Audited Financial Statements

(As of and for the Years Ended December 31, 2015 and 2014)

HAI Group

Housing Authority Risk Retention Group, Inc. and Subsidiary (HARRG)

Housing Authority Property Insurance, A Mutual Company (HAPI)

Housing Enterprise Insurance Company, Inc. (HEIC)

Housing Specialty Insurance Company, Inc. (HSIC)

Housing Authority Insurance, Inc. (HAI)

Housing Telecommunications, Inc. (HTI)

Housing Investment Group, Inc. and Subsidiaries (HIG)

Public and Affordable Housing Research Corporation (PAHRC)

Innovative Housing Insurance Company, Inc (IHIC)

Table of Contents

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HOUSING AUTHORITY RISK RETENTION GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

December 31, 2015 and 2014

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Housing Authority Risk Retention Group, Inc. and Subsidiaries:

We have audited the accompanying consolidated financial statements of Housing Authority Risk Retention Group, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2015, and the related consolidated statements of comprehensive (loss) income, changes in equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Housing Authority Risk Retention Group, Inc. and Subsidiaries as of December 31, 2015, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

(Continued)

Other Matter

The consolidated financial statements of Housing Authority Risk Retention Group, Inc. and Subsidiaries, as of and for the year ended December 31, 2014, were audited by Saslow Lufkin & Buggy, LLP, who combined with Crowe Horwath LLP as of July 1, 2015, and whose report dated March 13, 2015 expressed an unmodified opinion on those statements.

Our audit was conducted for the purpose of forming an opinion on the 2015 consolidated financial statements as a whole. The consolidating balance sheet and consolidating statement of comprehensive loss is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the 2015 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2015 information is fairly stated in all material respects in relation to the 2015 consolidated financial statements as a whole. The 2014 consolidating balance sheet and consolidating statement of comprehensive income is presented for purposes of additional analysis and is not a required part of the 2014 consolidated financial statements. The 2014 information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 consolidated financial statements. The information has been subjected to the auditing procedures applied by other auditors in the audit of the 2014 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and whose report dated March 13, 2015 expressed an opinion that such information was fairly stated in all material respects in relation to the 2014 consolidated financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
March 11, 2016

HOUSING AUTHORITY RISK RETENTION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
ASSETS		
Investments:		
Available for sale, at fair value	$ 302,293,836	$ 308,479,005
Investment in HIG	6,089,987	5,294,395
Investment in HSIC	7,722,735	7,826,541
Total investments	316,106,558	321,599,941
Cash and cash equivalents	9,886,290	11,813,011
Reinsurance recoverables on unpaid losses	1,972,272	6,711,158
Reinsurance recoverables on paid losses	473,811	45,845
Premiums receivable	20,836,821	15,703,748
Prepaid reinsurance premiums	5,279,103	5,302,018
Due from affiliates	1,422,504	2,682,748
Accrued investment income	1,246,467	1,668,933
Deferred policy acquisition costs	2,663,530	2,353,037
Deferred tax asset	2,192,227	2,509,365
Property and equipment, net	17,957,389	13,708,463
Other assets	3,885,013	3,764,525
Total assets	$ 383,921,985	$ 387,862,792
LIABILITIES AND EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 108,490,516	$ 107,941,101
Unearned premiums	30,933,729	28,866,202
Reinsurance balances payable	2,256,244	1,879,388
Term loan	7,495,807	7,966,564
Accrued policyholder dividends	3,970,000	5,359,339
Advance premiums	6,914,704	3,447,269
Due to affiliates	47,108	35,075
Accrued expenses and other liabilities	11,641,203	10,657,691
Payable for securities	-	493,312
Federal income taxes payable	13,523	-
Total liabilities	171,762,834	166,645,941
Equity:		
Members' contributions	10,921,290	10,837,948
Accumulated other comprehensive income	3,809,081	12,746,833
Retained earnings	183,897,120	184,047,486
Total equity before non-controlling interest	198,627,491	207,632,267
Non-controlling interest	13,531,660	13,584,584
Total equity	212,159,151	221,216,851
Total liabilities and equity	$ 383,921,985	$ 387,862,792

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

HOUSING AUTHORITY RISK RETENTION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
For the Years Ended December 31, 2015 and 2014

	2015	2014
Revenues		
Premiums earned	$ 61,232,583	$ 58,390,006
Ceded premiums earned	(10,675,801)	(12,103,815)
Net earned premiums	50,556,782	46,286,191
Investment gain	7,398,698	7,474,415
Unrealized loss on investments in affiliates	(3,340,485)	(5,621,227)
Net realized investment gains	5,431,632	3,390,730
Total revenues	60,046,627	51,530,109
Expenses		
Losses and loss adjustment expenses	33,981,332	25,109,225
Salaries and other compensation	8,639,044	8,052,582
Contractual services and professional fees	1,009,266	1,995,388
General and administrative expenses	7,006,374	5,989,795
Policy acquisition costs	3,857,620	3,876,507
Total expenses	54,493,636	45,023,497
Policyholder dividends	4,216,719	5,922,125
Net income before federal income tax expense	1,336,272	584,487
Federal income tax expense	574,872	286,092
Net income	761,400	298,395
Less net income (loss) attributable to non-controlling interest	113,171	(705,357)
Net income attributable to the Company	648,229	1,003,752
Other comprehensive (loss) income		
Unrealized holding (losses) gains on available for sale securities, net of tax expense of ($234,002) and $227,133 in 2015 and 2014, respectively	(3,695,312)	7,611,686
Reclassification adjustments for realized gains included in net income, net of tax expense of $10,212 and $163,971 in 2015 and 2014, respectively	(5,408,536)	(3,226,760)
Other comprehensive (loss) income	(9,103,848)	4,384,926
Less other comprehensive (loss) income attributable to non-controlling interest	(166,096)	42,912
Other comprehensive (loss) income attributable to the Company	(8,937,752)	4,342,014
Comprehensive (loss) income attributable to the Company	$ (8,289,523)	$ 5,345,766

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

HOUSING AUTHORITY RISK RETENTION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2015 and 2014

	Members' Contributions	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity Before Non-controlling Interest	Non-controlling Interest	Total Equity
Balance as of January 1, 2014	$ 10,622,783	$ 8,404,819	$ 183,752,312	$ 202,779,914	$ 12,497,028	$ 215,276,942
Net income (loss)	-	-	1,003,752	1,003,752	(705,356)	298,396
Other comprehensive income	-	4,342,014	-	4,342,014	42,912	4,384,926
Contributed capital	-	-	-	-	1,750,000	1,750,000
Equity dividends	-	-	(496,013)	(496,013)	-	(496,013)
Members' contributions	2,600	-	-	2,600	-	2,600
Members' recapitalization dividends	212,565	-	(212,565)	-	-	-
Balance as of December 31, 2014	10,837,948	12,746,833	184,047,486	207,632,267	13,584,584	221,216,851
Net income	-	-	648,229	648,229	113,172	761,401
Other comprehensive loss	-	(8,937,752)	-	(8,937,752)	(166,096)	(9,103,848)
Contributed capital	-	-	-	-	-	-
Equity dividends	-	-	(724,042)	(724,042)	-	(724,042)
Members' contributions	8,789	-	-	8,789	-	8,789
Members' recapitalization dividends	74,553	-	(74,553)	-	-	-
Balance as of December 31, 2015	$ 10,921,290	$ 3,809,081	$ 183,897,120	$ 198,627,491	$ 13,531,660	$ 212,159,151

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

HOUSING AUTHORITY RISK RETENTION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

		2015		2014
Cash flows from operating activities				
Net income	$	761,400	$	298,395
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		1,052,238		632,289
Net realized investments gains		(5,431,632)		(3,390,730)
Amortization on investments, net		425,005		829,790
Unrealized loss on investment in HIG		3,304,408		5,437,740
Unrealized loss on investment in HSIC		37,165		183,492
Deferred federal income taxes		561,349		286,256
Changes in assets and liabilities				
Reinsurance recoverables on unpaid losses		4,738,886		(1,419,047)
Reinsurance recoverables on paid losses		(427,966)		977,415
Premiums receivable		(5,133,073)		310,583
Prepaid reinsurance premiums		22,915		126,651
Due from affiliates		1,260,244		(576,315)
Accrued investment income		422,466		177,805
Deferred policy acquisition costs		(310,493)		142,000
Federal income tax receivable		-		269,763
Other assets		(120,488)		(817,000)
Unpaid losses and loss adjustment expenses		549,415		2,633,112
Unearned premiums		2,067,527		746,594
Reinsurance balances payable		376,856		(833,311)
Accrued policyholder dividends		(1,389,339)		(1,916,151)
Advance premiums		3,467,435		(790,919)
Due to affiliates		12,033		(372,448)
Accrued expenses and other liabilities		983,512		1,135,618
Payable for securities		(493,312)		493,312
Federal income taxes payable		13,523		-
Cash provided by operating activities		6,750,074		4,564,894
Cash flows from investing activities				
Purchases of available for sale securities		(100,837,837)		(119,985,997)
Proceeds from securities sold		72,090,324		109,247,713
Proceeds from prepayments and maturities of securities		30,657,892		20,285,176
Capital contributions to HIG		(4,100,000)		(2,500,000)
Capital contributions to HSIC		-		(5,000,000)
Additions to property and equipment		(5,301,164)		(10,089,282)
Cash used in investing activities		(7,490,785)		(8,042,390)
Cash flows from financing activities				
Payments on term loan		(470,757)		(456,663)
Capital contributions		-		1,750,000
Equity dividends		(724,042)		(496,013)
Members' contributions		8,789		2,600
Cash (used in) provided by financing activities		(1,186,010)		799,924
Change in cash and equivalents		(1,926,721)		(2,677,572)
Cash and cash equivalents, beginning of year		11,813,011		14,490,583
Cash and cash equivalents, end of year	$	9,886,290	$	11,813,011
Supplemental disclosure				
Cash paid for interest	$	235,797	$	249,862
Cash received for taxes	$	-	$	269,927

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

NOTE 1 - REPORTING ENTITY AND ORGANIZATION

Housing Authority Risk Retention Group, Inc. (HARRG) or collectively with the subsidiary (the Company) was incorporated on March 20, 1987, under the laws of the State of Vermont. It is a non-profit risk retention group which was formed for the purpose of providing liability insurance coverage to member public housing authorities (PHAs) throughout the United States of America. HARRG is the majority stockholder of Housing Enterprise Insurance Company, Inc. (HEIC), its subsidiary, with a 65% ownership as of December 31, 2015 and 2014.

HEIC is a licensed domestic stock insurance company domiciled in the State of Vermont. HEIC was established to provide various lines of insurance coverage for the for-profit low income and affordable housing units that are not in the public housing authority program for the members of Housing Authority Insurance, Inc. (HAI), an association and a related party through common management.

HARRG and Housing Authority Property Insurance, A Mutual Company (HAPI), a related party through common management that provides property insurance for the members of HAI that are part of the public housing authority program, each contributed $10,000,000 and each received 1,000 shares of voting common stock for their ownership share in HEIC. The Company and HAPI also each paid in $2,000,000 in additional contributed surplus. As of December 31, 2015 and 2014, HARRG owned 1,300 shares of voting common stock in the amount of $13,000,000 and HAPI owned 700 shares of voting common stock in the amount of $7,000,000. During 2014, HARRG and HAPI paid in $3,250,000 and $1,750,000, respectively, in contributed surplus.

In July 2015, the Company formed Innovative Housing Insurance Company, Inc. (IHIC), a Vermont Captive Insurance Company, to provide insurance and reinsurance coverage for various types of risks of a single insured entity, Housing Alliance Group, LLC (HAGL), which is a wholly-owned subsidiary of HIG, who works with public housing authorities throughout the United States. On August 21, 2015, the Company purchased 50 shares of common stock in IHIC for $500,000, and contributed an additional $500,000 of gross paid in and contributed surplus. HARRG has a 100% ownership interest in IHIC. As of December 31, 2015, IHIC has not written any insurance risk.

<u>Concentration of Risk</u>: HARRG provides liability insurance to member PHAs, which are regulated and funded by the U.S. Department of Housing and Urban Development. Certain changes in public policy and/or funding of member PHAs could have a significant impact on the operations of HARRG.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Presentation</u>: The accompanying consolidated 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).

<u>Principles of Consolidation</u>: The consolidated financial statements include the results of operations of HEIC and IHIC. All significant inter-company accounts and transactions have been eliminated in consolidation in conformity with GAAP. The Company accounts for the non-controlling interest in accordance with FASB ASC 810, *Non-controlling Interests in Consolidated Financial Statements*. FASB ASC 810 requires that non-controlling interests be presented as a component of equity within the consolidated balance sheets and requires additional presentations for the non-controlling interest in the consolidated statements of comprehensive (loss) income and in the consolidated statements of changes in equity.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents: Cash is comprised of several cash accounts and cash on hand as of December 31, 2015 and 2014. The Company classifies certain securities with original maturity dates of three months or less from the date of purchase as cash equivalents. Cash equivalents consist of repurchase agreements and various money market accounts. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Company's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Company maintains cash balances in excess of the FDIC insurance limit.

Investments: The Company accounts for investments in accordance with FASB ASC 320, *Investments - Debt and Equity Securities.* 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. As of December 31, 2015 and 2014, the Company holds investments, which are classified as available for sale and are carried at fair value. Unrealized gains and losses relating to available for sale securities are reported as a separate component of equity as accumulated other comprehensive income. Realized investment gains and losses are determined on a specific identification basis.

The amortized costs of debt securities are adjusted for amortization of premiums and accretion of discounts. Such amortization and accretion is included in investment income.

Within the mortgage-backed securities portfolios, the Company invests in collateralized mortgage obligations and mortgage-backed security pools, which include residential mortgage-backed securities and commercial mortgage-backed securities. Each security carries a varying degree of prepayment and interest risk, which can impact the fair value and the ultimate amount of investment income earned. Due to principal prepayments, the effective yield is calculated using the prospective method. Acceleration or deceleration of prepayments of the underlying mortgages can be caused by interest rate changes.

In June 1995, HARRG and HAPI jointly formed Housing Investment Group, Inc. (HIG) to serve as a for-profit company to govern the related businesses to which HARRG and HAPI had an ownership interest. HARRG's ownership interest is 50% as of December 31, 2015 and 2014. The investment in HIG is carried on the equity method of accounting.

During 2015 and 2014, HARRG contributed $4,100,000 and $2,500,000, respectively, of additional capital to HIG. There were no dividends declared or paid by HIG during 2015 and 2014.

In December 2013, HARRG and HAPI jointly formed Housing Specialty Insurance Company, Inc. (HSIC) a licensed domestic stock insurance company domiciled in the State of Vermont, which was formed to provide surplus lines coverages for specific risks. HARRG and HAPI each contributed $3,000,000 and received 100 shares of voting common stock each. During 2014, HARRG and HAPI each contributed an additional $5,000,000 in surplus. HARRG owns 50% of HSIC as of December 31, 2015 and 2014.

The Company records its investments in affiliates under the equity method of accounting in accordance with FASB ASC 323 *Investments-Equity Method and Joint Ventures* and records its proportionate share of earnings within unrealized loss on investments in affiliates within the statements of comprehensive (loss) income.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summarized financial information from the audited financial statements of these affiliates as of December 31, 2015 and for the year then ended, is as follows:

	Total Assets	Total Liabilities	Total Equity	Net Loss
Housing Investment Group, Inc.	$ 45,895,513	$ 33,715,542	$ 12,179,971	$ (6,608,822)
Housing Specialty Insurance Company, Inc.	$ 16,531,597	$ 1,086,125	$ 15,445,472	$ (72,152)

Summarized financial information from the audited financial statements of these affiliates as of December 31, 2014 and for the year then ended, is as follows:

	Total Assets	Total Liabilities	Total Equity	Net Loss
Housing Investment Group, Inc.	$ 38,642,838	$ 28,054,045	$ 10,588,793	$ (10,875,477)
Housing Specialty Insurance Company, Inc.	$ 15,840,684	$ 187,602	$ 15,653,082	$ (369,828)

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 is included in investment income, net, within the consolidated statements of comprehensive (loss) income and the cost basis of that investment is reduced.

The Company accounts for other-than-temporary impairments in accordance with FASB ASC 320. For debt securities, this guidance requires the Company to evaluate whether it intends to sell an impaired debt security or whether it is more likely than not that it will be required to sell an impaired debt security before recovery of the amortized cost basis. If either of these criteria is met, an impairment equal to the difference between the debt security's amortized cost and its fair value is recognized in earnings.

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

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 cost, the financial condition and near term prospects of the issuer and the Company's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

The Company recorded no impairments of investments for the years ended December 31, 2015 and 2014.

Deferred Policy Acquisition Costs: Policy acquisition costs, which consist of premium taxes and agency commissions, are expensed on a pro rata basis over the policy term. The portion of premium taxes and agency commission that will be expensed in the future is deferred and reported as deferred policy acquisition costs on the consolidated balance sheets.

Property and Equipment: Property and equipment are recorded at cost and are depreciated over the estimated useful lives of the assets which range from 2 to 31 years. Depreciation is computed using the straight-line method for all fixed assets.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unpaid Losses and Loss Adjustment Expense Reserves: Unpaid losses and loss adjustment expense reserves and the related reinsurance recoverables represent estimated provisions for both reported and unreported claims incurred and related expenses. In determining unpaid losses and loss adjustment expense reserves, the Company annually reviews its overall position, its reserving techniques and its reinsurance, and utilizes the findings of an independent consulting actuary. These reserves and recoverables represent the estimated ultimate cost less amounts paid, of all incurred losses and loss adjustment expenses. Since the reserves and recoverables are based upon estimates, the ultimate liability and related reinsurance recoverables may be more or less than such estimates. The effects of changes in such estimated reserves and recoverables are included in the results of operations in the period in which the estimates are changed. Such changes may be material to the results of operations and could occur in a future period.

Revenue Recognition: Premiums are recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums.

Advance Premium: Premiums which have been billed but are not yet effective are reported as advance premiums on the consolidated balance sheets.

Reinsurance: In the normal course of business, the Company seeks to reduce its loss exposure by reinsuring certain levels of risk with reinsurers. Reinsurance is accounted for in accordance with FASB ASC 944, *Financial Services - Insurance.* Premiums ceded are expensed over the term of their underlying attaching policies or over the period of reinsurance protection provided. Anticipated reinsurance recoverables under these contracts are recorded as a receivable in accordance with the terms of the underlying contracts.

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

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

Income Taxes: The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes.* FASB ASC 740 is an asset and liability method, which requires the recognition of deferred tax assets and liabilities. The Company, under certain provisions of FASB ASC 740, accounts for how uncertain tax positions should be recognized, measured, presented and disclosed within their financial statements. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company did not record any unrecognized tax benefits as of December 31, 2015 and 2014. The Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months.

It is the Company's policy to include interest and penalties related to unrecognized tax benefits as a component of its provision for income taxes. As of December 31, 2015 and 2014, the Company did not record any penalties or interest associated with unrecognized tax benefits. All tax years from 2012 forward are open and subject to examination by the Internal Revenue Service. In addition, the 2010 tax year is open and subject to examination due to a net operating loss carryback claim from 2011.

HEIC and IHIC are for-profit insurance companies and file federal tax form 1120PC.

HARRG has received a determination letter from the Internal Revenue Service indicating that HARRG is exempt from federal income taxes under the provisions of Section 115 of the Internal Revenue Code.

Use of Estimates: The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, at and during the reported period, along with the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

Reclassifications: Certain reclassifications to the 2014 consolidated financial statements have been made in order to conform with the 2015 presentation. Such reclassifications did not have a material effect on the consolidated financial statements.

Subsequent Events: Subsequent events have been evaluated through March 11, 2016, which is the date the consolidated financial statements were available to be issued.

(Continued)

NOTE 3 - INVESTMENTS

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

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. treasury and government agencies	$ 79,382,470	$ 1,245,404	$ (507,609)	$ 80,120,265
State and political subdivisions	18,522,045	670,647	(281,478)	18,911,214
Corporate bonds	98,610,887	2,003,598	(943,064)	99,671,421
Residential mortgage-backed securities	33,412,619	784,221	(191,809)	34,005,031
Commercial mortgage-backed securities	19,282,500	210,750	(137,369)	19,355,881
Collateralized debt obligations	28,376,437	76,447	(67,689)	28,385,195
Total debt securities	277,586,958	4,991,067	(2,129,018)	280,449,007
Mutual funds	20,209,754	1,728,912	(93,837)	21,844,829
Total	$ 297,796,712	$ 6,719,979	$ (2,222,855)	$ 302,293,836

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

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. treasury and government agencies	$ 70,016,489	$ 2,154,523	$ (259,647)	$ 71,911,365
State and political subdivisions	22,566,205	1,054,366	(111,074)	23,509,497
Corporate bonds	98,570,974	3,793,601	(366,090)	101,998,485
Residential mortgage-backed securities	34,034,390	1,186,083	(133,641)	35,086,832
Commercial mortgage-backed securities	18,975,523	300,346	(153,009)	19,122,860
Collateralized debt obligations	36,481,119	266,448	(27,512)	36,720,055
Total debt securities	280,644,700	8,755,367	(1,050,973)	288,349,094
Mutual fund	6,096,627	1,759,191	-	7,855,818
Equity securities	7,959,137	4,414,248	(99,292)	12,274,093
Total	$ 294,700,464	$ 14,928,806	$ (1,150,265)	$ 308,479,005

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The cost and fair value of debt securities are shown by contractual maturity as of December 31, 2015. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due to mature		
One year or less	$ 9,900,267	$ 9,959,768
After one year through five years	102,646,790	103,298,266
After five years through ten years	52,599,730	52,716,053
After ten years	31,368,615	32,728,813
Residential mortgage-backed securities	33,412,619	34,005,031
Commercial mortgage-backed securities	19,282,500	19,355,881
Collateralized debt obligations	28,376,437	28,385,195
Total	$ 277,586,958	$ 280,449,007

Proceeds from sales of securities amounted to $72,090,324 and $109,247,713 during the years ended December 31, 2015 and 2014, respectively. Gross gains of $6,244,565 and $4,186,132 and gross losses of $812,933 and $796,570 were realized on those sales during 2015 and 2014, respectively.

The Company holds 355 securities that are in an unrealized loss position as of December 31, 2015, of which 170 of these securities have been in an unrealized loss position for a period of twelve months or greater. The following table shows the investments' 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		12 Months or Greater	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Debt securities:				
U.S. treasury and government agencies	$ 4,251,315	$ (33,203)	$ 65,926,824	$ (474,406)
State and political subdivisions	121,059	(260)	14,308,503	(281,218)
Corporate bonds	8,916,304	(146,160)	77,042,899	(796,904)
Residential mortgage-backed securities	2,066,298	(12,512)	26,168,134	(179,297)
Commercial mortgage-backed securities	407,972	(4,577)	17,501,679	(132,792)
Collateralized debt obligations	905,836	(2,800)	26,063,015	(64,889)
Total debt securities	16,668,784	(199,512)	227,011,054	(1,929,506)
Mutual funds	6,862,360	(93,837)	-	-
Total	$ 23,531,144	$ (293,349)	$ 227,011,054	$ (1,929,506)

NOTE 3 - INVESTMENTS (Continued)

The Company holds 204 securities that are in an unrealized loss position as of December 31, 2014, of which 95 of these securities have been in an unrealized loss position for a period of twelve months or greater. The following table shows the investments' 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, 2014:

	Less than 12 Months		12 Months or Greater	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Debt securities:				
U.S. treasury and government agencies	$ 8,041,233	$ (9,635)	$ 10,197,782	$ (250,012)
State and political subdivisions	2,257,641	(43,451)	2,737,671	(67,623)
Corporate bonds	21,623,277	(330,528)	3,798,934	(35,562)
Residential mortgage-backed securities	-	-	6,574,440	(133,641)
Commercial mortgage-backed securities	259,346	(1,724)	4,857,750	(151,285)
Collateralized debt obligations	7,076,783	(13,164)	4,581,112	(14,348)
Total	$ 39,258,280	$ (398,502)	$ 32,747,689	$ (652,471)
Equity securities	450,369	(99,292)	-	-
Total	$ 39,708,649	$ (497,794)	$ 32,747,689	$ (652,471)

As of December 31, 2015 and 2014, HEIC had bonds with an amortized cost of $4,705,165 and $4,707,009, respectively, deposited with state insurance departments and regulatory authorities, as required by statute. These amounts are included in investments on the consolidated balance sheets.

