehensive (loss) income for the years ended December 31, 2015 and 2014, respectively.

Note 8 - Reinsurance Trust

The Company has a reinsurance trust to benefit one of its Members to collateralize the Member's reinsurance recoverable (including incurred but not reported claims and case reserves) from the Company. The value of this trust was $1,099,978 as of December 31, 2015, with $2,537 included within cash and cash equivalents, and the remaining $1,097,441 included within investments, available for sale, at fair value. The value of this trust was $1,087,900 as of December 31, 2014, with $12,683 included within cash and cash equivalents, and the remaining $1,075,217 included within investments, available for sale, at fair value.

Note 9 - Accumulated Other Comprehensive Income

The following table presents the changes in accumulated other comprehensive income, which is comprised of unrealized gains and losses on available for sale securities as of December 31, 2015 and 2014:

	2015	2014
Beginning Balance	$ 2,027,984	$ 902,436
Unrealized holding gains on available for sale securities	(805,151)	1,325,828
Reclassification adjustment for realized gains included in net income	(394,200)	(200,280)
Net current-period other comprehensive (loss) income	(1,199,351)	1,125,548
Ending Balance	**$ 828,633**	**$ 2,027,984**

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NPAIP PACT

MMIA MONTANA MUNICIPAL INTERLOCAL AUTHORITY

MPR MIDWEST PUBLIC RISK

PDRMA Park District Risk Management Agency

Primex NH Public Risk Management Exchange

TWCA Risk Management Fund

Texas Council Risk Management Fund

WA cities Insurance Authority

DVIT DELAWARE VALLEY INSURANCE TRUST

Virginia Transit Liability Pool Partners in Public Transit

M·V·R·M·A MIAMI VALLEY RISK MANAGEMENT ASSOCIATION

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