(Continued)

NOTE 4 - ACCUMULATED OTHER COMPREHENSIVE INCOME

A summary of the net changes in accumulated other comprehensive income attributable to the Company and significant amounts reclassified out of accumulated other comprehensive income for the years ended December 31, 2015 and 2014 are as follows:

	HARRG Available-for-Sale Securities	HEIC Available-for-Sale Securities Attributable to the Company	HSIC Accumulated Other Comprehensive Income Attributable to the Company	Total
Balance at December 31, 2013	$ 7,987,867	$ 416,952	$ -	$ 8,404,819
Other comprehensive income, net before reclassifications	7,156,168	286,588	(438)	7,442,318
Amounts reclassified from accumulated other comprehensive income	(2,908,462)	(206,893)	15,051	(3,100,304)
Net current-period other comprehensive income	4,247,706	79,695	14,613	4,342,014
Balance at December 31, 2014	$ 12,235,573	$ 496,647	$ 14,613	$ 12,746,833
Other comprehensive loss, net before reclassifications	(3,160,463)	(295,257)	(40,252)	(3,495,972)
Amounts reclassified from accumulated other comprehensive income	(5,401,598)	(12,884)	(27,298)	(5,441,780)
Net current-period other comprehensive loss	(8,562,061)	(308,141)	(67,550)	(8,937,752)
Balance at December 31, 2015	$ 3,673,512	$ 188,506	$ (52,937)	$ 3,809,081

NOTE 5 - FAIR VALUE MEASUREMENTS

The Company reports fair values in accordance with FASB ASC 820 *Fair Value Measurement and Disclosures*. FASB ASC 820 provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Company has the ability to access.

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

Level 2 - Inputs to the valuation methodology include: (i) Quoted prices for similar assets in active markets; (ii) Quoted prices for identical or similar assets in inactive markets; (iii) Inputs other than quoted prices that are observable for the asset; or (iv) 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 following tables set forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2015 and 2014:

2015	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 80,120,265	$ -
State and political subdivisions	-	18,911,214	-
Corporate bonds	-	98,997,803	673,618
Residential mortgage-backed securities	-	34,005,031	-
Commercial mortgage-backed securities	-	19,355,881	-
Collateralized debt obligations	-	28,385,195	-
Money market funds	1,100,619	-	-
Repurchase agreements	-	600,000	-
Vanguard Institutional Index Fund	21,844,829	-	-
Total	$ 22,945,448	$ 280,375,389	$ 673,618

2014	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 71,911,365	$ -
State and political subdivisions	-	9,879,469	13,630,028
Corporate bonds	-	100,187,313	1,811,172
Residential mortgage-backed securities	-	35,086,832	-
Commercial mortgage-backed securities	-	19,122,860	-
Collateralized debt obligations	-	36,720,055	-
Money market funds	2,180,205	-	-
Repurchase agreements	-	4,200,000	-
Other invested assets	-	-	-
Vanguard Institutional Index Fund	7,855,818	-	-
Equity securities			
Basic materials	1,822,586	-	-
Consumer goods	1,416,746	-	-
Financial	3,097,780	-	-
Healthcare	1,588,424	-	-
Industrial goods	282,876	-	-
Services	2,011,150	-	-
Technology	2,054,531	-	-
Total	$ 22,310,116	$ 277,107,894	$ 15,441,200

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The following table provides further details of the Level 3 fair value measurements for the other invested assets as of December 31, 2015 and 2014:

	Available for Sale Debt Securities
Beginning balance as of January 1, 2014	$ 19,522,021
Transfers in	1,151,406
Purchases	5,104,508
Proceeds from sales	(2,977,159)
Total realized gains	97,452
Transfers out	(8,101,934)
Amortization	267,574
Total unrealized gains	377,332
Ending balance as of December 31, 2014	15,441,200
Transfers in	-
Purchases	479,829
Proceeds from sales	(4,493,240)
Total realized gains	138,383
Transfers out	(11,014,583)
Amortization	330,440
Total unrealized (losses)	(208,411)
Ending balance as of December 31, 2015	$ 673,618

During 2015 and 2014, certain securities were transferred from Level 3 to Level 2 due to observable market data becoming available for these securities.

The fair values of the Company's Level 2 and 3 investments are determined by management after considering prices received from third party services.

A description of inputs used in the Company's Level 2 and 3 measurements are listed below:

United States treasury and government agencies - Inputs include observations of credit default swap curves related to the issuer and political events.

State and political subdivisions - Inputs include Municipal Securities Rulemaking Board reported trades and material event notices, and issuer financial statements.

Corporate bonds - Inputs include observations of credit default swap curves related to the issuer.

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

Collateralized debt obligations, residential and commercial mortgage-backed securities - Inputs include monthly payment information, collateral performance, which varies by vintage year and includes delinquency rates, collateral valuation loss severity rates, collateral refinancing assumptions, credit default swap indices and, for asset-backed securities and residential mortgage-backed securities, estimated prepayment rates.

Level 3 Investments - The Company's securities classified as Level 3 include less liquid securities such as lower quality state and political subdivisions, corporate bonds and collateralized debt obligations. Securities included in Level 3 are primarily valued based on broker prices or broker spreads, without adjustments which are priced with the typical inputs used in Level 1 and Level 2 securities but also include benchmark interest rates or credit spread assumptions that are not observable in the marketplace.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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 different fair value measurement at the reporting date.

We evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer. For the years ended December 31, 2015 and 2014, the significant transfers in and out of Levels 2 and 3 are disclosed within the schedule above. During 2015 and 2014, certain securities were transferred from Level 3 to Level 2 due to observable market data becoming available for these securities.

NOTE 6 - INSURANCE ACTIVITY

Housing Authority Risk Retention Group, Inc: HARRG provides liability insurance coverage to member PHAs throughout the United States. Coverage provided includes general liability, auto liability, law enforcement liability, public officials errors and omissions liability and employment practices liability. Coverage for mold and lead paint liability are also provided on a claims-made basis. The principle coverages provided by HARRG are summarized as follows:

General Liability - Provides protection for bodily injury claims filed against a housing authority on an occurrence basis including personal injury, advertising injury, blanket contractual injury, fire legal liability and youth sports athletic liability. As of December 31, 2015 and 2014, coverage is provided up to $15,000,000, with the first $1,000,000 of loss retained by HARRG plus a pro rata share of loss adjustment expenses. Losses in excess of $1,000,000 are reinsured as noted within.

Auto Liability - Provides occurrence based primary coverage of $500,000 including both bodily injury and property damage liability, including non-owned and hired automobile liability protection, plus a pro rata share of loss adjustment expenses. Coverage also includes injury expenses caused by uninsured or underinsured motorists. Excess coverage of up to $1,000,000 is also available in conjunction with the primary coverage or in conjunction with general liability coverage to supplement auto coverage held with another insurer.

NOTE 6 - INSURANCE ACTIVITY (Continued)

Law Enforcement Liability - Provides protection for claims filed against a housing authority on a claims made basis for actual or alleged wrongful acts by contracted or employed security officers, police or tenant patrols plus a pro rata share of loss adjustment expenses. Coverage is only sold in conjunction with general liability insurance with coverage up to $1,000,000.

Public Officials Errors and Omissions Liability - Provides coverage on a claims made basis to PHA board members, officers and key employees for claims or suits resulting from negligent acts in the course of duty plus a pro rata share of loss adjustment expenses. Coverage is only sold in conjunction with general liability insurance with coverage up to $1,000,000.

Employment Practices Liability - Provides added protection for employment practices related claims not covered by the basic public officials errors and omissions policy. Coverage provides, on a claims-made basis, protection in the event of actual or alleged wrongful acts stemming from personnel selection and discharge plus a pro rata share of loss adjustment expenses. Coverage excludes bodily injury and loss of wages and is only sold in conjunction with public officials' errors and omissions liability coverage. Coverage is provided up to $5,000,000 with the first $1,000,000 of loss retained by HARRG plus a pro rata share of loss adjustment expenses. Losses in excess of $1,000,000 are reinsured as noted within.

Effective July 1, 2015 and 2014, HARRG entered into 12-month reinsurance agreements with various subscribing reinsurers, which provide for $4,000,000 of coverage in excess of HARRG's $1,000,000 retention with a $1,000,000 aggregate deductible. In addition, effective July 1, 2015 and 2014, HARRG also entered into reinsurance agreements with various subscribing reinsurers, which provides for $10,000,000 of coverage in excess of $5,000,000.

For the year ended December 31, 2014, HARRG ceded $738,353 of premium to HAPI under an aggregate excess of loss reinsurance agreement that reinsures all losses in excess of HARRG's retention on an accident year basis. HARRG's retention was $27,688,246 in 2014.

Coverage provided by HAPI above HARRG's retention was up to an aggregate limit of $3,694,743 for accident year 2014. Unpaid losses recoverable from HAPI amounted to $0 and $3,428,061 as of December 31, 2015 and 2014, respectively, which relate to accident year 2014 as of December 31, 2014. The aggregate excess of loss reinsurance agreement between HARRG and HAPI was not renewed during 2015.

<u>Housing Enterprise Insurance Company, Inc.</u>: HEIC writes both property and casualty coverages on a direct basis. In 2015 and 2014, the retained limits were $250,000 per loss occurrence for property coverage and $500,000 per loss occurrence for casualty coverage. HEIC secured reinsurance for amounts in excess of their retained limits up to $750,000,000 and $500,000,000 per occurrence for property in 2015 and 2014, respectively. Additionally, the Company secured reinsurance for amounts in excess of their retained limit up to $1,000,000 and $5,000,000 per occurrence for casualty as of July 1, 2015 and 2014, respectively. The property limits of $750,000,000 and $500,000,000 per occurrence in 2015 and 2014, respectively, is a shared aggregate limit with HAPI. Loss adjustment expenses are shared on a pro rata basis of the underlying loss. As of December 31, 2015 and 2014, HEIC also has aggregate reinsurance coverage for losses within HEIC's retention, in excess of $10,000,000 per catastrophic event.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

Effective January 1, 2015 the HEIC began providing reinsurance coverage to HSIC, an affiliate through common management, for commercial property coverage on affordable housing units insured by HSIC. In accordance with the reinsurance agreement, HEIC assumes limits of $750,000 per loss occurrence in excess of $250,000 each loss. Loss adjustment expenses are shared on a pro-rata basis and are in addition to the per occurrence limits. During 2015, HEIC assumed $586 of premiums from HSIC related to this contract. There were no ceded losses recorded for the year ended December 31, 2015 under this contract.

All the Company's direct policies cover certified terrorism losses (unless coverage is declined by the policyholder) as defined under the Terrorism Risk Insurance Act of 2002 (TRIA) and the subsequent 2007 extension of TRIA. TRIA provides for a system of shared public and private compensation for insured losses resulting from certified acts of terrorism. TRIA protection is only triggered if there is a certified act of terrorism and losses reach an industry insured loss trigger of $100 million. The coverage provided by the Company is eligible under TRIA for 85% co-insurance protection provided by the U.S. Treasury subject to a deductible equal to 20% of the Company's prior year direct earned premiums. The Company retains both the deductible and its remaining 15% share of certified terrorism losses. The 2007 extension of the TRIA program expired on December 31, 2014.

On January 12, 2015, the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA) was signed into law extending TRIA through December 31, 2020. TRIPRA increases the industry insured loss trigger for the federal share of compensation for certified acts of terrorism by $20 million annually beginning January 1, 2016 until it reaches $200 million on January 1, 2020. Finally, under TRIPRA, the federal government's co-insurance protection gradually decreases from 85% to 80%, dropping one percent annually beginning on January 1, 2016.

HARRG, HAPI, HEIC and HSIC (collectively called the Companies) entered into a reinsurance agreement, which provides reinsurance protection to the Companies for all insured losses resulting from acts of terrorism or sabotage (whether a certified act or not), for all direct business written by the Companies. With respect to terrorism not involving nuclear, chemical or biological release, the agreement provides reinsurance for all losses and loss adjustment expenses in excess of $2,000,000 up to an aggregate limit of $60,000,000 and $20,000,000 for 2015 and 2014, respectively, per loss occurrence. With respect to business interruption and extra expense losses arising from nuclear, chemical or biological terrorism, the agreement provides reinsurance for all losses and loss adjustment expenses in excess of $250,000 up to an aggregate limit of $5,000,000 per loss occurrence. If a loss occurrence involves more than one of the Companies, the limits and retentions mentioned above will be divided between each of the Companies in the proportion of their individual losses to the total loss sustained by the Companies.

Reinsurance contracts do not discharge the primary liability of the Company as insurer of those risks reinsured. The failure of the reinsurers to honor their obligations could result in significant losses to the Company.

The Company evaluates the financial condition of potential reinsurers, and continually monitors the financial condition of present reinsurers, which all have an A.M. Best rating of A- or better.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

Additionally, the Company evaluates current and prospective reinsurers as to concentrations of credit risk arising from similar activities or economic characteristics in order to minimize exposure to significant losses resulting from reinsurer insolvencies. There can be no assurance that reinsurance will continue to be available to the Company to the same extent, and at the same cost, as it has in the past. The Company may choose in the future to reevaluate the use of reinsurance to increase or decrease the amounts of risk it cedes to reinsurers.

Premiums written, assumed and ceded for the years ended December 31, 2015 and 2014, are summarized as follows:

	Premiums Written		Premiums Earned	
	2015	2014	2015	2014
Direct premiums	$ 61,397,104	$ 57,350,732	$ 59,365,847	$ 56,588,375
Premiums assumed	1,903,006	1,785,868	1,866,736	1,801,631
Premiums ceded	(10,652,886)	(11,977,164)	(10,675,801)	(12,103,815)
Net premiums	$ 52,647,224	$ 47,159,436	$ 50,556,782	$ 46,286,191

A reconciliation of changes in unpaid losses and loss adjustment expenses are summarized as follows as of and for the years ended December 31, 2015 and 2014:

	(in thousands) 2015	2014
Balance at beginning of year	$ 107,941	$ 105,308
Less reinsurance recoverables	(6,711)	(5,292)
Net balance at beginning of year	101,230	100,016
Incurred related to		
Current year	46,964	42,110
Prior years	(12,983)	(17,001)
Total incurred	33,981	25,109
Paid related to		
Current year	(5,260)	(4,084)
Prior years	(23,432)	(19,811)
Total paid	(28,692)	(23,895)
Net balance at end of year	106,519	101,230
Plus reinsurance recoverables	1,972	6,711
Balance at end of year	$ 108,491	$ 107,941

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by approximately $12,983,000 and $17,001,000 in 2015 and 2014, respectively, due to favorable development on liability claims relating to accident years 2014 and 2013, respectively.

NOTE 7 - PROPERTY AND EQUIPMENT

The cost, accumulated depreciation and net book value for the property and equipment are as follows as of December 31, 2015 and 2014:

	2015	2014
Land	$ 2,580,836	$ 2,585,262
Building	13,537,427	11,723,308
Furniture and fixtures	1,948,018	1,099,414
EDP equipment	4,372,864	3,754,936
	22,439,145	19,162,920
Less: accumulated depreciation	(8,418,509)	(7,106,741)
	14,020,636	12,056,179
Construction in progress	3,936,753	1,652,284
Total property and equipment	$ 17,957,389	$ 13,708,463

Depreciation expense for the years ended December 31, 2015 and 2014 was $1,052,238 and $632,289, respectively. Depreciation expense of $636,269 and $357,581 was allocated to affiliated entities per the management services agreement, as disclosed in Note 9 in 2015 and 2014, respectively.

NOTE 8 - TERM LOAN

On October 18, 2013, HARRG entered into a term loan with Wells Fargo Bank, N.A. in the amount of $8,500,000 for the purposes of expanding HARRG's current facility. The five year term loan bears interest at 3.0% annually and is due in 59 regular principal and interest installments of $58,879 and one final balloon payment of $6,140,994. The term loan contains certain financial and compliance covenants. As of December 31, 2015 and 2014, HARRG was in compliance with all of these covenants. The term loan matures on October 15, 2018. As of December 31, 2015 and 2014, the term loan had an outstanding balance of $7,495,807 and $7,966,564, respectively. Interest expensed related to the term loan amounted to $235,169 and $249,282 for the years ended December 31, 2015 and 2014 respectively, and is included within general and administrative expenses on the consolidated statements of comprehensive (loss) income.

The aggregate scheduled principal repayments on the long-term debt of the HARRG are as follows as of December 31, 2015:

2016	$ 484,666
2017	500,246
2018	6,510,895
	$ 7,495,807

(Continued)

NOTE 9 - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company pays a membership fee to Housing Authority Insurance (HAI), which is an affiliated company through common management, which provides membership services to the members of the Company. The Company recognized an expense for these services of $1,766,079 and $1,497,646 for the years ended December 31, 2015 and 2014, respectively. During 2015, the Company disbursed $750,000 to HAI in the form of a grant to carry out research, feasibility studies, and funding for new initiatives for residents, owners, operators, developers and vendors.

HARRG has entered into an Insurance Management Services Agreement (the Agreement) with Housing Insurance Services, Inc. (HIS) a wholly-owned subsidiary of HIG, whereby HIS performs insurance agency activities for HARRG's fronted auto insurance program. The Agreement provides for a specified percentage to be paid based upon written assumed premium. Fees incurred under the Agreement amounted to $106,890 and $90,081 for the years ended December 31, 2015 and 2014, respectively. Amounts due to HIS are included in due to affiliates on the consolidated balance sheets.

HEIC maintains a commission agreement with HIS. The commission agreement provides for a percentage to be paid to HIS based upon direct written premium, which is expensed on a pro-rata basis by HEIC in line with the underlying policies they relate to. The commission percentage varies based on several underlying factors. For the years ended December 31, 2015 and 2014, commission expense under this agreement amounted to $520,299 and $461,352, respectively, expensed within policy acquisition costs within the consolidated statements of comprehensive (loss) income.

The Company entered into an agreement with Housing Telecommunications, Inc. (HTI) to support the delivery of risk management training to members. The Company recognized expenses of $78,268 and $222,579 for fees paid to HTI for the years ended December 31, 2015 and 2014, respectively.

HARRG has a common paymaster agreement with its affiliates, in which HARRG is the common paymaster for all of its affiliates' employees. HARRG provides various management services to its affiliates and charges its affiliates for their direct allocation of salaries, benefits and overhead, along with the use of its facility. The cost of these services is directly allocated to these entities. The amounts of allocated costs by company are as follows:

	Allocated Costs	
	2015	2014
HIS	$ 5,889,747	$ 4,291,959
HAPI	8,402,273	7,369,651
HEIC	4,772,240	4,475,764
HTI	1,344,499	926,993
HAI	3,575,570	2,732,404
HIG	158,955	259,676
IHIC	6,962	-
Housing Systems Solutions, Inc. (HSS)	3,692,488	3,562,093
Public and Affordable Housing Research Corporation (PAHRC)	537,257	386,827
Satellite Telecommunications, Inc. (STI)	-	111,476
Housing Specialty Insurance Company, Inc. (HSIC)	568,545	455,963
Total	$ 28,948,536	$ 24,572,806

(Continued)

NOTE 9 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)

In addition to the allocated costs, HEIC and HARRG are party to various intercompany agreements and activities, which from time to time result in amounts receivable from and payable to affiliated entities. As of December 31, 2015 and 2014, the Company had the following amounts receivable from and payable to affiliated entities:

	2015		2014	
	Amounts Receivable	Amounts Payable	Amounts Receivable	Amounts Payable
HAPI	$ 122,690	$ -	$ 1,220,902	$ -
HAI	409,312	-	406,773	-
HTI	112,729	47,108	105,035	35,075
HSIC	49,516	-	73,138	-
HIG	39,201	-	32,488	-
HIS	248,531	-	559,213	-
HSS	368,375	-	246,932	-
PAHRC	72,150	-	38,267	-
Total	$ 1,422,504	$ 47,108	$ 2,682,748	$ 35,075

NOTE 10 - EMPLOYEE BENEFITS

HARRG maintains a defined contribution profit sharing plan covering substantially all of its employees. Employees are eligible to participate in the plan on the first day of the month after they reach the age of 21. HARRG contributes 7% of an employee's compensation for profit sharing on a monthly basis.

Vesting is on a graduated schedule of 60% at the end of the third year of employment, 80% at the end of the fourth year of employment, and 100% at the end of the fifth year of employment. Total profit sharing expense under the plan for the years ended December 31, 2015 and 2014, was $535,639 and $380,862, respectively.

The Company is the sponsor of the Housing Authority Risk Retention Group 401(k) Plan (the Plan). All employees 21 years or older, who have completed one year of service, are eligible to participate in the Plan. HARRG matches employee contributions at 50% of the employee contribution up to a maximum of 2% of employee compensation, based on incentive eligibility. HARRG also makes safe harbor non-elective contributions to the Plan. Employees are immediately vested in these contributions. Contributions amounted to $79,622 and $226,129 for the years ended December 31, 2015 and 2014, respectively. Administration expenses for the plan are paid by HARRG.

(Continued)

NOTE 10 - EMPLOYEE BENEFITS (Continued)

The Company is the sponsor of a supplemental executive retirement plan (the SERP) covering certain key employees. The purpose of the SERP is to reward the employees for their loyal and continuous service to HARRG. The SERP was not intended to qualify under or satisfy the requirements of Sections 401(a) and 501(a) of the Internal Revenue Code of 1986. Accumulated benefits accrued under the SERP as of December 31, 2015 and 2014 amounted to $2,607,917 and $2,323,583, respectively. As of December 31, 2015 and 2014, the SERP's cash value associated with related life insurance amounted to $1,583,727 and $1,326,840, respectively. SERP benefit expenses incurred amounted to $(93,313) and $99,685 for the years ended December 31, 2015 and 2014, respectively.

The Company provides incentive compensation to its employees, on a discretionary basis. Accrued incentive compensation expense amounted to $1,079,348 and $1,078,925 as of December 31, 2015 and 2014, respectively, recorded in accrued expenses and other liabilities on the consolidated balance sheets. The Company expensed $864,725 and $593,095 of incentive compensation for the years ended December 31, 2015 and 2014, respectively.

HARRG also provides other post-retirement health care benefits for retired employees (the OPEB Plan) of the Company. Employees may become eligible for health care benefits if they retire after attaining specified age and service requirements while they worked for the Company. A retiree medical account is established for eligible employees upon attaining the age of 50. The retiree medical account is credited by the Company until the employee retires or terminates. The accounts are also credited with interest per the OPEB Plan terms.

HARRG accounts for the OPEB Plan under the requirements of FASB ASC 715 *Compensation - Retirement Benefits.* The net periodic benefit cost under the OPEB Plan amounted to $458,986 and $502,949 for the year ended December 31, 2015 and 2014, respectively. The accrued benefit obligation recorded amounted to $2,857,352 and $2,664,906 as of December 31, 2015 and 2014, respectively, using a discount rate of 3.90% and a health care cost trend rate of 8.00% grading down to 5.00% as of December 31, 2015 and 2014. The effect of a 1.00% increase or decrease in the assumed health care cost trend rate is insignificant to the net periodic benefit cost and the accrued benefit obligation as of and for the years ended December 31, 2015 and 2014.

NOTE 11 - EQUITY AND SURPLUS

HARRG is owned by its members and each member makes an initial capital contribution upon membership. HARRG currently maintains two types of members. Class "A" members and Class "B" members. Class "A" members make surplus contributions based on a percentage of their first year's premium. Class "B" members, also known as "$100 Members" contribute surplus in the amount of $100 during the first year of membership.

HARRG provides its members with discretionary policyholder dividends, which are calculated based upon the underwriting experience of each member and their capital contribution. HARRG declared policyholder dividends of $3,000,000 and $5,000,000 for the years ended December 31, 2015 and 2014, respectively. For the years ended December 31, 2015 and 2014, $2,940,000 and $4,850,000, respectively, related to Class "A" members. During 2015 and 2014, dividends were declared to Class "B" members in the amount of $60,000 and $150,000, with $30,000 and $75,000 to be paid in cash related 2015 and 2014, respectively, and $30,000 and $75,000 to be recorded as members' recapitalization dividends within the statements of changes in equity. In 2015, an additional $246,719 of policyholder dividends were expensed and paid related to the 2014 declared dividends. In total, policyholder dividends of $3,216,719 and $4,922,125 were expensed for the years ended December 31, 2015 and 2014, respectively, within the consolidated statements of comprehensive (loss) income.

(Continued)

NOTE 11 - EQUITY AND SURPLUS (Continued)

HARRG also provides its members with additional dividends, which are based upon a percentage of premium on policies that expire through June 30. These dividends are paid to the members upon policy expiration. There was no expense of premium dividends in the consolidated statement of comprehensive (loss) income for the years ended December 31, 2015 and 2014.

As part of its policyholder dividend program, HARRG also issues risk control dividends to eligible members. Risk control dividends of $1,000,000 were declared and paid during 2015 and 2014.

HARRG provides its members with equity dividends for the purchase of web-based education as part of the HTI program. Equity dividends amounted to $724,052 and $496,013 for the years ended December 31, 2015 and 2014, respectively.

HARRG requires each member to remain a member for a minimum of three years. If a member withdraws prior to the three-year period, the member forfeits its initial surplus contribution and any additional surplus contributions. If a member withdraws subsequent to the three-year period, it may either withdraw its initial and any additional surplus contributions or maintain its surplus account with HARRG, in which case, it shall share in all allocations to and from surplus accounts as if it continued to be a member. Distributions of member surplus will be made in accordance with the membership agreement.

As of December 31, 2015 and 2014, there were member PHAs that had withdrawn their membership in HARRG; however, they have not formally requested a distribution of their surplus accounts. Should these members request a distribution of their surplus accounts, HARRG will return the amounts in accordance with the provisions of the membership agreement and the policy on member withdrawal as described above, and will classify the amounts as a liability on the consolidated balance sheet. There are no member equity refunds payable as of December 31, 2015 and 2014.

HARRG is required by Vermont Department of Financial Regulation (the Department) to maintain a minimum statutory surplus of $1,000,000.

As an admitted property and casualty insurance company, HEIC is required by the Department to maintain a minimum statutory surplus of $5,000,000.

NOTE 12 - STATUTORY ACCOUNTING PRACTICES

HARRG's statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Department. Vermont has adopted the National Association of Insurance Commissioners' (NAIC) statutory accounting practices as the basis of its statutory accounting practices. The amount of statutory net income was $3,802,308 and $7,987,512 for the years ended December 31, 2015 and 2014, respectively. The amount of statutory surplus was $192,252,836 and $196,723,233 as of December 31, 2015 and 2014, respectively. Pursuant to the laws of the State of Vermont, HARRG's dividend payments are limited to the lesser of 10% of statutory surplus or net income excluding realized capital gains.

HEIC's statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Department. The amount of statutory net income (loss) amounted to $552,804 and ($1,587,048) for the years ended December 31, 2015 and 2014, respectively. The amount of statutory surplus amounted to $32,499,602 and $31,040,984 as of December 31, 2015 and 2014, respectively. No dividends were declared in fiscal years 2015 and 2014.

(Continued)

NOTE 12 – STATUTORY ACCOUNTING PRACTICES (Continued)

IHIC's statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Department. The amount of statutory net loss amounted to $8,837 for the period from July 21, 2015 (commencement of operations) through December 31, 2015. The amount of statutory surplus amounted to $991,163 for the period from July 21, 2015 (commencement of operations) through December 31, 2015. No dividends were declared or paid in fiscal year 2015.

As part of its regulatory filings, HARRG and HEIC are required to disclose their risk-based capital (RBC) requirements. The NAIC develops the RBC program to enable regulators to take appropriate and timely regulatory actions with respect to insurers that show signs of weak or deteriorated financial condition. RBC is a series of dynamic surplus-related formulas that contain a variety of factors that are applied to financial balances based on a degree of certain risks, such as asset, credit and underwriting risks. HARRG and HEIC's statutory capital and surplus exceeded the NAIC's authorized control level RBC as of December 31, 2015 and 2014.

NOTE 13 - FEDERAL INCOME TAXES

The Company's tax provision relates solely to HEIC and IHIC, as HARRG is exempt from federal income taxes under the provisions of Section 115 of the Internal Revenue Code.

The provision for income taxes differs from the amount of federal income tax expense (benefit) determined by applying the 34% regular federal income tax rate to pre-tax net loss as follows:

	2015		2014	
Federal income taxes computed at the statutory rate	$ 306,417	34.00%	$ (587,932)	34.00%
Valuation allowance	298,648	33.47%	905,264	(52.35%)
Other	(30,193)	(3.35%)	(31,240)	1.81%
Total	$ 574,872	(64.12%)	$ 286,092	(16.54%)

Federal income tax benefit consists of the following for the years ended December 31, 2015 and 2014:

	2015	2014
Current	$ 13,523	$ (164)
Deferred	561,349	286,256
	$ 574,872	$ 286,092

(Continued)

NOTE 13 - FEDERAL INCOME TAXES (Continued)

The components of the deferred tax provision are as follows for December 31, 2015 and 2014:

	2015	2014
Discounted loss reserves	$ 125	$ (38,937)
Unearned premiums	(130,761)	(8,150)
AMT credit	(12,914)	-
Supplemental employee retirement plan	(10,634)	(14,211)
Accrued bonus	(15,767)	(2)
Retiree medical expense	(9,977)	(39,423)
Net operating loss carry-forward	325,758	(470,005)
Deferred policy acquisition costs	113,866	(48,280)
Valuation allowance	301,653	905,264
	$ 561,349	$ 286,256

The tax effect of temporary differences, which result in deferred tax assets and liabilities, as of December 31, 2015 and 2014, are as follows:

	2015	2014
Deferred tax assets		
Discounted loss reserves	$ 598,703	$ 598,828
Unearned premiums	826,209	695,448
AMT credit	45,482	32,568
Supplemental employee retirement plan	87,975	77,341
Accrued bonus	16,493	726
Retiree medical expense	49,400	39,423
Net operating loss carry-forward	5,686,216	6,011,974
Gross deferred tax assets	7,310,478	7,456,308
Deferred tax liabilities		
Deferred service fee income	(6,589)	(6,589)
Unrealized gains	(280,319)	(524,530)
Deferred policy acquisition costs	(765,643)	(651,777)
Gross deferred tax liabilities	(1,052,551)	(1,182,896)
Valuation allowance	(4,065,700)	(3,764,047)
Deferred tax asset, net	$ 2,192,227	$ 2,509,365

(Continued)

NOTE 13 - FEDERAL INCOME TAXES (Continued)

HEIC has net operating loss carry-forwards as of December 31, 2015 and 2014 of $16,724,164 and $17,682,276, respectively, that will begin to expire in 2031. HEIC has no capital loss carryovers available. HEIC has $45,482 and $32,568 of AMT credit carryforwards that have no expiration date as of December 31, 2015 and 2014.

As of December 31, 2015 and 2014, the Company recorded a valuation allowance against the deferred tax asset of $4,065,700 and $3,764,047, respectively, as the Company believes it is more likely than not that all of the deferred tax asset will not be realized. The amount of the deferred tax asset considered realizable, however, could increase or decrease in the near term based upon the estimate of future taxable income.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

As of December 31, 2015 and 2014, HARRG has a $5,000,000 line of credit with Brown Brothers Harriman & Co. (BBH) for the purpose of meeting short-term operating cash requirements. There was no outstanding balance on this line of credit as of December 31, 2015 and 2014.

As of December 31, 2015 and 2014, HEIC has a $5,000,000 line of credit with BBH for the purpose of meeting short-term operating cash requirements. There was no outstanding balance on this line credit as of December 31, 2015 and 2014.

The BBH lines of credit are collateralized by the debt securities and other marketable securities of the Company, which are managed and held in custody by BBH.

In all states, insurers licensed to transact certain classes of insurance are required to become members of a guaranty fund. In most states, in the event of the insolvency of an insurer writing any such class of insurance in the state, members of the funds are assessed to pay certain claims of the insolvent insurer. A particular state's fund assesses its members based on their respective written premiums in the state for the classes of insurance in which the insolvent insurer was engaged. Assessments are generally limited for any year to one or two percent of the premiums written per year depending on the state. The amount and timing of assessments related to past insolvencies is unpredictable. HEIC records these assessments in accordance FASB ASC 405, *Accounting by Insurance and Other Enterprises for Insurance-Related Assessments.* As of December 31, 2015 and 2014, HEIC has not accrued for or been assessed by any state insurance department.

NOTE 15 - LETTER OF CREDIT AGREEMENT

HEIC is a sole beneficiary of an irrevocable syndicated standby letter of credit from Barclays Bank PLC in the amount of $544,379 and $544,379 as of December 31, 2015 and 2014, respectively, related to the reinsurance agreement with Torus Insurance (Bermuda) Limited. HEIC is also the sole beneficiary of an additional irrevocable syndicated standby letter of credit from Credit Agricole Corporate and Investment Bank in the amount of $0 and $544,362 as of December 31, 2015 and 2014, respectively, related to the reinsurance agreement with Hannover Reinsurance (Ireland) Ltd. HEIC is a sole beneficiary of an irrevocable syndicated standby letter of credit from JP Morgan Chase Bank, N.A. in the amount of $0 and $544,362 as of December 31, 2015 and 2014, respectively, related to the reinsurance agreement with XL Re Ltd.

As of December 31, 2015 and 2014, HARRG had a $3,223,763 irrevocable letter of credit from BBH, for HARRG's auto program. Travelers Indemnity Company is the beneficiary of the letter of credit. There were no draw downs on this letter of credit as of December 31, 2015 and 2014.

HOUSING AUTHORITY RISK RETENTION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2015

	Housing Authority Risk Retention Group, Inc.	Housing Enterprise Insurance Company, Inc.	Innovative Housing Insurance Company, Inc.	Eliminations	Consolidated
ASSETS					
Investments:					
Available for sale, at fair value	$ 245,729,176	$ 56,564,660	$ -	$ -	$ 302,293,836
Investment in HIG	6,089,987	-	-	-	6,089,987
Investment in HEIC	23,471,564	-	-	(23,471,564)	-
Investment in HSIC	7,722,735	-	-	-	7,722,735
Investment in IHIC	994,168	-	-	(994,168)	-
Total investments	284,007,630	56,564,660	-	(24,465,732)	316,106,558
Cash and cash equivalents	3,563,881	5,324,284	998,125	-	9,886,290
Reinsurance recoverables on unpaid losses	815,958	1,156,314	-	-	1,972,272
Reinsurance recoverables on paid losses	273,264	200,547	-	-	473,811
Premiums receivable	8,763,112	12,073,709	-	-	20,836,821
Prepaid reinsurance premiums	810,853	4,468,250	-	-	5,279,103
Due from affiliates	1,733,100	-	-	(310,596)	1,422,504
Accrued investment income	1,246,467	-	-	-	1,246,467
Deferred policy acquisition costs	411,639	2,251,891	-	-	2,663,530
Deferred tax asset	-	2,189,222	3,005	-	2,192,227
Property and equipment, net	17,957,389	-	-	-	17,957,389
Other assets	3,407,451	477,562	-	-	3,885,013
Total assets	$ 322,990,744	$ 84,706,439	$ 1,001,130	$ (24,776,328)	$ 383,921,985
LIABILITIES AND EQUITY					
Liabilities:					
Unpaid losses and loss adjustment expenses	$ 83,026,225	$ 25,464,291	$ -	$ -	$ 108,490,516
Unearned premiums	14,315,341	16,618,388	-	-	30,933,729
Reinsurance balances payable	1,127,546	1,128,698	-	-	2,256,244
Term loan	7,495,807	-	-	-	7,495,807
Accrued policyholder dividends	3,970,000	-	-	-	3,970,000
Advance premiums	3,664,391	3,250,313	-	-	6,914,704
Due to affiliates	47,108	303,634	6,962	(310,596)	47,108
Accrued expenses and other liabilities	10,716,835	924,368	-	-	11,641,203
Federal income taxes payable	-	13,523	-	-	13,523
Total liabilities	124,363,253	47,703,215	6,962	(310,596)	171,762,834
Equity:					
Members' contributions	10,921,290	-	-	-	10,921,290
Common stock, $10,000 stated value, 10,000 shares authorized and 2,000 issued and outstanding	-	20,000,000	500,000	(20,500,000)	-
Contributed surplus	-	29,000,000	500,000	(29,500,000)	-
Accumulated other comprehensive income	3,809,081	544,142	-	(544,142)	3,809,081
Retained earnings (deficit)	183,897,120	(12,540,918)	(5,832)	12,546,750	183,897,120
Total equity before non-contolling interest	198,627,491	37,003,224	994,168	(37,997,392)	198,627,491
Non-controlling interest:					
Common stock, $10,000 stated value, 10,000 shares authorized and 2,000 issued and outstanding	-	-	-	7,000,000	7,000,000
Contributed surplus	-	-	-	10,250,000	10,250,000
Accumulated other comprehensive income	-	-	-	355,694	355,694
Retained deficit	-	-	-	(4,074,034)	(4,074,034)
Total non-controlling interest	-	-	-	13,531,660	13,531,660
Total liabilities and equity	$ 322,990,744	$ 84,706,439	$ 1,001,130	$ (24,776,328)	$ 383,921,985

See Independent Auditor's Report

HOUSING AUTHORITY RISK RETENTION GROUP, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
December 31, 2014

	Housing Authority Risk Retention Group, Inc.	Housing Enterprise Insurance Company, Inc.	Eliminations	Consolidated
ASSETS				
Investments:				
Available for sale, at fair value	$ 252,071,850	$ 56,407,155	$ -	$ 308,479,005
Investment in HIG	5,294,395	-	-	5,294,395
Investment in HEIC	23,569,354	-	(23,569,354)	-
Investment in HSIC	7,826,541	-	-	7,826,541
Total investments	288,762,140	56,407,155	(23,569,354)	321,599,941
Cash and cash equivalents	8,547,386	3,265,625	-	11,813,011
Reinsurance recoverables on unpaid losses	4,603,073	2,108,085	-	6,711,158
Reinsurance recoverables on paid losses	9,476	36,369	-	45,845
Premiums receivable	6,965,422	8,738,326	-	15,703,748
Prepaid reinsurance premiums	829,121	4,472,897	-	5,302,018
Due from affiliates	3,223,956	-	(541,208)	2,682,748
Accrued investment income	1,270,025	398,908	-	1,668,933
Deferred policy acquisition costs	436,046	1,916,991	-	2,353,037
Deferred tax asset	-	2,509,365	-	2,509,365
Property and equipment, net	13,708,463	-	-	13,708,463
Other assets	3,678,061	86,464	-	3,764,525
Total assets	$ 332,033,169	$ 79,940,185	$ (24,110,562)	$ 387,862,792
LIABILITIES AND EQUITY				
Liabilities:				
Unpaid losses and loss adjustment expenses	$ 83,423,211	$ 24,517,890	$ -	$ 107,941,101
Unearned premiums	14,166,131	14,700,071	-	28,866,202
Reinsurance balances payable	919,595	959,793	-	1,879,388
Term loan	7,966,564	-		7,966,564
Accrued policyholder dividends	5,359,339	-	-	5,359,339
Advance premiums	2,469,895	977,374	-	3,447,269
Due to affiliates	35,075	541,208	(541,208)	35,075
Accrued expenses and other liabilities	9,754,259	903,432	-	10,657,691
Payable for securities	306,833	186,479	-	493,312
Total liabilities	124,400,902	42,786,247	(541,208)	166,645,941
Equity:				
Members' contributions	10,837,948	-	-	10,837,948
Common stock, $10,000 stated value, 10,000 shares authorized and 2,000 issued and outstanding	-	20,000,000	(20,000,000)	-
Contributed surplus	-	29,000,000	(29,000,000)	-
Accumulated other comprehensive income	12,746,833	1,018,205	(1,018,205)	12,746,833
Retaind earnings (deficit)	184,047,486	(12,864,267)	12,864,267	184,047,486
Total members' equity	207,632,267	37,153,938	(37,153,938)	207,632,267
Non-controlling interest:				
Common stock, $10,000 stated value, 10,000 shares authorized and 2,000 issued and outstanding	-	-	7,000,000	7,000,000
Contributed surplus	-	-	10,250,000	10,250,000
Accumulated other comprehensive income	-	-	521,791	521,791
Retained deficit	-	-	(4,187,207)	(4,187,207)
Total non-controlling interest	-	-	13,584,584	13,584,584
Total liabilities and equity	$ 332,033,169	$ 79,940,185	$ (24,110,562)	$ 387,862,792

See Independent Auditor's Report

HOUSING AUTHORITY RISK RETENTION GROUP, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF COMPREHENSIVE LOSS
For the Year Ended December 31, 2015

	Housing Authority Risk Retention Group, Inc.	Housing Enterprise Insurance Company, Inc.	Innovative Housing Insurance Company, Inc.	Eliminations	Consolidated
Revenues					
Premiums earned	$ 32,936,325	$ 28,296,258	$ -	$ -	$ 61,232,583
Ceded premiums earned	(2,163,734)	(8,512,067)	-	-	(10,675,801)
Net earned premiums	30,772,591	19,784,191	-		50,556,782
Investment gain	6,118,464	1,280,234	-	-	7,398,698
Unrealized loss on investments in affiliates	(3,136,139)	-	-	(204,346)	(3,340,485)
Net realized investment gains	5,401,598	30,034	-	-	5,431,632
Total revenues	39,156,514	21,094,459	-	(204,346)	60,046,627
Expenses					
Losses and loss adjustment expenses	21,969,083	12,012,249	-	-	33,981,332
Salaries and other compensation	5,850,307	2,781,150	7,587	-	8,639,044
Contractual services and professional fees	1,009,266	-	-	-	1,009,266
General and administrative expenses	4,487,125	2,517,999	1,250	-	7,006,374
Policy acquisition costs	975,785	2,881,835	-	-	3,857,620
Total expenses	34,291,566	20,193,233	8,837	-	54,493,636
Policyholder dividends	4,216,719	-	-	-	4,216,719
Net income (loss) before federal income tax expense (benefit)	648,229	901,226	(8,837)	(204,346)	1,336,272
Federal income tax expense (benefit)	-	577,877	(3,005)	-	574,872
Net income	648,229	323,349	(5,832)	(204,346)	761,400
Less net income attributable to non-controlling interest in HEIC	-	-	-	113,171	113,171
Net income (loss) attributable to the Company	648,229	323,349	(5,832)	(91,175)	648,229
Other comprehensive loss					
Unrealized holding losses on available for sale securities, net of tax benefit of ($234,002) related to HEIC	(3,536,328)	(454,241)	-	295,257	(3,695,312)
Reclassification adjustments for realized gains included in net income, net of tax expense of $10,212 related to HEIC	(5,401,598)	(19,822)	-	12,884	(5,408,536)
Other comprehensive loss	(8,937,926)	(474,063)	-	308,141	(9,103,848)
Less other comprehensive loss attributable to non-controlling interest in HEIC	-	-	-	(166,096)	(166,096)
Other comprehensive loss attributable to the Company	(8,937,926)	(474,063)	-	474,237	(8,937,752)
Comprehensive loss attributable to the Company	$ (8,289,697)	$ (150,714)	$ (5,832)	$ 383,062	$ (8,289,523)

HOUSING AUTHORITY RISK RETENTION GROUP, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2014

	Housing Authority Risk Retention Group, Inc.	Housing Enterprise Insurance Company, Inc.	Eliminations	Consolidated
Revenues				
Premiums earned	$ 31,869,237	$ 26,520,769	$ -	$ 58,390,006
Ceded premiums earned	(2,835,283)	(9,268,532)	-	(12,103,815)
Net earned premiums	29,033,954	17,252,237		46,286,191
Investment gain	6,203,816	1,270,599	-	7,474,415
Unrealized loss on investments in affiliates	(6,931,175)	-	1,309,948	(5,621,227)
Net realized investment gains	2,908,462	482,268	-	3,390,730
Total revenues	31,215,057	19,005,104	1,309,948	51,530,109
Expenses				
Losses and loss adjustment expenses	12,336,420	12,772,805	-	25,109,225
Salaries and other compensation	5,433,866	2,618,716	-	8,052,582
Contractual services and professional fees	1,581,388	414,000	-	1,995,388
General and administrative expenses	3,971,449	2,018,346	-	5,989,795
Policy acquisition costs	966,057	2,910,450	-	3,876,507
Total expenses	24,289,180	20,734,317	-	45,023,497
Policyholder dividends	5,922,125	-	-	5,922,125
Net income (loss) before federal income tax benefit	1,003,752	(1,729,213)	1,309,948	584,487
Federal income tax benefit	-	286,092	-	286,092
Net income (loss)	1,003,752	(2,015,305)	1,309,948	298,395
Less net loss attributable to non-controlling interest in HEIC	-	-	(705,357)	(705,357)
Net income (loss) attributable to the Company	1,003,752	(2,015,305)	2,015,305	1,003,752
Other comprehensive income				
Unrealized holding gains on available for sale securities, net of tax expense of $227,133 related to HEIC	7,457,369	440,905	(286,588)	7,611,686
Reclassification adjustments for realized gains included in net loss, net of tax expense of $163,971 related to HEIC	(3,115,355)	(318,297)	206,892	(3,226,760)
Other comprehensive income	4,342,014	122,608	(79,696)	4,384,926
Less other comprehensive loss attributable to non-controlling interest in HEIC	-	-	42,912	42,912
Other comprehensive income attributable to the Company	4,342,014	122,608	(122,608)	4,342,014
Comprehensive income (loss) attributable to the Company	$ 5,345,766	$ (1,892,697)	$ 1,892,697	$ 5,345,766

HOUSING AUTHORITY RISK RETENTION GROUP, INC.

Management's Discussion and Analysis
For the Years Ended December 31, 2015 and 2014

The Company - An Overview

Housing Authority Risk Retention Group, Inc. (the Company or HARRG) was incorporated on March 20, 1987 as a mutual captive insurer. HARRG provides liability insurance to member housing authorities throughout the United States. HARRG is a non-profit, federal tax-exempt company owned by member public housing authorities (PHAs) and operates pursuant to the Federal Liability Risk Retention Act of 1986.

HARRG was developed as a result of the inability of many PHAs to obtain liability coverage or to obtain such coverage at an affordable rate. In response, PHAs established HARRG to provide stable, affordable liability insurance coverage. HARRG is a niche market insurer. The Company only serves PHAs in the United States and its territories. Currently, HARRG underwrites over 48% of this market on a per unit basis. At the end of 2015, HARRG had 937 members, a decrease of 0.4% over 2014.

Management operations at HARRG include the following functions: underwriting, claims services, finance, insurance agency, broker and trade association management, marketing, management information systems, interactive learning television programming, and risk control. As of December 31, 2015, HARRG employed 162 individuals. HARRG also provides management services under contract to its affiliates Housing Authority Property Insurance, A Mutual Company (HAPI), Housing Enterprise Insurance Company, Inc. (HEIC), Housing Specialty Insurance Company, Inc. (HSIC), Innovative Housing Insurance Company, Inc. (IHIC), Housing Telecommunications, Inc. (HTI), Housing Authority Insurance, Inc. (HAI), Housing Investment Group, Inc. (HIG), Housing Insurance Services, Inc. (HIS), Public and Affordable Housing Research Corporation (PAHRC) and Housing Systems Solutions, Inc. (HSS).

In June 1995, HARRG and HAPI formed HIG to serve as a downstream for-profit holding company to govern related businesses in which the Company and HAPI have ownership interest. With the incorporation of HIG, the Company and HAPI consolidated all of the for-profit business entities under the holding company effective January 1, 1996. The subsidiaries include HIS (insurance agency), HSS (a provider of software for housing management), and Housing Alliance Group, LLC (HAGL, a provider of credit enhancement coverage and limited advisory services). HARRG's investment in HIG was valued at the underlying equity (adjusted to a statutory basis) of HIG. On July 1, 2014, the Company and HAPI purchased Class B common stock in HIG for $2.5 million each. On March 13, 2015 and December 7, 2015, the Company and HAPI purchased Class B common stock totaling $4.1 million each. The stock purchases will fund the software development in HSS.

On January 2, 2001, HAPI formed HEIC, a sponsored captive domiciled in Vermont with an initial contribution of $2.0 million. Since 2003, the Company and HAPI each purchased additional shares of stock and contributed additional surplus to HEIC. In, 2011, the Company purchased $10 million additional shares. On July 2, 2014, the Company contributed $3.25 million of gross paid in and contributed surplus. At December 31, 2015, the Company had 65% ownership in HEIC, with HAPI owning 35%. HEIC provides various insurance coverages for low and mixed income and affordable housing units that are not in the public housing authority program. The tax structure of the Company prevents it from participating directly in these markets.

In December 2013, the Company and HAPI jointly formed HSIC, a licensed stock insurance company domiciled in Vermont, to provide an excess and surplus lines insurance program to public and affordable housing providers. On December 18, 2013, the Company and HAPI each contributed $3.0 million ($1.0 million for 100 shares of no par value voting common stock and $2.0 million contributed surplus). On May 23, 2014, the Company and HAPI contributed an additional $5.0 million of gross paid in and contributed surplus each. At December 31, 2015, the Company had a 50% interest in HSIC.

In July 2015, IHIC, a Vermont captive insurance company, was formed to provide insurance services, namely insurance and reinsurance coverage for various types of risks of a single insured entity HAGL, who works with public housing authorities through the United States. On August 21, 2015, the Company purchased 50 shares of common stock in IHIC for $500 thousand, and contributed $500 thousand of gross paid in and contributed surplus. The Company has a 100% ownership interest in IHIC.

The Company has an Excess of Loss reinsurance agreement which provides $4.0 million of coverage for general liability and public officials' liability losses in excess of the Company's $1.0 million retention with a $1.0 million annual aggregate deductible. This agreement also provides excess reinsurance for HARRG's auto liability policies for coverage of $500 thousand excess of the Company's $500 thousand retention. The Company has a second Excess of Loss reinsurance agreement which provides coverage for $10.0 million excess of $5.0 million for general liability.

HARRG, HAPI, HEIC, and HSIC have a reinsurance agreement with Hannover Ruckversicherungs Aktiengesellschaft, Lloyds Syndicate Number 33 (Hiscox) and Lloyds Syndicate Number 2003 (Catlin), where the Company retains the first $2.0 million of terrorism loss with the reinsurers assuming the next $60.0 million. For losses arising from nuclear, chemical and biological release, the Company retains the first $250 thousand with the reinsurers assuming the next $5.0 million.

Since 2006, HAPI reinsured HARRG under an aggregate excess of loss reinsurance agreement (AXL). The agreement provides for reinsurance protection to HARRG for all losses in excess of HARRG's defined retention. These agreements were renewed annually in 2007 through 2014.

The following discussion provides an assessment by management of the current financial position, results of operations, cash flow and liquidity, and changes in financial position for HARRG. Information presented in this discussion supplements the financial statements, schedules and exhibits of the 2015 Annual Report.

Financial Position

HARRG's total assets at year-end 2015 were $323.0 million, a 2.7% decrease from 2014. There was an increase in real estate and construction in progress from the new policy management system which corresponded with the decrease in cash and shifts between bonds and common stock as investments were made in affiliates.

The carrying value of the investments available for sale was $245.7 million at December 31, 2015, a decrease of 2.5% from 2014. The carrying value of stocks in affiliated companies was $38.3 million, an increase of 4.3% from 2014. The shift is primarily the result of investments in HIG of $4.1 million in 2015.

Premiums receivable increased $1.8 million in 2015 to $8.8 million. Most of the balance consisted of future installment balances booked but deferred and not yet due at year-end, and advance premiums.

Reserves for unpaid losses and loss adjustment expenses at December 31, 2015, reflected the estimate of the liability for the ultimate net cost of reported claims and estimated IBNR claims arising from losses which occurred by year's end. At December 31, 2015, loss and loss adjustment expense reserves were $83.0 million, a decrease of 0.5% over 2014. The Company carries its reserves at the 80% confidence level of potential outcomes and within the actuary's range of reasonably possible outcomes. Loss and loss adjustment expense reserves are not discounted. Salvage and subrogation recoveries are not considered when setting reserves.

Members' equity decreased 4.3% to $198.6 million in 2015. This decrease was primarily a result of the other comprehensive loss of $8.3 million from unrealized gains on the investment portfolio. At December 31, 2015, dividends declared and payable were $4.0 million. HARRG's Risk Based Capital (RBC) test indicated its adjusted surplus at 17 times the Authorized Control Level.

Results of Operations

Net premiums written for 2015 were up 3.9% to $30.9 million. Most of the increase in terms of dollar volume and percentage change was in the general liability lines where the pressure on rates has continued. Earned premiums increased 0.9% to $30.8 million. General liability rates are expected to moderately increase next year.

Investment income, net of expenses, increased $3.7 million over 2014 as a result of better performance from the investment in subsidiaries in 2015. Net realized gains for 2015 increased 85.7% mainly due to the sale of the BBH Core Select Equity Fund. The Company did not realize any other-than-temporary impairment losses during the year.

Loss and loss adjustment expenses incurred totaled $22.0 million for the year ended December 31, 2015. The calendar year loss and loss adjustment expense ratio increased 29 points from the prior year to 71%. The AXL agreement contributed unfavorable results for the 2014 accident year as total reported losses remained below the retention in addition to increased IBNR on the general liability line.

All other expenses increased by 3.1% over the prior year due to an increase in general and administrative expenses. The Company provides management services and facilities to HAPI, HEIC, HSIC, IHIC, HTI, HAI, HIG and its subsidiaries, and PAHRC on a fee-for-service basis, which is reimbursed to the Company under common paymaster and facilities agreements.

HARRG recorded net income of $648 thousand in 2015 versus $1.0 million in 2014. The decrease was primarily attributable to the increase incurred loss and loss adjustment expense. The combined ratio of 125% represents a 22 point unfavorable change from 2014.

Cash Flow and Liquidity

The Company generated net positive cash flow from operations of $6.8 million. Overall cash flow generated in 2015 was negative $1.9 million. Projected positive cash flow will be adequate to cover short-term liquidity needs throughout 2016.

The Company established a $5.0 million line of credit with Brown Brothers Harriman for the purpose of meeting short-term operating cash requirements. There were no cash draws on this line during 2015.

On October 18, 2013, the Company took out a 5-year bank loan from Wells Fargo Bank, N.A. for $8.5 million with a 3.0% interest rate for the purpose of funding the new building construction. Interest expense incurred on the borrowed money was recorded as an investment expense of $235 thousand for the current year ($225 thousand paid).

Outlook

Looking forward, revenue projections include an overall rate increase of 5.2% for 2016 for the Company while maintaining adequate and competitive pricing. The loss and loss adjustment expense ratio is projected at 60%. Investment income from a continuing weak market will produce low yields while increasing interest rates will produce lower net realized gains. Expenses may increase for the upcoming year as a result of infrastructure updates and ongoing Board Initiative support. Board Initiatives include supporting the housing industry as it faces uncertainty in funding to support its operations. The Company continues to practice strong risk control services and claims management.

The Company’s strong surplus position will enable it to achieve continuous support to the members with continued focus on financial results.

General Matters

The Board of Directors of the Company requires that audits and analytical reviews, conducted by independent outside firms, be performed on an annual basis. The 2015 schedule included: 1) an actuarial loss certification, submitted as part of the 2015 Annual Statement; 2) a claims audit performed which was completed in 2015; 3) a financial audit for both GAAP and SAP, which was completed in February 2016; 4) an investment review of performance, conducted on a quarterly basis; and 5) underwriting audits conducted by the Company's reinsurers. During 2014 and 2015, the Vermont Department of Financial Regulation conducted a risk-focused examination of HAPI for the years 2009 through 2013. The examination fieldwork was completed in 2015 and the report was issued June 10, 2015.

Opinion

The preceding Management's Discussion and Analysis provides an assessment of the financial position, results of operations, and cash flow and liquidity for the fiscal year ended December 31, 2015, as reported in the 2015 Annual Report. Representations made herein are those of management according to the best of their knowledge and belief.

Dated: May 31, 2016

John C. Thomson
President & Chief Executive Officer

Mark A. Wilson
Executive Vice President
Chief Operating Officer
Treasurer

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY

FINANCIAL STATEMENTS

December 31, 2015 and 2014

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Housing Authority Property Insurance, A Mutual Company:

We have audited the accompanying financial statements of Housing Authority Property Insurance, A Mutual Company (the Company), which comprise the balance sheet as of December 31, 2015, and the related statements of comprehensive 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 of 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 auditor's 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 Housing Authority Property Insurance, A Mutual Company as of December 31, 2015, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

(Continued)

Other Matter

The financial statements of Housing Authority Property Insurance, A Mutual Company as of and for the year ended December 31, 2014, were audited by Saslow Lufkin & Buggy, LLP, who combined with Crowe Horwath LLP as of July 1, 2015, and whose report dated March 13, 2015 expressed an unmodified opinion on those statements.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
March 11, 2016

HOUSE AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
ASSETS		
Investments		
Available-for-sale, at fair value	$ 117,313,824	$ 119,655,681
Investment in HEIC	13,531,660	13,584,409
Investment in HIG	6,089,987	5,294,395
Investment in HSIC	7,722,735	7,826,541
Total investments	144,658,206	146,361,026
Cash and cash equivalents	6,384,365	9,313,119
Premiums receivable	24,795,845	21,468,035
Reinsurance recoverables on unpaid losses	3,982,315	7,111,853
Reinsurance recoverables on paid losses	4,185,682	1,820,168
Deferred policy acquisition costs	1,861,386	1,915,606
Other assets	764,870	786,293
Due from affiliates	-	114,464
Prepaid reinsurance premiums	6,557,404	6,949,266
Total assets	$ 193,190,073	$ 195,839,830
LIABILITIES AND MEMBERS' EQUITY		
Unpaid losses and loss adjustment expenses	$ 26,533,880	$ 32,707,706
Unearned premiums	24,074,625	23,826,406
Reinsurance payable	2,119,951	2,997,011
Accrued expenses and other liabilities	2,173,065	1,651,653
Accrued policyholder dividends	955,000	505,139
Payable for securities	-	288,741
Due to affiliates	392,669	1,470,298
Advance premiums	11,707,463	8,187,907
Total liabilities	67,956,653	71,634,861
Members' equity		
Members' contributions	10,032,267	9,980,270
Accumulated other comprehensive income	2,657,484	6,922,977
Unassigned surplus	112,543,669	107,301,722
Total members' equity	125,233,420	124,204,969
Total liabilities and members' equity	$ 193,190,073	$ 195,839,830

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

HOUSE AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2015 and 2014

	2015	2014
Revenues		
Premiums earned	$ 56,220,823	$ 55,513,146
Ceded premiums earned	(15,560,670)	(18,440,377)
Net premiums earned	40,660,153	37,072,769
Investment income, net	2,889,516	3,072,345
Unrealized loss on investments in affiliates	(3,227,311)	(6,326,585)
Net realized investment gains	2,442,829	1,488,066
Total revenues	42,765,187	35,306,595
Expenses		
Losses and loss adjustment expenses	20,116,027	23,123,013
Salaries and other compensation	5,285,082	4,151,936
General and administrative expenses	10,219,044	8,608,085
Contracted services and professional fees	1,258,460	908,602
Total expenses	36,878,613	36,791,636
Net income (loss) before policyholder dividends	5,886,574	(1,485,041)
Policyholder dividends	(449,861)	-
Net income (loss)	5,436,713	(1,485,041)
Other comprehensive (loss) income		
Unrealized holding (losses) gains	(1,822,664)	3,271,803
Reclassification for realized gains on sales included in net income (loss)	(2,442,829)	(1,488,066)
Other comprehensive (loss) income	(4,265,493)	1,783,737
Comprehensive income	$ 1,171,220	$ 298,696

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

HOUSE AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
For the Years Ended December 31, 2015 and 2014

	Members' Contributions	Accumulated Other Comprehensive Income	Unassigned Surplus	Total
Balance as of January 1, 2014	$ 9,866,847	$ 5,139,240	$ 109,011,019	$ 124,017,106
Net loss	-	-	(1,485,041)	(1,485,041)
Other comprehensive income	-	1,783,737	-	1,783,737
Equity dividends	-	-	(99,665)	(99,665)
Members' distributions, net	(11,168)	-	-	(11,168)
Members' recapitalization dividends	124,591	-	(124,591)	-
Balance as of December 31, 2014	9,980,270	6,922,977	107,301,722	124,204,969
Net income	-	-	5,436,713	5,436,713
Other comprehensive loss	-	(4,265,493)	-	(4,265,493)
Equity dividends	-	-	(184,225)	(184,225)
Members' contributions, net	41,456	-	-	41,456
Members' recapitalization dividends	10,541	-	(10,541)	-
Balance as of December 31, 2015	$ 10,032,267	$ 2,657,484	$ 112,543,669	$ 125,233,420

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

HOUSE AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Net income (loss)	$ 5,436,713	$ (1,485,041)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Net realized investment gains	(2,442,829)	(1,488,066)
Unrealized loss on investments in affiliates	3,227,311	6,326,585
Amortization and accretion on investments, net	169,525	329,589
Changes in assets and liabilities		
Premiums receivable	(3,327,810)	(624,739)
Reinsurance recoverables on unpaid losses	3,129,538	1,196,059
Reinsurance recoverables on paid losses	(2,365,514)	166,738
Deferred policy acquisition costs	54,220	(217,433)
Other assets	21,423	95,168
Due from affiliates	114,464	(111,777)
Prepaid reinsurance premiums	391,862	(202,507)
Unpaid losses and loss adjustment expenses	(6,173,826)	(742,842)
Unearned premiums	248,219	1,480,262
Reinsurance payable	(877,060)	(5,075)
Accrued expenses and other liabilities	521,412	540,357
Accrued policyholder dividends	449,861	(1,858,660)
Payable for securities	(288,741)	288,741
Due to affiliates	(1,077,629)	138,325
Advance premiums	3,519,556	(1,054,758)
Cash provided by operating activities	730,695	2,770,926
Cash flows from investing activities		
Purchases of available for sale securities	(38,712,008)	(50,718,543)
Proceeds from securities sold	26,054,196	53,851,893
Maturities and prepayments of securities	13,241,132	9,615,138
Contributed capital to Housing Investment Group, Inc.	(4,100,000)	(2,500,000)
Contributed capital to Housing Enterprise Insurance Company, Inc.	-	(1,750,000)
Contributed capital to Housing Specialty Insurance Company, Inc.	-	(5,000,000)
Cash (used in) provided by investing activities	(3,516,680)	3,498,488
Cash flows from financing activities		
Equity dividends	(184,225)	(99,665)
Members' contributions (distributions)	41,456	(11,168)
Cash used in financing activities	(142,769)	(110,833)
Net change in cash and cash equivalents	(2,928,754)	6,158,581
Cash and cash equivalents, beginning of year	9,313,119	3,154,538
Cash and cash equivalents, end of year	$ 6,384,365	$ 9,313,119

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

NOTE 1 - GENERAL

Reporting Entity: Housing Authority Property Insurance, A Mutual Company (the Company or HAPI), was incorporated on March 20, 1987, under the laws of the State of Vermont. The Company is a traditional property and casualty insurance company and was formed for the purpose of providing property insurance coverage to member public housing authorities (PHAs) throughout the United States.

Concentrations: The Company provides property insurance coverage to member PHAs that are regulated and funded by the U.S. Department of Housing and Urban Development. Certain changes in public policy and/or funding of member PHAs could have a significant impact on the operations of the Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and Cash Equivalents: Cash and cash equivalents are comprised of several cash accounts, money market funds and repurchase obligations as of December 31, 2015 and 2014. The Company classifies certain securities with original maturity dates of three months or less from the date of purchase as cash equivalents. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Company's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Company may maintain cash balances in excess of the FDIC insurance limit.

Investments: The Company accounts for investments in accordance with FASB ASC 320, *Investments - Debt and Equity Securities.* 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. As of December 31, 2015 and 2014, all of the Company's investments are classified as available for sale and are carried at fair value. Unrealized gains and losses relating to available for sale securities are reported as a separate component of members' equity, as accumulated other comprehensive income. Realized investment gains and losses are determined on a specific identification basis.

The amortized cost of debt securities are adjusted for amortization of premiums and accretion of discounts. Such amortization and accretion are included in investment income.

Within the mortgage-backed securities portfolios, the Company invests in collateralized mortgage obligations and mortgage-backed security pools which include both residential and commercial mortgages. Each security carries a varying degree of prepayment and interest risk, which can impact the fair value and the ultimate amount of investment income earned. Due to principal prepayments, the effective yield is calculated using the prospective method. Acceleration or deceleration of prepayments of the underlying mortgages can be caused by interest rate changes.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in Affiliates: In June 1995, the Company and Housing Authority Risk Retention Group (HARRG) jointly formed Housing Investment Group, Inc. (HIG) to serve as a for-profit company to govern the related businesses to which the Company and HARRG had an ownership interest. The Company's ownership interest is 50% as of December 31, 2015 and 2014.

During 2015 and 2014, the Company contributed capital of $4,100,000 and $2,500,000, respectively, to HIG. There were no dividends declared or paid in 2015 or 2014.

Housing Enterprise Insurance Company, Inc. (HEIC) is a licensed domestic stock insurance company domiciled in the State of Vermont. Currently the Company owns 700 shares of voting common stock in the amount of $7,000,000 and HARRG owns 1,300 shares of voting common stock in the amount of $13,000,000. During 2014 the Company and HARRG paid in $1,750,000 and $3,250,000, respectively, in contributed surplus. No additional contributions were made during 2015. As of December 31, 2015 and 2014, the Company owns 35% of HEIC.

In December 2013, the Company and HARRG jointly formed Housing Specialty Insurance Company, Inc. (HSIC) a licensed domestic stock insurance company domiciled in the State of Vermont, which was formed to provide surplus lines coverages to specific risks. The Company and HARRG each contributed $3,000,000 and received 100 shares voting common stock each. During 2014, the Company and HARRG each contributed an additional $5,000,000 in surplus. No additional contributions were made during 2015. The Company owns 50% of HSIC as of December 31, 2015 and 2014.

The Company records its investments in affiliates under the equity method of accounting in accordance with FASB ASC 323 *Investments-Equity Method and Joint Ventures* and records its proportionate share of earnings within unrealized loss on investments in affiliates within the statements of comprehensive income.

Summarized financial information from the audited financial statements of these affiliates as of December 31, 2015 and for the year then ended, is as follows:

	Total Assets	Total Liabilities	Total Equity	Net (Loss) Income
Housing Investment Group, Inc.	$ 45,895,513	$ 33,715,542	$ 12,179,971	$ (6,608,822)
Housing Enterprise Insurance Company, Inc.	$ 84,706,439	$ 47,703,215	$ 37,003,224	$ 323,349
Housing Specialty Insurance Company, Inc.	$ 16,531,597	$ 1,086,125	$ 15,445,472	$ (72,152)

Summarized financial information from the audited financial statements of these affiliates as of December 31, 2014 and for the year then ended, is as follows:

	Total Assets	Total Liabilities	Total Equity	Net (Loss) Income
Housing Investment Group, Inc.	$ 38,642,838	$ 28,054,045	$ 10,588,793	$ (10,875,477)
Housing Enterprise Insurance Company, Inc.	$ 79,940,184	$ 42,786,246	$ 37,153,938	$ (2,015,305)
Housing Specialty Insurance Company, Inc.	$ 15,840,684	$ 187,602	$ 15,653,082	$ (369,828)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 is included in investment income, net, within the statements of comprehensive income and the cost basis of that investment is reduced.

The Company accounts for other than temporary impairments of debt securities in accordance with 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 are met, an impairment equal to the difference between the debt securities' 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 securities' amortized cost and the projected net present value) is recognized in earnings and the remaining portion of the impairment is recognized as a component of other comprehensive income.

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 cost, the financial condition and near term prospects of the issuer and the Company's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

The Company recorded no impairments of investments for the years ended December 31, 2015 and 2014.

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

Revenue Recognition: Premiums are recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums.

Advance Premium: Premiums which have been billed for policies not yet effective are reported as advance premiums on the balance sheets.

Reinsurance: In the normal course of business, the Company seeks to reduce its loss exposure by reinsuring certain levels of risk with reinsurers. Reinsurance is accounted for in accordance with FASB ASC 944, *Financial Services - Insurance.* Premiums ceded are expensed over the term of their underlying related policies. Anticipated reinsurance recoverables under these contracts are recorded as a receivable in accordance with the terms of the underlying contracts.

Deferred Policy Acquisition Costs: Policy acquisition costs, which consist of premium taxes and agency commission, are expensed on a pro rata basis over the policy term. The portion of premium taxes and agency commission that will be expensed in the future is deferred and reported as deferred policy acquisition costs on the balance sheets.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unpaid Losses and Loss Adjustment Expenses: Unpaid losses and loss adjustment expense reserves and reinsurance recoverables represent estimated provisions for both reported and unreported claims incurred and related expenses. In determining unpaid losses and loss adjustment expense reserves and reinsurance recoverables, the Company annually reviews its overall position, its reserving techniques and its reinsurance, and utilizes the findings of an independent consulting actuary. These reserves represent the estimated ultimate cost of settling all claims less amounts paid. Since the reserves are based upon estimates, the ultimate liability and reinsurance recoverable could be in excess of or less than the amounts indicated in the financial statements. The effects of changes in such estimated reserves are included in the results of operations in the period in which the estimates are changed. Such changes may be material to the results of operations and could occur in a future period.

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, liabilities, revenues and expenses, at and during the reported period, along with the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

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 policyholders, unamortized deferred policy acquisition costs and maintenance costs exceed unearned premiums and anticipated investment income. There were no premium deficiencies recognized as of December 31, 2015 and 2014.

Bad Debts: The Company uses the allowance method to record bad debts. The Company records an allowance for doubtful accounts against its outstanding accounts receivable, which is based on its estimation of bad debts in the near term. This estimate is based on the Company's past experience with collecting its receivables and an analysis of current accounts receivable. No allowance has been recorded as of December 31, 2015 and 2014, as management believes all amounts are fully collectable.

Income Taxes: The Company has received a determination letter from the Internal Revenue Service indicating that the Company is exempt from federal income taxes under the provisions of Section 115 of the Internal Revenue Code.

The Company accounts for uncertain tax positions in accordance with FASB ASC 740, *Income Taxes,* which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions within their financial statements. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Company did not record any unrecognized tax benefits as of December 31, 2015 and 2014. The Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months.

The Company’s policy is to include interest and penalties related to unrecognized tax benefits as a component of its provision for income taxes. As of December 31, 2015 and 2014, the Company did not record any penalties or interest associated with unrecognized tax benefits. All tax years from 2013 forward are open and subject to examination by the Internal Revenue Service.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications: Certain reclassifications to the 2014 financial statements have been made in order to conform with the 2015 presentation. Such reclassifications did not have a material effect on the financial statements.

Subsequent Events: Subsequent events have been evaluated through March 11, 2016, which is the date the financial statements were available to be issued. Management believes there are no subsequent events having a material impact on the financial statements.

NOTE 3 - INVESTMENTS

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

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury and government agencies	$ 28,798,016	$ 767,426	$ (118,148)	$ 29,447,294
State and political subdivisions	3,985,703	106,988	(78,415)	4,014,276
Corporate bonds	38,480,865	926,270	(378,525)	39,028,610
Collateralized debt obligations	8,770,506	21,706	(23,574)	8,768,638
Residential mortgage-backed securities	18,489,838	419,944	(121,469)	18,788,313
Commercial mortgage-backed securities	6,355,655	66,408	(51,487)	6,370,576
Total debt securities	104,880,583	2,308,742	(771,618)	106,417,707
Mutual funds	10,078,505	865,870	(48,258)	10,896,117
Total	$ 114,959,088	$ 3,174,612	$ (819,876)	$ 117,313,824

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

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury and government agencies	$ 25,438,012	$ 1,073,573	$ (79,059)	$ 26,432,526
State and political subdivisions	5,073,801	222,505	(31,532)	5,264,774
Corporate bonds	37,006,291	1,563,259	(108,249)	38,461,301
Collateralized debt obligations	11,675,249	69,798	(8,527)	11,736,520
Residential mortgage-backed securities	19,643,673	660,888	(83,089)	20,221,472
Commercial mortgage-backed securities	7,423,630	119,942	(55,429)	7,488,143
Total debt securities	106,260,656	3,709,965	(365,885)	109,604,736
Equity securities	3,960,138	2,212,057	(49,155)	6,123,040
Mutual funds	3,048,310	879,595	-	3,927,905
Total	$ 113,269,104	$ 6,801,617	$ (415,040)	$ 119,655,681

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The cost and fair value of debt securities are shown by contractual maturity as of December 31, 2015. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due to mature		
One year or less	$ 4,736,655	$ 4,782,857
After one year through five years	36,136,284	36,491,128
After five years through ten years	20,406,985	20,435,195
After ten years	9,984,660	10,781,000
Collateralized debt obligations	8,770,506	8,768,638
Residential mortgage-backed securities	18,489,838	18,788,313
Commercial mortgage-backed securities	6,355,655	6,370,576
Total	$ 104,880,583	$ 106,417,707

Proceeds from sales and repayments of securities amounted to $26,054,196 and $53,851,893 in 2015 and 2014, respectively. Gross gains of $2,756,331 and $1,761,330 and gross losses of $313,502 and $273,264 were realized on those sales during 2015 and 2014, respectively.

The Company holds 217 securities that are in a position of decline as of December 31, 2015, of which 89 of these securities have been in an unrealized loss position for a period of twelve months or greater. The following table shows the investments' 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		12 Months or Greater	
	Fair Value	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. treasury and government agencies	$ 11,626,339	$ (96,464)	$ 2,925,413	$ (21,684)
State and political subdivisions	1,258,265	(49,384)	1,267,994	(29,031)
Corporate bonds	11,472,127	(309,166)	6,748,273	(69,359)
Collateralized debt obligations	3,599,602	(17,203)	2,289,807	(6,371)
Residential mortgage-backed securities	3,987,287	(20,686)	3,820,420	(100,783)
Commercial mortgage-backed securities	852,890	(7,854)	1,766,521	(43,633)
Mutual funds	-	-	7,399,994	(48,258)
Total	$ 32,796,510	$ (500,757)	$ 26,218,422	$ (319,119)

NOTE 3 - INVESTMENTS (Continued)

The Company held 114 securities that were in a position of decline as of December 31, 2014, of which 55 of these securities have been in an unrealized loss position for a period of twelve months or greater. The following table shows the investments' 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, 2014:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury and government agencies	$ 2,550,202	$ (2,512)	$ 3,316,263	$ (76,547)
State and political subdivisions	1,239,889	(31,532)	-	-
Corporate bonds	7,569,034	(92,752)	1,746,950	(15,497)
Collateralized debt obligations	2,717,940	(4,785)	1,642,979	(3,742)
Residential mortgage-backed securities	20,514	(319)	4,374,063	(82,770)
Commercial mortgage-backed securities	-	-	1,834,295	(55,429)
Total debt securities	14,097,579	(131,900)	12,914,550	(233,985)
Equity securities	223,987	(49,155)	-	-
Total	$ 14,321,566	$ (181,055)	$ 12,914,550	$ (233,985)

The Company had debt securities with amortized costs of $5,523,499 and $5,519,085 as of December 31, 2015 and 2014, respectively, deposited with state insurance departments and regulatory authorities, as required by certain state statutes.

(Continued)

NOTE 4 - ACCUMULATED OTHER COMPREHENSIVE INCOME

A summary of the net changes in accumulated other comprehensive income attributable to the Company and significant amounts reclassified out of accumulated other comprehensive income for the years ended December 31, 2015 and 2014 are as follows:

	Available-for-Sale Securities	HEIC	HSIC	Total
Balance, January 1, 2014	$ 4,660,362	$ 478,878	$ -	$ 5,139,240
Other comprehensive income before reclassifications	3,214,281	42,913	14,609	3,271,803
Amounts reclassified from accumulated other comprehensive income [a]	(1,488,066)	-	-	(1,488,066)
Net current-period other comprehensive income	1,726,215	42,913	14,609	1,783,737
Balance, December 31, 2014	6,386,577	521,791	14,609	6,922,977
Other comprehensive income before reclassifications	(1,589,012)	(165,922)	(67,730)	(1,822,664)
Amounts reclassified from accumulated other comprehensive income [a]	(2,442,829)	-	-	(2,442,829)
Net current-period other comprehensive income	(4,031,841)	(165,922)	(67,730)	(4,265,493)
Balance, December 31, 2015	$ 2,354,736	$ 355,869	$ (53,121)	$ 2,657,484

[a] Amounts reclassified from other comprehensive income into net loss are included within net realized investment gains.

NOTE 5 - FAIR VALUE MEASUREMENTS

The Company reports fair values in accordance with FASB ASC 820 *Fair Value Measurement and Disclosures.* FASB ASC 820 provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Company has the ability to access.

Level 2 - Inputs to the valuation methodology include: (i) Quoted prices for similar assets in active markets; (ii) Quoted prices for identical or similar assets in inactive markets; (iii) Inputs other than quoted prices that are observable for the asset; or (iv) 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 Company classifies the fair value of mutual funds, investments in debt securities and money market funds, as of December 31, 2015, as follows:

	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 29,447,294	$ -
State and political subdivisions	-	4,014,275	-
Corporate bonds	-	38,777,261	251,350
Collateralized debt obligations	-	8,768,638	-
Residential mortgage-backed securities	-	18,788,313	-
Commercial mortgage-backed securities	-	6,370,576	-
Mutual funds	10,896,117	-	-
Repurchase agreement	-	200,000	-
Money market funds	648,345	-	-
Total	$ 11,544,462	$ 106,366,357	$ 251,350

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The Company classifies the fair value of equity securities, mutual fund, investments in debt securities and money market funds, as of December 31, 2014, as follows:

	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 26,432,526	$ -
State and political subdivisions	-	1,169,688	4,095,086
Corporate bonds	-	38,209,251	252,050
Collateralized debt obligations	-	11,386,911	349,609
Residential mortgage-backed securities	-	20,221,472	-
Commercial mortgage-backed securities	-	7,488,143	-
Mutual fund	3,927,905	-	-
Common stocks:			
Basic materials	902,349	-	-
Consumer goods	710,811	-	-
Financial	1,534,249	-	-
Healthcare	808,320	-	-
Industrial goods	141,438	-	-
Services	1,008,125	-	-
Technology	1,017,748	-	-
Repurchase agreement	-	1,200,000	-
Money market funds	1,760,274	-	-
Total	$ 11,811,219	$ 106,107,991	$ 4,696,745

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth a summary of changes in the fair value of the Company's level 3 assets:

	Debt Securities
Beginning balance as of January 1, 2014	$ 5,339,163
Transfers out	(809,969)
Purchases	403,464
Sales proceeds	(485,129)
Amortization	83,951
Total realized gains	1,616
Total unrealized gains	163,649
Ending balance as of December 31, 2014	4,696,745
Transfers out	(3,287,380)
Purchases	399,857
Sales proceeds	(1,615,706)
Amortization	100,940
Total realized gains	50,223
Total unrealized gains	(93,329)
Ending balance as of December 31, 2015	$ 251,350

During 2015 and 2014, certain securities were transferred from Level 3 to Level 2 due to observable market data becoming available for these securities.

The fair values of the Company's level 2 and 3 investments are determined by management after considering prices received from third party services.

A description of inputs used in the Company's level 2 and level 3 measurements are listed below:

U.S. treasury and government agencies: Primary inputs include observations of credit default swap curves related to the issuer and political events.

State and political subdivisions: Primary inputs include Municipal Securities Rulemaking Board reported trades and material event notices, and issuer financial statements.

Corporate bonds: Primary inputs include observations of credit default swap curves related to the issuer.

Collateralized debt obligations, residential and commercial mortgage-backed securities: Primary inputs include monthly payment information, collateral performance, which varies by vintage year and includes delinquency rates, collateral valuation loss severity rates, collateral refinancing assumptions, credit default swap indices and, for collateralized debt obligation and residential mortgage-backed securities, estimated prepayment rates.

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

Repurchase agreements: Primary inputs include observations of credit default swap curves related to the issuer.

Level 3 investments: The Company's securities classified as level 3 include less liquid securities such as lower quality state and political subdivisions, corporate bonds and collateralized debt obligations. Securities included in level 3 are primarily valued based on broker prices or broker spreads, without adjustments which are priced with the typical inputs used in level 1 and level 2 securities but also include benchmark interest rates or credit spread assumptions that are not observable in the marketplace.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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 different fair value measurement at the reporting date.

We evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer. For the years ended December 31, 2015 and 2014, the significant transfers in or out of levels 2 and 3 are disclosed within the schedule on the previous page.

NOTE 6 - INSURANCE ACTIVITY

The Company primarily provides property coverages that are written on both a direct basis and an assumed basis through a fronting agreement. For 2015 and 2014, HAPI retains the first $500,000 plus its pro rata share of loss adjustment expenses. All amounts in excess of $500,000 are reinsured up to the property value of the insured. The Company secured reinsurance for amounts in excess of their retained limits up to $750,000,000 and $500,000,000 for 2015 and 2014, respectively, per occurrence for property. The property limit of $750,000,000 and $500,000,000 for 2015 and 2014, respectively, per occurrence is a "shared" aggregate limit with HEIC. As of December 31, 2015 and 2014, the Company also has aggregate reinsurance coverage for losses within the Company's retention, in excess of $10,000,000, per single catastrophic event.

The Company also provides boiler and machinery coverages and retains the first $500,000 of policy limits and a pro rata share of loss adjustment expenses. In addition, the Company assumes 100% of certain auto physical damage coverages written by Travelers Indemnity Company.

Effective January 1, 2015, the Company began providing reinsurance coverage to HSIC for commercial property coverage on public housing units insured by HSIC. In accordance with the reinsurance agreement the Company assumes limits of $750,000 per loss occurrence in excess of $250,000 each loss. Loss adjustment expenses are shared on a pro-rata basis and are in addition to the per occurrence limits. During 2015, the Company assumed $595,125 of premiums from HSIC related to this contract.

All direct policies cover certified terrorism losses as defined under the Terrorism Risk Insurance Act of 2002 (TRIA) and the subsequent 2007 extension of TRIA. TRIA provides for a system of shared public and private compensation for insured losses resulting from certified acts of terrorism. TRIA protection is only triggered if there is a certified act of terrorism and losses reach an industry insured loss trigger of $100 million. The coverage provided by the Company is eligible under TRIA for 85% co-insurance protection provided by the U.S. Treasury subject to a deductible equal to 20% of the Company's prior year direct earned premiums. The Company retains both the deductible and its remaining 15% share of certified terrorism losses. The 2007 extension of the TRIA program expired on December 31, 2014.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

On January 12, 2015, the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA) was signed into law extending TRIA through December 31, 2020. TRIPRA increases the industry insured loss trigger for the federal share of compensation for certified acts of terrorism by $20 million annually beginning January 1, 2016 until it reaches $200 million on January 1, 2020. Finally, under TRIPRA, the federal government's co-insurance protection gradually decreases from 85% to 80%, dropping one percent annually beginning on January 1, 2016.

The Company, HARRG and HEIC (collectively called the Companies) entered into a reinsurance agreement, which provides reinsurance protection to the Companies for all insured losses resulting from acts of terrorism or sabotage (whether a certified act or not), for all direct business written by the Companies. With respect to terrorism not involving nuclear, chemical or biological release, the agreement provides reinsurance for all losses and loss adjustment expenses in excess of $2,000,000 up to an aggregate limit of $60,000,000 and $20,000,000 for 2015 and 2014, respectively, per loss occurrence. With respect to business interruption and extra expense losses arising from nuclear, chemical or biological terrorism, the agreement provides reinsurance for all losses and loss adjustment expenses in excess of $250,000 up to an aggregate limit of $5,000,000 per loss occurrence. If a loss occurrence involves more than one of the Companies, the limits and retentions mentioned above will be divided between each of the Companies in the proportion of their individual losses to the total loss sustained by the Companies.

During 2014, the Company assumed $738,353 of premium from HARRG under aggregate excess of loss reinsurance agreements that reinsures all losses in excess of HARRG's retention on an accident year basis. HARRG provides liability insurance coverage to its member public housing authorities throughout the United States. HARRG's retention was $27,688,246 for accident year 2014. Coverage provided by the Company above HARRG's retention is up to an aggregate limit of $3,694,743 for accident year 2014. Unpaid losses due to HARRG amounted to $0 and $3,428,061 as of December 31, 2015 and 2014, respectively, under this agreement and prior similar agreements. The aggregate excess of loss reinsurance agreement was not renewed during 2015.

The Company entered into an aggregate excess of loss reinsurance agreement with unaffiliated reinsurers in 2014. The Company ceded $2,054,164 of premiums in 2014. The agreement provides reinsurance protection for all losses in excess of the Company's retention on an accident year basis. The Company's retention was $25,921,594 in 2014. Coverage provided by the reinsurer above the Company's retention is up to an aggregate limit of $7,985,807 for accident year 2014. As of December 31, 2015 and 2014, the Company had reinsurance recoverables of $0 and $1,465,457, respectively, related to this agreement and prior similar agreements, which are reflected within reinsurance recoverables on unpaid losses on the balance sheet. The aggregate excess of loss reinsurance agreement was not renewed during 2015.

Reinsurance contracts do not discharge the primary liability of the Company as insurer of those risks reinsured. The failure of the reinsurer to honor its obligations could result in significant losses to the Company.

The Company evaluates the financial condition of potential reinsurers, and continually monitors the financial condition of present reinsurers, which all have an A.M. Best rating of A- or better.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

Additionally, the Company evaluates current and prospective reinsurers as to concentrations of credit risk arising from similar activities or economic characteristics in order to minimize exposure to significant losses resulting from reinsurer insolvencies. There can be no assurance that reinsurance will continue to be available to the Company to the same extent, and at the same cost, as it has in the past. The Company may choose in the future to reevaluate the use of reinsurance to increase or decrease the amounts of risk it cedes to reinsurers.

Premiums written, assumed and ceded for the years ended December 31, 2015 and 2014, are summarized as follows:

	Premiums Written		Premiums Earned	
	2015	2014	2015	2014
Direct premiums	$ 54,854,169	$ 53,847,079	$ 54,429,529	$ 51,833,440
Assumed premiums	1,614,873	3,146,329	1,791,294	3,679,706
Ceded premiums	(15,168,808)	(18,642,884)	(15,560,670)	(18,440,377)
Net premiums	$ 41,300,234	$ 38,350,524	$ 40,660,153	$ 37,072,769

A reconciliation of changes in unpaid losses and loss adjustment expenses for the years ended December 31, 2015 and 2014, are summarized as follows:

	(in thousands) 2015	2014
Balance at beginning of year	$ 32,708	$ 33,451
Less: reinsurance recoverables	(7,112)	(8,308)
Net balance at beginning of the year	25,596	25,143
Incurred related to		
Current year	25,969	25,970
Prior years	(5,853)	(2,847)
Total incurred	20,116	23,123
Paid related to		
Current year	(12,682)	(11,436)
Prior years	(10,478)	(11,234)
Total paid	(23,160)	(22,670)
Net balance at end of year	22,552	25,596
Plus: reinsurance recoverables	3,982	7,112
Balance at end of year	$ 26,534	$ 32,708

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by approximately $5,853,000 and $2,847,000, in 2015 and 2014, respectively, due to favorable development relating to accident years 2014 and 2013, respectively.

The Company recorded net reinsurance recovery activity of $3,299,456 and $3,744,814 in 2015 and 2014, respectively, which are reflected as a decrease in losses and loss adjustment expenses incurred in the statements of comprehensive income.

NOTE 7 - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company has a common paymaster agreement with HARRG, in which HARRG is the common paymaster for the Company. HARRG provides various management services to the Company and charges the Company for its direct allocation of salaries, benefits and overhead, along with the use of its facility. Expenses incurred for HARRG's management services were $8,402,273 and $7,369,651 for the years ended December 31, 2015 and 2014, respectively. The amounts due to HARRG under this agreement, which are included in due to affiliates, amounted to $122,691 and $1,220,902 as of December 31, 2015 and 2014, respectively.

The Company entered into an Insurance Management Services Agreement (the Agreement) with Housing Insurance Services, Inc. (HIS), whereby HIS performs insurance agency activities for the HAPI assumed insurance programs. HIS is a subsidiary of HIG. Fees incurred under the Agreement amounted to $114,864 and $147,068 for the years ended December 31, 2015 and 2014, respectively. The amount due to HIS, which is included in due to affiliates, amounted to $261,391 and $238,871 as of December 31, 2015 and 2014, respectively. These amounts include both amounts due under the Agreement and losses incurred by the Company and paid by HIS on the Company's behalf related to its assumed property program with Travelers Indemnity Company.

The Company has a commission agreement for direct policies written with HIS. The commission agreement provides for a commission percentage to be paid based upon the direct written premium, which is expensed on a pro-rata basis by the Company in line with the underlying policies they relate to. For the years ended December 31, 2015 and 2014, commission expense under this agreement amounted to $2,721,508 and $2,592,454, respectively, and the Company has recorded deferred commission expense of $1,174,883 and $1,153,588, respectively, included in deferred policy acquisition costs on the balance sheets.

The Company pays a membership fee to Housing Authority Insurance, Inc. (HAI), which provides membership services to HAPI's insureds. HAPI recognized expenses for these services of $2,915,201 and $2,492,550 for the years ended December 31, 2015 and 2014, respectively.

During 2015, the Company disbursed $750,000 to HAI in the form of a grant to carry out research, feasibility studies, and funding for new initiatives for residents, owners, operators, developers and vendors.

The Company entered into an agreement with Housing Telecommunications, Inc. (HTI) to support the delivery of risk management training to members and employees of HAPI. The Company recognized an expense of $118,928 and $241,720 for fees paid to HTI for the years ended December 31, 2015 and 2014, respectively. The Company has amounts due to HTI of $8,588 and $10,525 as of December 31, 2015 and 2014, respectively, which are included in due to affiliates on the balance sheets.

As of December 31, 2015 and 2014, there was $0 and $114,464, respectively, due from Housing Specialty Insurance Company, Inc.

(Continued)

NOTE 8 - EMPLOYEE BENEFITS

HAPI does not maintain a retirement plan, deferred compensation or other post retirement benefit plan. HAPI participates in the HARRG employee benefit plans through its common paymaster agreement with HARRG.

HARRG maintains a defined contribution profit sharing plan and is the sponsor of the Housing Authority Risk Retention Group 401(k) Plan, covering substantially all of its employees. The Company recorded profit sharing expenses of $312,345 and $293,658 and 401(k) expenses of $47,116 and $42,826, for the years ended December 31, 2015 and 2014, respectively. In addition, the Company recorded an expense for incentive compensation of $626,693 and $202,349, for the years ended December 31, 2015 and 2014, respectively, which is included within salaries and other compensation on the statements of comprehensive income.

HARRG is also the sponsor of a supplemental executive retirement plan (SERP) covering certain key employees of the Company. The purpose of the SERP is to reward the employees for their loyal and continuous service to the Company. The SERP was not intended to qualify under or satisfy the requirements of Sections 401(a) and 501(a) of the Internal Revenue Code of 1986. The expense allocated to HAPI related to the SERP amounted to $106,528 and $51,127 for the years ended December 31, 2015 and 2014, respectively.

NOTE 9 - LEASES

The Company occupies office space in Cheshire, Connecticut, which is owned by HARRG. The cost of occupying the premises is part of the management services fees, which are paid to HARRG (See Note 7).

NOTE 10 - MEMBERS' EQUITY

The Company is owned by its members and each member makes an initial capital contribution upon membership. The Company currently maintains two types of members. Class "A" members and Class "B" members. Class "A" members make surplus contributions based on a percentage of their first year's premium. Class "B" members, also known as "$100 Members" contribute surplus in the amount of $100 during the first year of membership.

The Company provides its members with discretionary policyholder dividends, which are calculated based upon the underwriting experience of each member and their capital contribution. For the year ended December 31, 2015, policyholder dividends of $1,000,000 were declared by the Company with $910,000 related to Class "A" members. During 2015, dividends were declared to Class "B" members in the amount of $90,000, with $45,000 to be paid in cash and $45,000 to be recorded as members' recapitalization dividends within the statements of changes in members' equity. During 2015, the Company also reversed $550,139 of policyholder dividends previously accrued due to member's not renewing their insurance policies and thus not being eligible for dividend payments. For the year ended December 31, 2014, no policyholder dividends were declared by the Company.

The Company also provides its members with additional dividends, which are based upon a percentage of premium on policies that expire through June 30. For the years ended December 31, 2015 and 2014, the Company did not expense any additional dividends.

(Continued)

NOTE 10 - MEMBERS' EQUITY (Continued)

The membership agreement requires each member to remain a member for a minimum of three years. If a member withdraws prior to the three-year period, the member forfeits its initial surplus contribution and any additional surplus contributions. If a member withdraws subsequent to the three-year period, it may either withdraw its initial and any additional surplus contributions or maintain its surplus account with the Company, in which case, it shall share in all allocations to and from surplus accounts as if it continued to be a member. Distributions of member surplus will be made in accordance with the membership agreement.

During 2015 and 2014, there were member PHAs that had withdrawn their membership in HAPI, however, they have not formally requested a distribution of their surplus accounts. Should these members request a distribution of their surplus accounts, the Company will return the amount in accordance with the provisions of the membership agreement and the policy on member withdrawal as described above, and will classify the amounts as a liability within the balance sheets.

The Company provides its members with equity dividends for the purchase of web-based education as part of the HTI program. Equity dividends amounted to $184,224 and $99,665 in 2015 and 2014, respectively.

In accordance with the Vermont Department of Financial Regulation (the Department) order dated July 10, 2003, the issuance of a Certificate of General Good and a Certificate of Authority to the Company is subject to the condition that the Commissioner's written permission is required before the Company or its Board of Directors directs the return or payment of a member's paid-in surplus if the member's paid-in surplus exceeds $25,000.

NOTE 11 - STATUTORY ACCOUNTING POLICIES

The Company's statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Department. Vermont has adopted the National Association of Insurance Commissioners' (NAIC) statutory accounting practices as the basis of its statutory accounting practices.

As an admitted property and casualty insurance company, HAPI is required by the Department to maintain a minimum statutory surplus of $5,000,000.

The amounts of statutory net income amounted to $8,749,418 and $4,666,605 for the years ended December 31, 2015 and 2014, respectively. The amounts of statutory surplus amounted to $119,325,942 and $116,087,515 as of December 31, 2015 and 2014, respectively.

As part of its regulatory filings, the Company is required to disclose its risk-based capital (RBC) requirements. The NAIC develops the RBC program to enable regulators to take appropriate and timely regulatory actions with respect to insurers that show signs of weak or deteriorated financial condition. RBC is a series of dynamic surplus-related formulas that contain a variety of factors that are applied to financial balances based on a degree of certain risks, such as asset, credit and underwriting risks. The Company's statutory capital and surplus exceeded the NAIC's authorized control level risk based capital as of December 31, 2015 and 2014.

(Continued)

NOTE 12 - COMMITMENTS AND CONTINGENCIES

In all states, insurers licensed to transact certain classes of insurance are required to become members of a guaranty fund. In most states, in the event of the insolvency of an insurer writing any such class of insurance in the state, members of the funds are assessed to pay certain claims of the insolvent insurer. A particular state's fund assesses its members based on their respective written premiums in the state for the classes of insurance in which the insolvent insurer was engaged. Assessments are generally limited for any year to one or two percent of the premiums written per year depending on the state. The amount and timing of assessments related to past insolvencies is unpredictable. The Company records these assessments in accordance FASB ASC 405, *Accounting by Insurance and Other Enterprises for Insurance-Related Assessments.* As of December 31, 2015 and 2014, the Company has not accrued for or been assessed by any state insurance department.

As of December 31, 2015 and 2014, the Company has a $10,000,000 line of credit, with Brown Brothers Harriman & Co. (BBH), for the purpose of meeting short-term operating cash requirements. There were no outstanding balances as of December 31, 2015 and 2014. The BBH line of credit is collateralized by the debt securities and other marketable securities of the Company, which are managed and held in custody by BBH.

On April 20, 2010, the Company executed a guaranty for HEIC to benefit American Alternative Insurance Corporation (AAIC). AAIC will be provided credit protection by the Company in the event that HEIC is more than ninety days overdue on any reinsurance payment. This guaranty is in effect as of December 31, 2015 and 2014.

On March 25, 2011, the Company entered into an Unconditional Financial Guaranty with HEIC in order for HEIC to obtain licensure in the state of Maine. The Company will guarantee that HEIC maintain capital and surplus at the greater of the regulatory action level risk-based capital or the minimum required capital and surplus each in the amount of $2,500,000 as required by the state of Maine.

NOTE 13 - LETTER OF CREDIT AGREEMENTS

As of December 31, 2015 and 2014, the Company is the sole beneficiary of irrevocable syndicated standby letter of credits from Credit Agricole Corp and Investment Bank in the amount of $0 and $3,516,408, respectively, related to the reinsurance agreement with Hannover Reinsurance (Ireland) Ltd. As of December 31, 2015 and 2014, the Company is a sole beneficiary of an irrevocable syndicated standby letter of credit from Mizuho Bank, Ltd. in the amount of $0 and $620,543, respectively, related to the reinsurance agreement with Tokio Millennium Re Ltd.

As of December 31, 2015 and 2014, the Company has an irrevocable standby letter of credit from BBH of $1,418,948, for the Company's assumed auto physical damage program and boiler and machinery program. Travelers Indemnity Company is the beneficiary of the letter of credit. There were no draw downs on this letter of credit as of December 31, 2015 and 2014.

The Company - An Overview

Housing Authority Property Insurance, A Mutual Company (the Company or HAPI) was incorporated on March 20, 1987, as a mutual captive insurer. HAPI provides property and casualty insurance to member housing authorities throughout the United States. HAPI is a nonprofit, federal tax-exempt company owned by member public housing authorities (PHAs). Effective July 25, 2003 HAPI converted its charter in the State of Vermont to a traditional mutual insurer. Effective December 31, 2003, HAPI changed its name to include the mutual company identification. HAPI is currently licensed in forty-eight states and the District of Columbia.

HAPI was developed as a result of the inability of many PHAs to obtain property coverage or to obtain such coverage at an affordable rate. In response, PHAs established HAPI to provide stable, affordable property insurance coverage. HAPI is a niche market insurer. The Company only serves PHAs in the United States. Currently, HAPI underwrites over 48% of this market on a per unit basis. At the end of 2015, HAPI had 935 members, an increase of 0.5% from 2014.

HAPI premiums for property coverages are written on a direct basis or assumed (via a fronting agreement with Travelers Indemnity). On a direct basis, the Company retains the first $500 thousand of loss and reinsures a $500 thousand excess of $500 thousand layer and a $1.0 million excess of $1.0 million layer under a reinsurance agreement through JLT Towers Re. HAPI also has a $750 million excess of $2.0 million layer provided by Travelers Indemnity. Travelers also provides HAPI and Housing Enterprise Insurance Company, Inc. (HEIC) with combined aggregate coverage for losses within the first $2.0 million in excess of $10.0 million per catastrophic event (combined direct and fronted). On fronted business, the reinsurance structure is similar, leaving HAPI with the same net and aggregate positions. In 2015, 97% of the property premium was written on a direct basis.

HAPI provides a significant amount of property insurance to PHAs. Based on actuarial studies and reinsurance provisions that cap the Company's property losses per occurrence, HAPI's net probable maximum loss is estimated at $10 million.

Since 2006, the Company reinsured HARRG under an aggregate excess of loss reinsurance agreement (AXL). The agreement provides for reinsurance protection to HARRG for all losses in excess of HARRG's retention. In connection with this treaty, the Company entered into a similarly structured aggregate excess of loss reinsurance agreement with third party reinsurers. These agreements were renewed annually in 2007 through 2014.

HAPI, HARRG, HEIC, and Housing Specialty Insurance Company, Inc. (HSIC) have a reinsurance agreement with Hannover Ruckversicherungs Aktiengesellschaft, Lloyds Syndicate Number 33 (Hiscox) and Lloyds Syndicate Number 2003 (Catlin), where the Companies retain the first $2.0 million of terrorism loss with the reinsurers assuming the next $60.0 million. For losses arising from nuclear, chemical and biological release, the Company retains the first $250 thousand with the reinsurers assuming the next $5.0 million.
Effective January 1, 2015 the Company began providing reinsurance coverage to HSIC for

commercial property coverage on public housing units insured by HSIC. In accordance with the reinsurance agreement, the Company assumes losses in excess of $250 thousand. Loss adjustment expenses are shared on a pro-rate basis and are in addition to the per occurrence limits.

In June 1995, HAPI and HARRG formed Housing Investment Group, Inc. (HIG) to serve as a for-profit holding company to govern related businesses in which the Company and HARRG have an ownership interest. With the incorporation of HIG, the Company and HARRG consolidated all of the for-profit business entities under the holding company effective January 1, 1996. The subsidiaries include: Housing Insurance Services, Inc. (HIS, an insurance agency), Housing Systems Solutions, Inc. (HSS, a provider of software for housing management), and Housing Alliance Group, LLC (HAGL, a provider of credit enhancement coverage and limited advisory services). On July 1, 2014, the Company and HARRG purchased Class B common stock in HIG for $2.5 million each. On March 13, 2015 and December 7, 2015, the Company and HARRG purchased Class B common stock in HIG totaling $4.1 million each. The stock purchases will fund the software development in HSS.

On January 2, 2001 the Company formed HEIC, a sponsored captive domiciled in Vermont with an initial contribution of $2.0 million. Since 2003, the Company and HARRG each purchased additional shares of stock and contributed additional surplus to HEIC. In 2011, HARRG purchased $10 million additional shares. On July 2, 2014, the Company contributed $1.75 million of gross paid in and contributed surplus. At December 31, 2015, the Company had a 35% ownership interest in HEIC, with HARRG owning 65%. HEIC provides various insurance coverages for low and mixed income and affordable housing units that are not in the public housing authority program. The tax structure of the Company prevents it from participating directly in these markets.

On April 20, 2010, the Company executed a guaranty for HEIC to benefit American Alternative Insurance Corporation (AAIC). AAIC will be provided credit protection in the event HEIC is more than ninety days overdue on any reinsurance payment. The reinsurance program with AAIC went into runoff at the end of 2011.

On March 25, 2011, the Company entered into an Unconditional Financial Guaranty with HEIC in order for HEIC to obtain licensure in the State of Maine. The Company will guarantee that HEIC maintain capital and surplus at the greater of the regulatory action level risk-based capital or the minimum required capital and surplus each in the amount of $2.5 million as required by Maine.

In December 2013, the Company and HARRG jointly formed Housing Specialty Insurance Company, Inc. (HSIC), a licensed stock insurance company domiciled in Vermont, to provide an excess and surplus lines insurance program to public and affordable housing providers. On December 18, 2013, the Company and HARRG each contributed $3.0 million ($1.0 million for 100 shares of no par value voting common stock and $2.0 million contributed surplus). On May 23, 2014, the Company and HARRG contributed an additional $5.0 million of gross paid in and contributed surplus each. At December 31, 2015, the Company had a 50% interest in HSIC.

The following discussion provides an assessment by management of the current financial position, results of operations, cash flow and liquidity, and changes in financial position for HAPI. Information presented in this discussion supplements the financial statements, schedules, and exhibits of the 2015 Annual Statement.

Financial Position

HAPI's total assets at year-end 2015 were $193.2 million, a decrease of 1.4% from 2014. This decrease was primarily in reinsurance recoverable.

The carrying value of the investments available for sale was $117.3 million at December 31, 2015, a decrease of 2.0% from 2014. The carrying value of stocks of affiliated companies was $27.3 million, an increase of 2.4% from 2014. The shift is primarily the result of investments in HIG of $4.1 million in 2015.

Premiums receivable increased $3.3 million in 2015 to $24.8 million. Most of the balance consisted of future installment balances booked but deferred and not yet due at year-end, and advance premiums.

Reserves for unpaid losses and loss adjustment expenses at December 31, 2015 reflected the estimate of the liability for the ultimate net cost of reported claims and estimated IBNR claims arising from losses which occurred by year-end. At December 31, 2015, case reserves were $26.5 million, a decrease of 18.9% from 2014. The decrease was primarily due to the HARRG AXL agreement for the 2014 accident year falling below retention along with favorable experience in the prior accident years' property reserves. The Company carries its reserves at the 80% confidence level of potential outcomes and within the actuary's range of reasonably possible outcomes. Loss and loss adjustment expense reserves are not discounted. Salvage and subrogation recoveries are not considered when setting reserves.

Reinsurance payable on paid loss and loss adjustment expenses decreased by $877 thousand primarily as a result of direct commercial property losses.

Unearned premiums increased 1.0% to $24.1 million at December 31, 2015 which tracked with the increase in net written premium.

Members' equity increased $1.0 million to $125.2 million in 2015. This was primarily a result of a net gain of $5.4 million offset by a decrease in other comprehensive income of $4.3 million. At December 31, 2015, dividends declared and payable were $955 thousand. HAPI's Risk Based Capital (RBC) test indicated its adjusted surplus at 17 times the Authorized Control Level.

Results of Operations

Net premiums written for 2015 were up 7.7% to $41.3 million. Most of the increase in terms of dollar volume and percentage change was in the commercial property line. Earned premiums increased 9.7% to $40.7 million.

Investment income, net of expenses, increased $2.9 million over 2014 as a result of better performance from the investment in subsidiaries in 2015. Net realized gains for 2015 increased 64.2% mainly due to the sale of the BBH Core Select Equity Fund. The Company did not realize any other-than-temporary impairment losses during the year.

Incurred loss and loss adjustment expenses decreased by $3.0 million for the year ended December 31, 2015 from 2014 as a result of favorable development in prior accident years. Net of reinsurance, catastrophe losses totaled $4.1 million for the 2015 accident year principally from water damage events. The calendar year loss and LAE ratio increased 13 points to 41%.

Other expenses increased from 2014 primarily attributed to an increase in membership dues from $2.5 million to $2.9 million and a $750 thousand grant to HAI. The Company has insurance services and cost-sharing agreements with HARRG, in which HARRG provides insurance management, underwriting, claims handling, financial services, property loss control, and engineering and property valuation services on a fee-for-service basis.

HAPI recorded net income of $5.4 million for 2015. The combined ratio of 91% represents a 7 point favorable change from 2014.

Cash Flow and Liquidity

The Company generated net positive cash flow from operations of $731 thousand. Overall cash flow generated in 2015 was negative $2.9 million driven by net cash for investments. Projected positive operating cash flow will be adequate to cover short-term liquidity needs throughout 2016.

The Company established a $10.0 million line of credit with Brown Brothers Harriman for the purpose of meeting short-term operating cash requirements. There were no cash draws on this line during 2015.

HAPI currently has no borrowed funds and no off-balance sheet arrangements.

Outlook

Looking forward, revenue projections include an overall rate increase of 3% for 2016 for the Company while maintaining adequate and competitive pricing. The loss and loss adjustment expense ratio is projected at 59% with neutral Cat experience. Investment income from a continuing weak market will produce low yields while increasing interest rates will produce lower net realized gains. Expenses will increase for the upcoming year as a result of continued infrastructure updates and ongoing Board Initiative support. Board Initiatives include supporting the housing industry as it faces uncertainty in funding to support the operations. The Company continues to practice strong risk control services and claims management.

The Company’s strong surplus position will enable it to achieve continuous support to the members with continued focus on financial results.

General Matters

The Board of Directors of the Company requires that audits and analytical reviews, conducted by independent outside firms, be performed on an annual basis. The 2015 schedule included: 1) an actuarial loss certification, submitted as part of the 2015 Annual Statement; 2) a claims audit performed which was completed in 2015; 3) a financial audit for both GAAP and SAP, which was completed in February 2016; 4) an investment review of performance, conducted on a quarterly basis; and 5) underwriting audits conducted by the Company's reinsurers. During 2014 and 2015, the Vermont Department of Financial Regulation conducted a risk-focused examination of HAPI and HEIC for the years 2009 through 2013. The examination fieldwork was completed in 2015 and the report was issued June 5, 2015.

Opinion

The preceding Management's Discussion and Analysis provides an assessment of the financial position, results of operations, and cash flow and liquidity for the fiscal year ended December 31, 2015 as reported in the 2015 Annual Statement. Representations made herein are those of management according to the best of their knowledge and belief.

Dated: May 31, 2016

Mark A. Wilson
President
Treasurer
Chief Executive Officer
Chief Operating Officer

HOUSING ENTERPRISE INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS

December 31, 2015 and 2014

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Housing Enterprise Insurance Company, Inc.:

We have audited the accompanying financial statements of Housing Enterprise Insurance Company, Inc. (the Company), which comprise the balance sheet as of December 31, 2015, and the related statements of comprehensive income (loss), changes in shareholders' 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 of 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.

(Continued)

Opinion

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

Other Matter

The financial statements of Housing Enterprise Insurance Company, Inc. as of and for the year ended December 31, 2014, were audited by Saslow Lufkin & Buggy, LLP, who combined with Crowe Horwath LLP as of July 1, 2015, and whose report dated March 13, 2015 expressed an unmodified opinion on those statements.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
March 11, 2016

Housing Enterprise Insurance Company, Inc.
BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 5,324,284	$ 3,265,625
Investments available for sale, at fair value	56,564,660	56,407,155
Premiums receivable	12,073,709	8,738,326
Reinsurance recoverable on unpaid losses	1,156,314	2,108,085
Reinsurance recoverable on paid losses	200,547	36,369
Prepaid reinsurance	4,468,250	4,472,897
Deferred policy acquisition costs	2,251,891	1,916,991
Deferred tax asset	2,189,222	2,509,365
Accrued interest and other assets	477,562	485,371
Total assets	$ 84,706,439	$ 79,940,184
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 25,464,291	$ 24,517,890
Unearned premiums	16,618,388	14,700,071
Reinsurance payable	1,128,698	959,793
Payable for securities	-	186,479
Due to affiliates	303,634	541,207
Accounts payable and other liabilities	924,368	903,432
Advance premiums	3,250,313	977,374
Federal income taxes payable	13,523	-
Total liabilities	47,703,215	42,786,246
Shareholders' equity:		
Common stock, $10,000 stated value, 10,000 shares authorized and 2,000 issued and outstanding	20,000,000	20,000,000
Contributed surplus	29,000,000	29,000,000
Accumulated other comprehensive income	544,142	1,018,205
Retained deficit	(12,540,918)	(12,864,267)
Total shareholders' equity	37,003,224	37,153,938
Total liabilities and shareholders' equity	$ 84,706,439	$ 79,940,184

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

Housing Enterprise Insurance Company, Inc.
STATEMENTS OF COMPREHENSIVE LOSS
For the Years Ended December 31, 2015 and 2014

	2015	2014
Revenues		
Premium earned	$ 28,296,258	$ 26,520,769
Ceded premiums earned	(8,512,067)	(9,268,532)
Net premiums earned	19,784,191	17,252,237
Investment income, net	1,280,234	1,270,599
Realized gains, net	30,034	482,268
Total revenues	21,094,459	19,005,104
Losses and expenses		
Losses and loss adjustment expenses	12,012,249	12,772,805
Salaries and benefits	2,781,150	2,618,716
General and administrative expenses	2,517,999	2,432,346
Agency commissions	2,881,835	2,910,450
Total losses and expenses	20,193,233	20,734,317
Net income (loss) before federal income tax expense	901,226	(1,729,213)
Federal income tax expense	577,877	286,092
Net income (loss)	323,349	(2,015,305)
Other comprehensive (loss) income, net of tax:		
Unrealized holding (losses) gains on available for sale securities, net of tax (benefit) expense of ($234,002) in 2015 and $227,133 in 2014	(454,241)	440,904
Reclassification adjustments for realized gains included in net income (loss), net of tax expense of $10,212 in 2015 and $163,971 in 2014	(19,822)	(318,297)
Other comprehensive (loss) income	(474,063)	122,607
Comprehensive loss	$ (150,714)	$ (1,892,698)

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

Housing Enterprise Insurance Company, Inc.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2015 and 2014

	Common Stock			Accumulated		
	Shares	Amount	Contributed Surplus	Other Comprehensive Income	Retained Deficit	Total Shareholders' Equity
Balance as of January 1, 2014	2,000	$ 20,000,000	$ 24,000,000	$ 895,597	$ (10,848,962)	$ 34,046,635
Contributed surplus	-	-	5,000,000	-	-	5,000,000
Other comprehensive income	-	-	-	122,608	-	122,608
Net loss	-	-	-	-	(2,015,305)	(2,015,305)
Balance as of December 31, 2014	2,000	20,000,000	29,000,000	1,018,205	(12,864,267)	37,153,938
Other comprehensive loss	-	-	-	(474,063)	-	(474,063)
Net income	-	-	-	-	323,349	323,349
Balance as of December 31, 2015	2,000	$ 20,000,000	$ 29,000,000	$ 544,142	$ (12,540,918)	$ 37,003,224

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

Housing Enterprise Insurance Company, Inc.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Net income (loss)	$ 323,349	$ (2,015,305)
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and accretion on investments, net	259,951	264,051
Realized gains on investments	(30,034)	(482,268)
Deferred federal income taxes	564,354	286,256
Change in assets and liabilities:		
Premiums receivable	(3,335,383)	(386,221)
Reinsurance recoverable on unpaid losses	951,771	2,002,654
Reinsurance recoverable on paid losses	(164,178)	417,163
Prepaid reinsurance	4,647	242,739
Deferred policy acquisition costs	(334,900)	142,000
Federal income tax receivable	-	269,763
Accrued interest and other assets	7,809	(12,791)
Unpaid losses and loss adjustment expenses	946,401	1,441,086
Unearned premiums	1,918,317	(122,890)
Reinsurance payable	168,905	(1,068,290)
Payable for securities	(186,479)	186,479
Due to affiliates	(237,573)	149,746
Accounts payable and other liabilities	20,936	443,319
Advance premiums	2,272,939	(36,860)
Federal income taxes payable	13,523	-
Net cash provided by operating activities	3,164,355	1,720,631
Cash flows from investing activities		
Purchases of investments	(12,217,072)	(18,125,499)
Proceeds from investments sold	5,563,543	8,481,950
Proceeds from prepayments and maturities of investments	5,547,833	3,716,495
Net cash used in investing activities	(1,105,696)	(5,927,054)
Cash flows from financing activities		
Proceeds from contributed surplus	-	5,000,000
Net cash provided by financing activities	-	5,000,000
Net change in cash and cash equivalents	2,058,659	793,577
Cash and cash equivalents, beginning of year	3,265,625	2,472,048
Cash and cash equivalents, end of year	$ 5,324,284	$ 3,265,625
Cash received for taxes	$ -	$ 269,927

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

NOTE 1 - GENERAL

Reporting Entity: Housing Enterprise Insurance Company, Inc. (the Company or HEIC) is a licensed domestic stock insurance company in the State of Vermont. HEIC was established to provide various lines of insurance coverage to for-profit low income and affordable housing units that are not in the public housing authority program.

The Company is owned by Housing Authority Property Insurance, A Mutual Company (HAPI) and Housing Authority Risk Retention Group, Inc. (HARRG), affiliates through common management. As of December 31, 2015 and 2014, HAPI owned 700 shares of voting common stock in the amount of $7,000,000 and HARRG owned 1,300 shares of voting common stock in the amount of $13,000,000. In 2014, HAPI and HARRG contributed an additional $1,750,000 and $3,250,000, respectively, of additional surplus to HEIC. There were no contributions made to HEIC in 2015.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and Cash Equivalents: Cash and cash equivalents are comprised of several cash accounts and money market funds as of December 31, 2015 and 2014. The Company classifies certain securities with original maturity dates of three months or less from the date of purchase as cash equivalents. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Company's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Company may maintain cash balances in excess of the FDIC insurance limit.

Investments: The Company accounts for investments in accordance with FASB ASC 320, "*Investments - Debt and Equity Securities*." Management determines the appropriate classification of its investments in debt securities at the time of purchase and reevaluates such determinations at each balance sheet date. As of December 31, 2015 and 2014, all of the Company's investments are classified as available for sale and are carried at fair value. Unrealized gains and losses relating to available for sale securities are reported as a separate component of shareholders' equity as accumulated other comprehensive income. Realized investment gains and losses are determined on a specific identification basis.

The amortized cost of debt securities are adjusted for amortization of premiums and accretion of discounts. Such amortization and accretion are included in investment income.

Within the mortgage-backed securities portfolios, the Company invests in collateralized mortgage obligations and mortgage-backed security pools which include both residential and commercial mortgages. Each security carries a varying degree of prepayment and interest risk, which can impact the fair value and the ultimate amount of investment income earned. Due to principal prepayments, the effective yield is calculated using the prospective method. Acceleration or deceleration of prepayments of the underlying mortgages can be caused by interest rate changes.

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 is included in investment income, net, within the statements of comprehensive loss and the cost basis of that investment is reduced.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company accounts for other than temporary impairments in accordance with FASB ASC 320, which relates to debt securities. This guidance requires the Company to evaluate whether it intends to sell an impaired debt security or whether it is more likely than not that it will be required to sell an impaired debt security before recovery of the amortized cost basis. If either of these criteria are met, an impairment equal to the difference between the debt security's amortized cost and its fair value is recognized in earnings.

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

The Company recorded no impairments of debt securities for the years ended December 31, 2015 and 2014.

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

Unpaid Losses and Loss Adjustment Expenses: Unpaid losses and loss adjustment expenses and the related reinsurance recoverables, represent estimated provisions for both reported and unreported claims incurred and related expenses. In determining unpaid losses and loss adjustment expense reserves and the related reinsurance recoverables, the Company annually reviews its overall position, its reserving techniques and its reinsurance, and utilizes the findings of an independent consulting actuary. These reserves and recoverables represent the estimated ultimate cost less amounts paid of all incurred losses and loss adjustment expenses including related recoverables. Since the reserves are based upon estimates, the ultimate liability or asset may be more or less than such estimates. Such changes may be material and could occur in a future period. As these adjustments become necessary, such adjustments are reflected in current operations.

Revenue Recognition: Premiums are recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums on the balance sheets.

Advance Premium: Premiums which have been billed for policies not yet effective are reported as advance premiums on the balance sheets.

Reinsurance: In the normal course of business, the Company seeks to reduce its loss exposure by reinsuring certain levels of risk with reinsurers. Reinsurance is accounted for in accordance with FASB ASC 944, "*Financial Services - Insurance*." Premiums ceded are expensed over the term of their underlying attaching policies or over the period of reinsurance protection provided. Anticipated reinsurance recoverables under these contracts are recorded as a receivable in accordance with the terms of the underlying contracts.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bad Debts: The Company uses the allowance method to record bad debts. The Company records an allowance for doubtful accounts against its outstanding accounts receivable, which is based on its estimation of bad debts in the near term. This estimate is based on the Company's past experience with collecting its receivables and an analysis of current accounts receivable. No allowance has been recorded as of December 31, 2015 and 2014, as management believes all amounts are fully collectable.

Deferred Policy Acquisition Costs: Policy acquisition costs, which consist of premium taxes and agency commission, are expensed on a pro rata basis over the policy term. The portion of premium taxes and agency commission that will be expensed in the future is deferred and reported as deferred policy acquisition costs on the balance sheets. For the years ended December 31, 2015 and 2014 the Company expensed $3,718,341 and $3,624,124, respectively, of policy acquisition costs.

Income Taxes: The Company accounts for income taxes in accordance with FASB ASC 740, "*Income Taxes*." FASB ASC 740 is an asset and liability method, which requires the recognition of deferred tax assets and liabilities. The Company, under certain provisions of FASB ASC 740, accounts for how uncertain tax positions should be recognized, measured, presented and disclosed within the financial statements. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Company did not record any unrecognized tax benefits as of December 31, 2015 and 2014. The Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months.

It is Company's policy to include interest and penalties related to unrecognized tax benefits as a component of its provision for income taxes. As of December 31, 2015 and 2014, the Company did not record any penalties or interest associated with unrecognized tax benefits. All tax years from 2012 forward are open and subject to examination by the Internal Revenue Service. In addition, the 2010 tax year is open and subject to examination due to a net operating loss carryback claim from 2011.

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 policyholders, unamortized deferred policy acquisition costs, and maintenance costs exceed unearned premiums and anticipated investment income. There were no premium deficiencies recognized as of December 31, 2015 and 2014.

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, liabilities, revenues and expenses, at and during the reported period, along with the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Subsequent Events: Subsequent events have been evaluated through March 11, 2016, which is the date the financial statements were available to be issued. Management believes there are no subsequent events having a material impact on the financial statements.

(Continued)

NOTE 3 - INVESTMENTS

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2015				
U.S. treasury and government agencies	$ 15,356,314	$ 160,645	$ (51,177)	$ 15,465,782
State and political subdivisions	4,404,502	198,469	(260)	4,602,711
Corporate bonds	22,877,470	567,674	(205,726)	23,239,418
Collateralized debt obligations	2,327,300	324	(5,444)	2,322,180
Residential mortgage-backed securities	8,923,966	207,779	(51,378)	9,080,367
Commercial mortgage-backed securities	1,850,647	19,206	(15,651)	1,854,202
Total	$ 55,740,199	$ 1,154,097	$ (329,636)	$ 56,564,660

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2014				
U.S. treasury and government agencies	$ 14,319,479	$ 217,620	$ (26,848)	$ 14,510,251
State and political subdivisions	4,731,669	232,679	-	4,964,348
Corporate bonds	22,381,802	877,049	(48,440)	23,210,411
Collateralized debt obligations	3,008,370	3,195	(2,657)	3,008,908
Residential mortgage-backed securities	8,664,374	309,474	(37,269)	8,936,579
Commercial mortgage-backed securities	1,758,726	31,381	(13,449)	1,776,658
Total	$ 54,864,420	$ 1,671,398	$ (128,663)	$ 56,407,155

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The cost and fair value of debt securities are shown by contractual maturity as of December 31, 2015. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due to mature:		
One year or less	$ 4,072,451	$ 4,083,801
After one year through five years	25,925,641	26,221,020
After five years through ten years	9,699,709	9,796,672
After ten years	2,940,485	3,206,418
Collateralized debt obligations	2,327,300	2,322,180
Residential mortgage-backed securities	8,923,966	9,080,367
Commercial mortgage-backed securities	1,850,647	1,854,202
Total	$ 55,740,199	$ 56,564,660

Proceeds from sales of securities amounted to $5,563,543 and $8,481,950 in 2015 and 2014, respectively. Gross realized gains amounted to $33,506 and $482,268 on the sale of securities in 2015 and 2014, respectively. Gross realized losses amounted to $3,472 and $0 in 2015 and 2014, respectively.

The Company holds 144 securities that are in an unrealized loss position as of December 31, 2015, of which 74 of these securities has been in an unrealized loss position for a period of twelve months or more. The following table shows the investments' unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position as of December 31, 2015:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2015				
U.S. treasury and government agencies	$ 4,251,315	$ (33,203)	$ 2,062,710	$ (17,974)
State and political subdivisions	121,059	(260)	-	-
Corporate bonds	3,830,705	(141,165)	5,696,494	(64,561)
Collateralized debt obligations	905,836	(2,800)	1,031,913	(2,644)
Residential mortgage-backed securities	2,066,298	(12,512)	1,248,231	(38,866)
Commercial mortgage-backed securities	407,972	(4,577)	429,586	(11,074)
Total	$ 11,583,185	$ (194,517)	$ 10,468,934	$ (135,119)

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The Company holds 80 securities that are in an unrealized loss position as of December 31, 2014 of which 36 of these securities has been in an unrealized loss position for a period of twelve months or more. The following table shows the investments' unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position as of December 31, 2014:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2014				
U.S. treasury and government agencies	$ 290,217	$ (698)	$ 2,798,858	$ (26,150)
Corporate bonds	5,233,732	(39,710)	905,684	(8,730)
Collateralized debt obligations	1,143,566	(2,389)	479,700	(268)
Residential mortgage-backed securities	-	-	1,434,621	(37,269)
Commercial mortgage-backed securities	129,673	(862)	314,938	(12,587)
Total	$ 6,797,188	$ (43,659)	$ 5,933,801	$ (85,004)

As of December 31, 2015 and 2014, bonds with an amortized cost of $4,705,165 and $4,707,009, respectively, were deposited with state insurance departments and regulatory authorities, as required by statute. These amounts are included in investments on the balance sheets.

NOTE 4 - ACCUMULATED OTHER COMPREHENSIVE INCOME

A summary of the net changes in after-tax accumulated other comprehensive income attributable to the Company and significant amounts reclassified out of accumulated other comprehensive income for the year ended December 31, 2015 and 2014 is as follows:

	Unrealized Loss on Available-for Sale Investments
Balance at January 1, 2014	$ 895,597
Other comprehensive income, net before reclassifications	440,904
Amounts reclassified from accumulated other comprehensive income (a)	(318,297)
Net current-period other comprehensive income	122,607
Balance at December 31, 2014	1,018,204
Other comprehensive loss, net before reclassifications	(454,241)
Amounts reclassified from accumulated other comprehensive income (a)	(19,822)
Net current-period other comprehensive loss	(474,063)
Balance at December 31, 2015	$ 544,141

(a) See statements of comprehensive loss for details about these reclassifications.

NOTE 5 - FAIR VALUE MEASUREMENTS

The Company measures fair values in accordance with FASB ASC 820 "Fair Value Measurement and Disclosures." FASB ASC 820 provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Company has the ability to access.

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.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

	Level 1	Level 2
U.S. treasury and government agencies	$ -	$ 15,465,782
State and political subdivisions	-	4,602,711
Corporate bonds	-	23,239,418
Collateralized debt obligations	-	2,322,180
Residential mortgage-backed securities	-	9,080,367
Commercial mortgage-backed securities	-	1,854,202
Money market funds	385,417	-
Total	$ 385,417	$ 56,564,660

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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

	Level 1	Level 2
U.S. treasury and government agencies	$ -	$ 14,510,251
State and political subdivisions	-	4,964,348
Corporate bonds	-	23,210,411
Collateralized debt obligations	-	3,008,908
Residential mortgage-backed securities	-	8,936,579
Commercial mortgage-backed securities	-	1,776,658
Money market funds	336,553	-
Total	$ 336,553	$ 56,407,155

The fair values of the Company's level 2 investments are determined by management after considering prices received from third party services.

A description of inputs used in the Company's level 2 measurements are listed below:

U.S. treasury and government agencies: Primary inputs include observations of credit default swap curves related to the issuer and political events.

State and political subdivisions: Primary inputs include Municipal Securities Rulemaking Board reported trades and material event notices, and issuer financial statements.

Corporate bonds: Primary inputs include observations of credit default swap curves related to the issuer.

Collateralized debt obligations, residential mortgage-backed securities and commercial mortgage-backed securities: Primary inputs include monthly payment information, collateral performance, which varies by vintage year and includes delinquency rates, collateral valuation loss severity rates, collateral refinancing assumptions, credit default swap indices and, for collateralized-debt obligations and residential mortgage-backed securities, estimated prepayment rates.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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 different fair value measurement at the reporting date.

Management has evaluated the significance of transfers between levels based upon the nature of the financial instrument. For the years ended December 31, 2015 and 2014, there were no significant transfers in or out of levels 1, 2 or 3.

(Continued)

NOTE 6 - INSURANCE ACTIVITY

The Company writes both property and casualty coverages on a direct basis. In 2015 and 2014, the retained limits were $250,000 per loss occurrence for property coverage and $500,000 per loss occurrence for casualty coverage. The Company secured reinsurance for amounts in excess of their retained limit up to $750,000,000 and $500,000,000 per occurrence for property in 2015 and 2014, respectively. Additionally, the Company secured reinsurance for amounts in excess of their retained limit up to $1,000,000 and $5,000,000 per occurrence for casualty as of July 1, 2015 and 2014, respectively. The property limit of $750,000,000 and $500,000,000 per occurrence in 2015 and 2014, respectively, is a shared aggregate limit with HAPI. Loss adjustment expenses are shared on a pro rata basis of the underlying loss. As of December 31, 2015 and 2014, the Company also has aggregate reinsurance coverage for losses within the Company's retention, in excess of $10,000,000, per catastrophic event.

All direct policies cover certified terrorism losses (unless coverage is declined by the policyholder) as defined under the Terrorism Risk Insurance Act of 2002 (TRIA) and the subsequent 2007 extension of TRIA. TRIA provides for a system of shared public and private compensation for insured losses resulting from certified acts of terrorism. TRIA protection is only triggered if there is a certified act of terrorism and losses reach an industry insured loss trigger of $100,000,000. The coverage provided by the Company is eligible under TRIA for 85% co-insurance protection provided by the U.S. Treasury subject to a deductible equal to 20% of the Company's prior year direct earned premiums. The Company retains both the deductible and its remaining 15% share of certified terrorism losses. The 2007 extension of the TRIA program expired on December 31, 2014.

On January 12, 2015, the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA) was signed into law extending TRIA through December 31, 2020. TRIPRA increases the industry insured loss trigger for the federal share of compensation for certified acts of terrorism by $20,000,000 annually beginning January 1, 2016 until it reaches $200,000,000 on January 1, 2020. Finally, under TRIPRA, the federal government's co-insurance protection gradually decreases from 85% to 80%, dropping one percent annually beginning on January 1, 2016.

Effective January 1, 2015 the Company began providing reinsurance coverage to Housing Specialty Insurance Company, Inc. (HSIC), an affiliate through common management, for commercial property coverage on affordable housing units insured by HSIC. In accordance with the reinsurance agreement, the Company assumes limits of $750,000 per loss occurrence in excess of $250,000 each loss. Loss adjustment expenses are shared on a pro-rata basis and are in addition to the per occurrence limits. During 2015, the Company assumed $586 of premiums from HSIC related to this contract. There were no ceded losses recorded for the year ended December 31, 2015 under this contract.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

The Company, HARRG, HAPI and HSIC (collectively called the Companies) entered into a reinsurance agreement, which provides reinsurance protection to the Companies for all insured losses resulting from acts of terrorism or sabotage (whether a certified act or not), for all direct business written by the Companies. With respect to terrorism not involving nuclear, chemical or biological release, the agreement provides reinsurance for all losses and loss adjustment expenses in excess of $2,000,000 up to an aggregate limit of $60,000,000 and $20,000,000 for 2015 and 2014, respectively, per loss occurrence. With respect to business interruption and extra expense losses arising from nuclear, chemical or biological terrorism, the agreement provides reinsurance for all losses and loss adjustment expenses in excess of $250,000 up to an aggregate limit of $5,000,000 per loss occurrence. If a loss occurrence involves more than one of the Companies, the limits and retentions mentioned above will be divided between each of the Companies in the proportion of their individual losses to the total loss sustained by the Companies.

These reinsurance contracts do not discharge the primary liability of the Company as insurer of those risks reinsured. The failure of the reinsurers to honor their obligations could result in significant losses to the Company.

The Company evaluates the financial condition of potential reinsurers, and continually monitors the financial condition of present reinsurers, which all have an A.M. Best rating of A- or better.

Additionally, the Company evaluates current and prospective reinsurers as to concentrations of credit risk arising from similar activities or economic characteristics in order to minimize exposure to significant losses resulting from reinsurer insolvencies. There can be no assurance that reinsurance will continue to be available to the Company to the same extent, and at the same cost, as it has in the past. The Company may choose in the future to reevaluate the use of reinsurance to increase or decrease the amounts of risk it cedes to reinsurers.

The Company recorded net reinsurance recovery activity of $116,889 and $385,722 in 2015 and 2014, respectively, which is reflected as an increase in losses and loss adjustment expenses incurred in the statements of comprehensive loss.

Direct and ceded premium written and earned by the Company for the years ended December 31, 2015 and 2014, are summarized as follows:

	Premiums Written		Premiums Earned	
	2015	2014	2015	2014
Direct premiums	$ 30,211,203	$ 26,397,880	$ 28,293,470	$ 26,520,769
Assumed premiums	3,372	-	2,788	-
Ceded premiums	(8,507,420)	(9,025,791)	(8,512,067)	(9,268,532)
Total	$ 21,707,155	$ 17,372,089	$ 19,784,191	$ 17,252,237

NOTE 6 - INSURANCE ACTIVITY (Continued)

A reconciliation of changes in the Company's unpaid losses and loss adjustment expenses, included on the balance sheets for the years ended December 31, 2015 and 2014, is summarized as follows:

	2015	2014
	(in thousands)	
Balance at beginning of year	$ 24,518	$ 23,077
Less: reinsurance recoverables	(2,108)	(4,111)
Net balance at beginning of year	22,410	18,966
Incurred related to:		
Current year	14,047	12,995
Prior years	(2,035)	(222)
Total incurred	12,012	12,773
Paid related to:		
Current year	(2,158)	(3,044)
Prior years	(7,956)	(6,285)
Total paid	(10,114)	(9,329)
Net balance at end of year	24,308	22,410
Add: reinsurance recoverables	1,156	2,108
Balance at end of year	$ 25,464	$ 24,518

As a result, of changes in loss development, the provision for losses and loss adjustment expenses decreased by approximately $2,035,000 and $222,000 in 2015 and 2014, respectively due to favorable loss development on certain liability related claims.

NOTE 7 - AFFILIATES AND RELATED PARTY TRANSACTIONS

The Company has a common paymaster agreement with HARRG, in which HARRG is the common paymaster for the Company. HARRG provides management services to the Company and charges the Company for its direct allocation of salaries, benefits and overhead, along with the use of its facility. Expenses incurred for HARRG's management services were approximately $4,772,240 and $4,475,763 for the years ended December 31, 2015 and 2014, respectively. The amounts due to HARRG under this agreement, which are included in due to affiliates, amounted to $280,765 and $548,509 as of December 31, 2015 and 2014, respectively.

The Company maintains a commission agreement with Housing Insurance Services, Inc. (HIS), a subsidiary of Housing Investment Group, Inc. (HIG) an affiliate through common management, for direct premium written. The commission agreement provides for a commission percentage to be paid based upon the direct written premium, which is expensed on a pro-rata basis by the Company in line with the underlying policies they relate to. The commission percentage varies based on several underlying factors. For the years ended December 31, 2015 and 2014, commissions expensed under this agreement amounted to $520,299 and $461,352, respectively, which is included within agency commissions on the statements of comprehensive loss.

NOTE 7 - AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

The Company entered into an agreement with Housing Telecommunications, Inc. (HTI), an affiliated entity through common management, to support the delivery of risk management training to policyholders of HEIC. The Company recognized an expense of $9,329 and $20,637 for fees paid to HTI for the years ended December 31, 2015 and 2014.

The Company pays a membership fee to HAI, which provides certain services to HEIC's insureds. HEIC recognized expenses for these services of $76,227 and $62,342 for the years ended December 31, 2015 and 2014, respectively.

NOTE 8 - EMPLOYEE BENEFITS

HEIC does not maintain a retirement plan, deferred compensation or other post retirement benefit plan. HEIC participates in the HARRG employee benefit plans through its common paymaster agreement with HARRG.

HARRG maintains a defined contribution profit sharing plan and is the sponsor of the Housing Authority Risk Retention Group 401(k) Plan, covering substantially all employees. The Company recorded profit sharing plan expenses of $181,524 and $133,231 and 401(k) expenses of $23,585 and $74,776 for the years ended December 31, 2015 and 2014, respectively. In addition, the Company recorded a liability for incentive compensation expense of $48,497 and $2,134, as of December 31, 2015 and 2014, respectively, which is due to HARRG at each year end and included within accounts payable and other liabilities on the balance sheet.

HARRG is the sponsor of a supplemental executive retirement plan (SERP) covering certain key employees of the Company. The purpose of the SERP is to reward the employees for their loyal and continuous service to the Company. The SERP was not intended to qualify under or satisfy the requirements of Sections 401(a) and 501(a) of the Internal Revenue Code of 1986. The expense allocated to HEIC related to the SERP amounted to $62,948 and $37,456 for the years ended December 31, 2015 and 2014, respectively.

NOTE 9 - LEASES

The Company occupies office space in Cheshire, Connecticut, which is owned and leased by HARRG. The cost of occupying the premises is part of the management services fees, which are paid to HARRG (See Note 7).

NOTE 10 - SURPLUS

As an admitted property and casualty insurance company, HEIC is required by the Vermont Department of Financial Regulation (the Department) to maintain minimum statutory surplus of $5,000,000.

(Continued)

NOTE 11 - STATUTORY ACCOUNTING PRACTICES

The Company's statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Department. Vermont has adopted the National Association of Insurance Commissioners' (NAIC) statutory accounting practices as the basis of its statutory accounting practices. The amount of statutory net income (loss) amounted to $552,804 and ($1,587,048) for the years ended December 31, 2015 and 2014, respectively. The amount of statutory surplus amounted to $32,499,602 and $31,040,984 as of December 31, 2015 and 2014, respectively. No dividends were declared or paid in fiscal year 2015 or 2014.

As part of its regulatory filings the Company is required to disclose its risk-based capital (RBC) requirements. The NAIC develops the RBC program to enable regulators to take appropriate and timely regulatory actions with respect to insurers that show signs of weak or deteriorated financial condition. RBC is a series of dynamic surplus-related formulas that contain a variety of factors that are applied to financial balances based on a degree of certain risks, such as asset, credit and underwriting risks. The Company's statutory capital and surplus exceeded the NAIC's authorized control level risk based capital as of December 31, 2015 and 2014.

NOTE 12 - FEDERAL INCOME TAXES

The provision for income taxes differs from the amount of federal income tax benefit determined by applying the 34% regular federal income tax rate to pre-tax net loss as follows:

	2015		2014	
	Amount	Percent	Amount	Percent
Federal income taxes computed at the statutory rate	$ 306,417	34.00%	$ (587,932)	34.00%
Valuation allowance	301,653	33.47%	905,264	(52.35%)
Other	(30,193)	(3.35%)	(31,240)	1.81%
Total	$ 577,877	64.12%	$ 286,092	(16.54%)

Federal income tax benefit consists of the following for the years ended December 31, 2015 and 2014:

	2015	2014
Current	$ 13,523	$ (164)
Deferred	564,354	286,256
Total	$ 577,877	$ 286,092

(Continued)

NOTE 12 - FEDERAL INCOME TAXES (Continued)

The components of the deferred tax provision are as follows for December 31, 2015 and 2014:

	2015	2014
Discounted loss reserves	$ 125	$ (38,937)
Unearned premiums	(130,761)	(8,150)
AMT credit	(12,914)	-
Supplemental employee retirement plan	(10,634)	(14,211)
Accrued bonus	(15,767)	(2)
Retiree medical expense	(9,977)	(39,423)
Net operating loss carry-forward	328,763	(470,005)
Deferred policy acquisition costs	113,866	(48,280)
Valuation allowance	301,653	905,264
Total	$ 564,354	$ 286,256

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

	2015	2014
Deferred tax assets:		
Discounted loss reserves	$ 598,703	$ 598,828
Unearned premiums	826,209	695,448
AMT credit	45,482	32,568
Supplemental employee retirement plan	87,975	77,341
Accrued bonus	16,493	726
Retiree medical expense	49,400	39,423
Net operating loss carry-forward	5,683,211	6,011,974
Gross deferred tax assets	7,307,473	7,456,308
Deferred tax liabilities:		
Deferred service fee income	(6,589)	(6,589)
Unrealized gains	(280,319)	(524,530)
Deferred policy acquisition costs	(765,643)	(651,777)
Gross deferred tax liabilities	(1,052,551)	(1,182,896)
Valuation allowance	(4,065,700)	(3,764,047)
Deferred tax asset, net	$ 2,189,222	$ 2,509,365

The Company has net operating loss carry-forwards as of December 31, 2015 and 2014 of $16,715,346 and $17,682,276, respectively, that will begin to expire in 2031. The Company has no capital loss carryovers available. The Company has $45,482 and $32,568 of AMT credit carryforwards that have no expiration date as of December 31, 2015 and 2014.

(Continued)

NOTE 12 - FEDERAL INCOME TAXES (Continued)

As of December 31, 2015 and 2014, the Company recorded a valuation allowance against the deferred tax asset of $4,065,700 and $3,764,047, respectively, as the Company believes it is more likely than not that a portion of the gross deferred tax asset will not be realized. In determining the net deferred tax asset, which the Company considers to be fully realizable, consideration has been given to the amount of net operating loss carryforwards. Based on the Company's improved operations during the current fiscal year, projected continued improvement (including net earned premium growth and cost reductions) and future taxable income, management believes that the net deferred tax asset recorded is fully realizable. The amount of the deferred tax asset considered realizable, however, could increase or decrease in the near term based upon changes in the estimate of future taxable income.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

In all states, insurers licensed to transact certain classes of insurance are required to become members of a guaranty fund. In most states, in the event of the insolvency of an insurer writing any such class of insurance in the state, members of the funds are assessed to pay certain claims of the insolvent insurer. A particular state's fund assesses its members based on their respective written premiums in the state for the classes of insurance in which the insolvent insurer was engaged. Assessments are generally limited for any year to one or two percent of the premiums written per year depending on the state. The amount and timing of assessments related to past insolvencies is unpredictable. The Company records these assessments in accordance with FASB ASC 405, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments." As of December 31, 2015 and 2014, the Company has not accrued for or been assessed by any state insurance department.

As of December 31, 2015 and 2014, the Company has a $5,000,000 line of credit with Brown Brothers Harriman & Co. (BBH), for the purpose of meeting short-term operating cash requirements. There were no outstanding balances as of December 31, 2015 and 2014. The BBH line of credit is collateralized by the debt securities and other marketable securities of the Company, which are managed and held in custody by BBH.

On March 25, 2011, the Company entered into an Unconditional Financial Guaranty with HAPI in order for the Company to obtain licensure in the state of Maine. HAPI will guarantee that the Company maintain capital and surplus at the greater of the regulatory action level risk-based capital or the minimum required capital and surplus in the amount of $2,500,000 as required by the state of Maine.

NOTE 14 - LETTER OF CREDIT AGREEMENTS

The Company is a sole beneficiary of an irrevocable syndicated standby letter of credit from Barclays Bank PLC in the amount of $544,379 and $544,379 as of December 31, 2015 and 2014, respectively, related to the reinsurance agreement with Torus Insurance (Bermuda) Limited. The Company is also the sole beneficiary of an additional irrevocable syndicated standby letter of credit from Credit Agricole Corporate and Investment Bank in the amount of $0 and $544,362 as of December 31, 2015 and 2014, respectively, related to the reinsurance agreement with Hannover Reinsurance (Ireland) Ltd. Finally, the Company is a sole beneficiary of an irrevocable syndicated standby letter of credit from JP Morgan Chase Bank, N.A. in the amount of $0 and $544,362 as of December 31, 2015 and 2014, respectively, related to the reinsurance agreement with XL Re Ltd.

HOUSING ENTERPRISE INSURANCE COMPANY, INC.

Management's Discussion and Analysis
For the Years Ended December 31, 2015 and 2014

The Company - An Overview

Housing Enterprise Insurance Company, Inc. (the Company or HEIC), formerly Housing Enterprise Risk Services, Inc. (HERS), is a subsidiary of Housing Authority Property Insurance, A Mutual Company (HAPI) and Housing Authority Risk Retention Group, Inc. (HARRG). HARRG owns 65% and HAPI owns 35% of the outstanding common stock. HERS was incorporated on August 15, 2000 as a sponsored captive insurance company under the laws of the State of Vermont and was capitalized on January 2, 2001 with $2.0 million from HAPI. HERS' operations commenced on August 1, 2001. HARRG made its first purchase of stock in 2003 and made an additional $10.0 million purchase in 2011. On July 2, 2014, HARRG and HAPI contributed a total of $5.0 million of gross paid in and contributed surplus maintaining their ownership of the Company at 65% and 35%, respectively.

HERS was formed as a sponsored captive insurance company to enable it to form protected cells for certain risks. HERS established a protected cell for the members of Housing Authority Insurance, Inc. (HAI) which was formed to provide various lines of insurance coverage for low and mixed income and affordable housing units that are not in the public housing authority program. The tax structure of HARRG and HAPI prevent them from participating directly in these markets.

HEIC is currently licensed in forty-nine jurisdictions.

On a direct basis, the Company retains the first $250 thousand of property loss and reinsures a $250 thousand excess of $250 thousand layer, $500 thousand excess of $500 thousand layer, a $1.0 million excess of $1.0 million layer under a reinsurance agreement through JLT Towers Re. HEIC also has a $750 million excess of $2.0 million layer provided by Travelers Indemnity. Travelers also provides HEIC and HAPI with combined aggregate coverage for losses within the first $2 million in excess of $10 million per catastrophic event (combined direct and fronted). On direct liability policies with limits up to $5 million, HEIC retains the $500 thousand of loss. Losses excess of $500 thousand up to $5 million are reinsured under a syndicated reinsurance agreement.

HEIC, HARRG, HAPI and Housing Specialty Insurance Company, Inc. (HSIC) have a reinsurance agreement with Hannover Ruckversicherungs Aktiengesellschaft, Lloyds Syndicate Number 33 (Hiscox) and Lloyds Syndicate Number 2003 (Catlin), where the Company retains the first $2.0 million of terrorism loss with the reinsurers assuming the next $60.0 million. For losses arising from nuclear, chemical and biological release, the Company retains the first $250 thousand with the reinsurers assuming the next $5.0 million.

On April 20, 2010, the Company received a guaranty from HAPI to benefit AAIC. AAIC will be provided credit protection in the event HEIC is more than ninety days overdue on any reinsurance payment.

On March 25, 2011, the Company entered into an Unconditional Financial Guaranty with HAPI in order for the Company to obtain licensure in the State of Maine. HAPI will guaranty that the Company maintain capital and surplus at the greater of the regulatory action level risk-based capital or the minimum required capital and surplus each in the amount of $2.5 million as required by Maine.

Effective January 1, 2015 the Company began providing reinsurance coverage to HSIC, an affiliate through common management, for commercial property coverage on affordable housing units insured by HSIC. In accordance with the reinsurance agreement, the Company assumes losses in excess of $250 thousand. Loss adjustment expenses are shared on a pro-rata basis and are in addition to the per occurrence limits.

The following discussion provides an assessment by management of the current financial position, results of operations, cash flow and liquidity, and changes in financial position for HEIC. Information presented in this discussion supplements the financial statements, schedules, and exhibits of the 2015 Annual Report.

Financial Position

HEIC's total assets at year-end 2015 were $84.7 million, up 6.0% over 2014. This growth was a result of an increase in premiums receivable, cash and short-term investments.

Premiums receivable increased $3.3 million in 2015 to $12.1 million. Most of the balance consisted of future installment balances booked but deferred and not yet due at year-end, and advance premiums.

At December 31, 2015, the Company reported a net deferred tax asset of $2.2 million. The components of the tax asset were the difference between book and tax reserves, the unearned premium penalty and deferred service fee income. The Company has not elected to admit deferred tax assets pursuant to paragraph 10.e of Statement of Statutory Accounting Principles No. 10R.

Reported loss and loss adjustment expense reserves increased to $25.5 million in 2015, an increase of 3.9% over 2014. Unfavorable development trends on the assumed liability lines and an increase in IBNR based on the actuarial analysis lead to the increase in reserves. The Company carries its reserves at the 70% confidence level within the actuary's range of estimated outcomes. Loss and loss adjustment expense reserves were not discounted. Salvage and subrogation recoveries were not considered when setting reserves.

Unearned premiums were at $16.6 million in 2015, which was a 13.0% increase over last year and tracked with the increase in net written premium.

Shareholders' equity decreased 0.4% to $37.0 million in 2015. This decrease was primarily a result of a reduction in accumulated other comprehensive income. HEIC's Risk Based Capital (RBC) test indicated its adjusted surplus at 8 times its Authorized Control Level.

Results of Operations

HEIC produced net written premium of $21.7 million in 2015, an increase of 25.0% over 2014. This increase was from gross policy premium growth. The Company's net written premium to surplus ratio was 59%.

Reported loss and loss adjustment expenses were $12.0 million for 2015, a decrease of 6.0% over the prior year. The decrease was primarily driven from favorable results on the property and liability lines on prior accident years. Net of reinsurance, catastrophe losses totaled $997 thousand for the 2015 accident year compared to $619 thousand for the 2014 accident year.

Other expenses (24% as a ratio to written premium) showed an increase to $5.3 million or 4.9% from prior year. Commissions paid General Agents made up 35% of the total other expenses.

HEIC had a comprehensive loss of $151 thousand which was primarily driven by the unrealized holding losses on the available for sale securities.

Cash Flow and Liquidity

The Company generated net positive cash flow from operations of $3.2 million. Overall cash flow generated in 2015 was positive $2.1 million. Projected positive cash flow will be adequate to cover short-term liquidity needs throughout 2016.

The Company established a $5.0 million line of credit with Brown Brothers Harriman for the purpose of meeting short-term operating cash requirements. There were no cash draws on this line during 2015.

HEIC currently has no borrowed funds and no off-balance sheet arrangements.

Outlook

Looking forward, revenue projections include overall rate increases of 2%-3% for 2016 for the Company while maintaining adequate and competitive pricing. The loss and loss adjustment expense ratio is projected at 64% with neutral Cat experience and expected improvements in each line of business. Investment income from a continuing weak market will produce low yields while increasing interest rates will produce lower net realized gains. Expense management will continue as infrastructure updates realize operational efficiencies. The Company continues to practice strong risk control services and claims management.

The Company's in a strong surplus position which will enable it to achieve continuous improvement in its financial results.

General Matters

The Board of Directors of the Company requires that audits and analytical reviews, conducted by independent outside firms, be performed on an annual basis. The 2015 schedule included: 1) an actuarial loss certification, submitted as part of the 2015 Annual Statement; 2) a claims audit performed which was completed in 2015; 3) a financial audit for both GAAP and SAP, which was completed in February 2016; 4) an investment review of performance, conducted on a quarterly basis; and 5) underwriting audits conducted by the Company's reinsurers. During 2014 and 2015, the Vermont Department of Financial Regulation conducted a risk-focused examination of HAPI and HEIC for the years 2009 through 2013. The examination fieldwork was completed in 2015 and the report was issued June 5, 2015.

Opinion

The preceding Management's Discussion and Analysis provides an assessment of the financial position, results of operations, and cash flow and liquidity for the fiscal year ended December 31, 2015 as reported in the 2015 Annual Report. Representations made herein are those of management according to the best of their knowledge and belief.

Dated: May 31, 2016

Mark A. Wilson
President
Treasurer
Chief Executive Officer
Chief Operating Officer

HOUSING SPECIALTY INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS
December 31, 2015 and 2014

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Housing Specialty Insurance Company, Inc.:

We have audited the accompanying financial statements of Housing Specialty Insurance Company, Inc. (the Company), which comprise the balance sheets as of December 31, 2015, and the related statements of comprehensive loss, changes in shareholders' 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 of 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 Housing Specialty Insurance Company, Inc. as of December 31, 2015, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Housing Specialty Insurance Company, Inc. as of and for the year ended December 31, 2014, were audited by Saslow Lufkin & Buggy, LLP, who combined with Crowe Horwath LLP as of July 1, 2015, and whose report dated March 13, 2015 expressed an unmodified opinion on those statements.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
March 11, 2016

HOUSING SPECIALTY INSURANCE COMPANY, INC.
BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 981,768	$ 801,044
Investments available-for-sale, at fair value	14,919,701	14,973,115
Premiums receivables	306,304	-
Prepaid reinsurance	186,638	-
Deferred policy acquistion costs	51,101	-
Accrued interest and other assets	86,085	66,525
Total assets	$ 16,531,597	$ 15,840,684
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid Losses and loss adjusment expenses	$ 345,720	$ -
Unearned premiums	510,273	-
Reinsurance payable	112,736	-
Due to affiliates	69,788	187,602
Accounts payable and other liabilities	47,608	-
Total liabilities	1,086,125	187,602
Shareholders' equity:		
Common stock, $10,000 stated value, 10,000 shares authorized and 200 shares issued and outstanding (Note 1)	2,000,000	2,000,000
Contributed surplus	14,000,000	14,000,000
Accumulated other comprehensive (loss) income	(106,240)	29,218
Retained deficit	(448,288)	(376,136)
Total shareholders' equity	15,445,472	15,653,082
Total liabilities and shareholders' equity	$ 16,531,597	$ 15,840,684

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

HOUSING SPECIALTY INSURANCE COMPANY, INC.
STATEMENTS OF COMPREHENSIVE LOSS
For the Years Ended December 31, 2015 and 2014

	2015	2014
Revenues		
Premiums earned	$ 1,192,063	$ -
Ceded premiums earned	(421,965)	-
Net premiums earned	770,098	-
Investment income, net	287,399	136,622
Realized gain (loss), net	83,264	(45,595)
Total revenues	1,140,761	91,027
Losses and expenses		
Losses and loss adjustment expenses	408,151	-
Salaries and benefits	367,552	321,082
General and administrative expenses	303,023	151,575
Agency commissions	119,135	-
Total losses and expenses	1,197,861	472,657
Net loss before federal income tax expense (benefit)	(57,100)	(381,630)
Federal income tax expense (benefit)	15,052	(11,802)
Net loss	(72,152)	(369,828)
Other comprehensive (loss) income, net of tax		
Unrealized holding losses on available-for-sale securities, net of tax expense (benefit) of $13,259 and ($451) in 2015 and 2014, respectively	(80,504)	(875)
Reclassification adjustments for realized (gains) losses included in net loss, net of tax expense (benefit) of $28,310 and ($15,502) in 2015 and 2014, respectively	(54,954)	30,093
Other comprehensive (loss) income	(135,458)	29,218
Comprehensive loss	$ (207,610)	$ (340,610)

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

HOUSING SPECIALTY INSURANCE COMPANY, INC.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2015 and 2014

	Common Stock		Contributed	Accumulated Other Comprehensive	Retained	Total Shareholders'
	Shares	Amount	Surplus	(Loss) Income	Deficit	Equity
Balance as of January 1, 2014	200	$ -	$ 6,000,000	$ -	$ (6,308)	$ 5,993,692
Reclassification of common stock (Note 1)	-	2,000,000	(2,000,000)	-	-	-
Contributed surplus	-	-	10,000,000	-	-	10,000,000
Other comprehensive income	-	-	-	29,218	-	29,218
Net loss	-	-	-	-	(369,828)	(369,828)
Balance as of December 31, 2014	200	2,000,000	14,000,000	29,218	(376,136)	15,653,082
Other comprehensive loss	-	-	-	(135,458)	-	(135,458)
Net loss	-	-	-	-	(72,152)	(72,152)
Balance as of December 31, 2015	200	$ 2,000,000	$ 14,000,000	$ (106,240)	$ (448,288)	$ 15,445,472

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

HOUSING SPECIALTY INSURANCE COMPANY, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Net loss	$ (72,152)	$ (369,828)
Adjustments to reconcile net loss to		
net cash provided by (used in) operating activities		
Amortization and accretion on investments, net	36,052	18,909
Realized (gains) losses on investments	(83,264)	45,595
Deferred federal income taxes	15,052	(11,802)
Change in assets and liabilities:		
Premiums receivables	(306,304)	(66,525)
Prepaid reinsurance	(186,638)	-
Deferred policy acquistion costs	(51,101)	-
Accrued interest and other assets	(19,560)	-
Unpaid Losses and loss adjusment expenses	345,720	-
Unearned premiums	510,273	-
Reinsurance payable	112,736	-
Due to affiliates	(117,814)	178,045
Accounts payable and other liabilities	47,608	-
Net cash provided by (used in) operating activities	230,608	(205,606)
Cash flows from investing activities		
Purchases of investments	(9,668,232)	(23,111,998)
Proceeds from investments sold	8,211,004	8,062,705
Proceeds from prepayments and maturities of investments	1,407,344	55,943
Net cash used in investing activities	(49,884)	(14,993,350)
Cash flows from financing activities		
Proceeds from contributed surplus	-	10,000,000
Net cash provided by financing activities	-	10,000,000
Net change in cash and cash equivalents	180,724	(5,198,956)
Cash and cash equivalents, beginning of year	801,044	6,000,000
Cash and cash equivalents, end of year	$ 981,768	$ 801,044

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

NOTE 1 - GENERAL

Reporting Entity and Operations: Housing Specialty Insurance Company, Inc. (the Company or HSIC) was incorporated in the State of Vermont as a domestic stock insurance company and received its Certificate of Public Good on December 6, 2013. HSIC was established to operate as a surplus lines insurer for certain insurance risks that are difficult to place in traditional markets. The Company will offer its insurance products as a non-admitted carrier where necessary to public housing authorities and low income and affordable housing units not already covered by the policies of Housing Authority Risk Retention Group (HARRG), Housing Authority Property Insurance Company, A Mutual Company (HAPI) and Housing Enterprise Insurance Company, Inc. (HEIC), related parties through common management.

As of December 31, 2015 and 2014, HARRG and HAPI owned 100 shares of common stock in the amount of $1,000,000 each. During 2014, HARRG and HAPI each contributed an additional $5,000,000 of surplus to the Company. There were no contributions made to HSIC in 2015.

During 2014, the Company's Board of Directors issued a resolution to amend and to provide for a $10,000 per share stated value on all previously issued stock.

The Company began transacting insurance business on January 1, 2015 writing its first insurance policies in the State of Florida.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and Cash Equivalents: Cash and cash equivalents are comprised of a cash account, money market funds and repurchase obligations as of December 31, 2015 and 2014. The Company classifies certain securities with original maturity dates of three months of less from the date of purchase as cash equivalents. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Company's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Company may maintain cash balances in excess of the FDIC insurance limit.

Investments: The Company accounts for investments in accordance with FASB ASC 320, *Investments - Debt and Equity Securities*. Management determines the appropriate classification of its investments in debt securities at the time of purchase and reevaluates such determinations at each balance sheet date. As of December 31, 2015 and 2014, all of the Company's investments are classified as available-for-sale and are carried at fair value. Unrealized gains and losses relating to available for sale securities are reported as a separate component of shareholders' equity as accumulated other comprehensive income. Realized investment gains and losses are determined on a specific identification basis.

The amortized costs of debt securities are adjusted for amortization of premiums and accretion of discounts. Such amortization and accretion are included in investment income.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Within the mortgage-backed securities portfolios, the Company invests in collateralized debt obligations and mortgage-backed security pools which include both residential and commercial mortgages. Each security carries a varying degree of prepayment and interest risk, which can impact the fair value and the ultimate amount of investment income earned. Due to principal prepayments, the effective yield is calculated using the prospective method. Acceleration or deceleration of prepayments of the underlying mortgages can be caused by interest rate changes.

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 is included in investment income, net, within the statements of comprehensive loss and the cost basis of that investment is reduced.

The Company accounts for other than temporary impairments in accordance with 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 are met, an impairment equal to the difference between the debt security's amortized cost and its fair value is recognized in earnings.

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

The Company recorded no impairments on debt securities for the years ended December 31, 2015 and 2014.

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

Unpaid Losses and Loss Adjustment Expenses: Unpaid losses and loss adjustment expenses and the related reinsurance recoverables, represent estimated provisions for both reported and unreported claims incurred and related expenses. In determining unpaid losses and loss adjustment expense reserves and the related reinsurance recoverables, the Company annually reviews its overall position, its reserving techniques and its reinsurance, and utilizes the findings of an independent consulting actuary. These reserves and recoverables represent the estimated ultimate cost less amounts paid of all incurred losses and loss adjustment expenses including related recoverables. Since the reserves are based upon estimates, the ultimate liability or asset may be more or less than such estimates. Such changes may be material and could occur in a future period. As these adjustments become necessary, such adjustments are reflected in current operations.

Revenue Recognition: Premiums are recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums on the balance sheets.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reinsurance: In the normal course of business, the Company seeks to reduce its loss exposure by reinsuring certain levels of risk with reinsurers. Reinsurance is accounted for in accordance with FASB ASC 944, "*Financial Services - Insurance*." Premiums ceded are expensed over the term of their underlying attaching policies or over the period of reinsurance protection provided. Anticipated reinsurance recoverables under these contracts are recorded as a receivable in accordance with the terms of the underlying contracts.

Bad Debts: The Company uses the allowance method to record bad debts. The Company records an allowance for doubtful accounts against its outstanding accounts receivable, which is based on its estimation of bad debts in the near term. This estimate is based on the Company's past experience with collecting its receivables and an analysis of current accounts receivable. No allowance has been recorded as of December 31, 2015 and 2014, as management believes all amounts are fully collectable.

Deferred Policy Acquisition Costs: Policy acquisition costs, which consist of premium taxes and agency commission, are expensed on a pro rata basis over the policy term. The portion of premium taxes and agency commission that will be expensed in the future is deferred and reported as deferred policy acquisition costs on the balance sheets. For the years ended December 31, 2015 and 2014 the Company expensed $166,743 and $0, respectively, of policy acquisition costs.

Income Taxes: The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes.* FASB ASC 740 is an asset and liability method, which requires the recognition of deferred tax assets and liabilities. The Company, under certain provisions of FASB ASC 740, accounts for how uncertain tax positions should be recognized, measured, presented and disclosed within the financial statements. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Company did not record any unrecognized tax benefits as of December 31, 2015 and 2014. The Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months.

The Company's policy is to include interest and penalties related to unrecognized tax benefits as a component of its provision for income taxes. As of December 31, 2015 and 2014, the Company did not record any penalties or interest associated with unrecognized tax benefits. The tax years from 2013 forward are open and subject to examination by the Internal Revenue Service.

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 policyholders, unamortized deferred policy acquisition costs, and maintenance costs exceed unearned premiums and anticipated investment income. There were no premium deficiencies recognized as of December 31, 2015 and 2014.

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, liabilities, revenues and expenses, at and during the reported period, along with the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: Subsequent events have been evaluated through March 11, 2016, which is the date the financial statements were available to be issued. Management believes there are no subsequent events having a material impact on the financial statements.

NOTE 3 - INVESTMENTS

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury and government agencies	$ 6,351,667	$ 32,582	$ (37,102)	$ 6,347,147
State and political subdivisions	314,280	3,117	(10,759)	306,638
Corporate bonds	5,454,373	17,770	(100,929)	5,371,214
Collateralized debt obligations	2,536,087	274	(10,114)	2,526,247
Commercial mortgage-backed securities	369,534	-	(1,079)	368,455
Total	$ 15,025,941	$ 53,743	$ (159,983)	$ 14,919,701

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury and government agencies	$ 8,851,303	$ 50,642	$ (14,843)	$ 8,887,102
State and political subdivisions	147,190	-	(28)	147,162
Corporate bonds	3,567,166	26,908	(17,304)	3,576,770
Collateralized debt obligations	2,067,109	1,034	(2,101)	2,066,042
Commercial mortgage-backed securities	296,078	692	(731)	296,039
Total	$ 14,928,846	$ 79,276	$ (35,007)	$ 14,973,115

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The cost and fair value of debt securities are shown by contractual maturity as of December 31, 2015. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due to mature		
One year or less	$ 522,349	$ 521,945
After one year through five years	5,539,130	5,500,804
After five years through ten years	4,853,772	4,820,327
After ten years	1,205,069	1,181,923
Collateralized debt obligations	2,536,087	2,526,247
Commercial mortgage-backed securities	369,534	368,455
Total	$ 15,025,941	$ 14,919,701

Proceeds from sales of securities amounted to $8,211,004 and $8,062,705 in 2015 and 2014, respectively. Gross realized gains amounted to $87,984 and $10,755 on the sale of securities in 2015 and 2014, respectively. Gross realized losses amounted to $4,720 and $56,350 in 2015 and 2014, respectively.

The Company holds 74 securities that are in an unrealized loss position as of December 31, 2015, of 20 securities have been in an unrealized loss position for a period of twelve months or more. The following table shows the investments' unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position as of December 31, 2015:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury and government agencies	$ 365,532	$ (6,701)	$ 4,784,412	$ (30,401)
State and political subdivisions	-	-	69,314	(10,759)
Corporate bonds	1,130,348	(47,073)	3,078,512	(53,856)
Collateralized debt obligations	767,480	(2,788)	1,608,505	(7,326)
Commercial mortgage-backed securities	94,736	(202)	273,719	(877)
Total	$ 2,358,096	$ (56,764)	$ 9,814,462	$ (103,219)

NOTE 3 - INVESTMENTS (Continued)

The Company holds 33 securities that are in an unrealized loss position as of December 31, 2014, of which no securities have been in an unrealized loss position for a period of twelve months or more. The following table shows the investments' unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position as of December 31, 2014:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury and government agencies	$ 3,141,508	$ (14,843)	$ -	$ -
State and political subdivisions	147,162	(28)	-	-
Corporate bonds	1,882,061	(17,304)	-	-
Collateralized debt obligations	1,514,198	(2,101)	-	-
Commercial mortgage-backed securities	119,292	(731)	-	-
Total	$ 6,804,221	$ (35,007)	$ -	$ -

NOTE 4 - ACCUMULATED OTHER COMPREHENSIVE INCOME

A summary of the net changes in after-tax accumulated other comprehensive income attributable to the Company and significant amounts reclassified out of accumulated other comprehensive income for the year ended December 31, 2015 and 2014 is as follows:

	Accumulated Other Comprehensive (Loss) Income
Balance at Janauary 1, 2014	$ -
Other comprehensive income, net before reclassifications	(875)
Amounts reclassified from accumulated other comprehensive income (a)	30,093
Net current-period other comprehensive income	29,218
Balance at December 31, 2014	29,218
Other comprehensive loss, net before reclassifications	(80,504)
Amounts reclassified from accumulated other comprehensive loss (a)	(54,954)
Net current-period other comprehensive loss	(135,458)
Balance at December 31, 2015	$ (106,240)

(a) See statements of comprehensive loss for details about these reclassifications.

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS

The Company measures fair values in accordance with FASB ASC 820, *Fair Value Measurement and Disclosures*. FASB ASC 820 provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

> *Level 1 -* Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Company has the ability to access.
>
> *Level 2 -* Inputs to the valuation methodology include: (i) Quoted prices for similar assets in active markets; (ii) Quoted prices for identical or similar assets in inactive markets; (iii) Inputs other than quoted prices that are observable for the asset; (iv) 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 following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2015:

	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 6,347,147	$ -
State and political subdivisions	-	306,638	-
Corporate bonds	-	5,371,214	-
Collateralized debt obligations	-	2,526,247	-
Commercial mortgage-backed securities	-	368,455	-
Repurchase agreements	-	200,000	-
Money market funds	294,121	-	-
Total	$ 294,121	$ 15,119,701	$ -

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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

	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 8,887,102	$ -
State and political subdivisions	-	147,162	-
Corporate bonds	-	3,574,770	-
Collateralized debt obligations	-	1,936,187	129,855
Commercial mortgage-backed securities	-	296,039	-
Repurchase agreements	-	200,000	-
Money market funds	34,190	-	-
Total	$ 34,190	$ 15,041,260	$ 129,855

The following table sets forth a summary of changes in the fair value of the Company's level 3 assets:

	Available-for-Sale Securities
Balance as of January 1, 2014	$ -
Purchase of investments	129,971
Total unrealized losses	(116)
Ending balance as of December 31, 2014	$ 129,855
Purchases	239,957
Proceeds from sales	(130,081)
Total realized gains	103
Transfers out	(238,681)
Amortization	19
Total unrealized losses	(1,172)
Ending balance as of December 31, 2015	$ -

The fair values of the Company's Level 2 and 3 investments are determined by management after considering prices received from third party services.

A description of inputs used in the Company's Level 2 and 3 measurements are listed below:

U.S. treasury and government agencies - Primary inputs include observations of credit default swap curves related to the issuer and political events.

State and political subdivisions - Primary inputs include Municipal Securities Rulemaking Board reported trades and material event notices, and issuer financial statements.

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

Corporate bonds - Primary inputs include observations of credit default swap curves related to the issuer.

Collateralized debt obligations and commercial mortgage-backed securities - Primary inputs include monthly payment information, collateral performance, which varies by vintage year and includes delinquency rates, collateral valuation loss severity rates, collateral refinancing assumptions, credit default swap indices and, for collateralized-debt obligations and residential mortgage-backed securities, estimated prepayment rates.

Level 3 investments - The Company's securities classified as Level 3 include less liquid securities such as lower quality collateralized debt obligations. Securities included in Level 3 are primarily valued based on broker prices or broker spreads, without adjustments which are priced with the typical inputs used in Level 1 and Level 2 securities but also include benchmark interest rates or credit spread assumptions that are not observable in the marketplace.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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 different fair value measurement at the reporting date.

Management has evaluated the significance of transfers between levels based upon the nature of the financial instrument. For the years ended December 31, 2015 and 2014, the significant transfers in or out of levels 2 and 3 are disclosed within the schedule on the previous page.

NOTE 6 - INSURANCE ACTIVITY

The Company primarily writes commercial property coverage to public and affordable housing entities on a direct basis as an excess and surplus lines insurance company. As of December 31, 2015, all policyholders of the Company were located in the State of Florida.

Effective January 1, 2015, HEIC and HAPI began providing reinsurance coverage to the Company for commercial property coverage on public and affordable housing units. In accordance with the reinsurance agreement, the Company cedes limits of $750,000 per loss occurrence in excess of $250,000 each loss. Loss adjustment expenses are shared on a pro-rata basis and are in addition to the per occurrence limits. During 2015, the Company ceded $595,125 and $586 of premiums to HAPI and HEIC, respectively, related to this contract.

All direct policies cover certified terrorism losses (unless coverage is declined by the policyholder) as defined under the Terrorism Risk Insurance Act of 2002 (TRIA) and the subsequent 2007 extension of TRIA. TRIA provides for a system of shared public and private compensation for insured losses resulting from certified acts of terrorism. TRIA protection is only triggered if there is a certified act of terrorism and losses reach an industry insured loss trigger of $100,000,000. The coverage provided by the Company is eligible under TRIA for 85% co-insurance protection provided by the U.S. Treasury subject to a deductible equal to 20% of the Company's prior year direct earned premiums. The Company retains both the deductible and its remaining 15% share of certified terrorism losses. The 2007 extension of the TRIA program expired on December 31, 2014.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

On January 12, 2015, the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA) was signed into law extending TRIA through December 31, 2020. TRIPRA increases the industry insured loss trigger for the federal share of compensation for certified acts of terrorism by $20,000,000 annually beginning January 1, 2016 until it reaches $200,000,000 on January 1, 2020. Finally, under TRIPRA, the federal government's co-insurance protection gradually decreases from 85% to 80%, dropping one percent annually beginning on January 1, 2016.

The Company, HARRG, HAPI and HEIC (collectively called the Companies) entered into a reinsurance agreement, which provides reinsurance protection to the Companies for all insured losses resulting from acts of terrorism or sabotage (whether a certified act or not), for all direct business written by the Companies. With respect to terrorism not involving nuclear, chemical or biological release, the agreement provides reinsurance for all losses and loss adjustment expenses in excess of $2,000,000 up to an aggregate limit of $60,000,000 and $20,000,000 for 2015 and 2014, respectively, per loss occurrence. With respect to business interruption and extra expense losses arising from nuclear, chemical or biological terrorism, the agreement provides reinsurance for all losses and loss adjustment expenses in excess of $250,000 up to an aggregate limit of $5,000,000 per loss occurrence. If a loss occurrence involves more than one of the Companies, the limits and retentions mentioned above will be divided between each of the Companies in the proportion of their individual losses to the total loss sustained by the Companies.

These reinsurance contracts do not discharge the primary liability of the Company as insurer of those risks reinsured. The failure of the reinsurers to honor their obligations could result in significant losses to the Company.

The Company evaluates the financial condition of potential reinsurers, and continually monitors the financial condition of present reinsurers, which all have an A.M. Best rating of A- or better.

Additionally, the Company evaluates current and prospective reinsurers as to concentrations of credit risk arising from similar activities or economic characteristics in order to minimize exposure to significant losses resulting from reinsurer insolvencies. There can be no assurance that reinsurance will continue to be available to the Company to the same extent, and at the same cost, as it has in the past. The Company may choose in the future to reevaluate the use of reinsurance to increase or decrease the amounts of risk it cedes to reinsurers.

Direct and ceded premiums written and earned by the Company for the years ended December 31, 2015 and 2014, are summarized as follows:

	Premiums Written		Premiums Earned	
	2015	2014	2015	2014
Direct premiums	$ 1,702,336	$ -	$ 1,192,063	$ -
Premiums ceded	(608,603)	-	(421,965)	-
	$ 1,093,733	$ -	$ 770,098	$ -

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

A reconciliation of changes in the Company's unpaid losses and loss adjustment expenses, included on the balance sheets for the years ended December 31, 2015 and 2014, is summarized as follows:

	2015	2014
	(in thousands)	
Balance at beginning of year	$ -	$ -
Less reinsurance recoverables	-	-
Net balance at beginning of year	-	-
Incurred related to:		
Current year	408	-
Prior years	-	-
Total incurred	408	-
Paid related to:		
Current year	(62)	-
Prior years	-	-
Total paid	(62)	-
Net balance at end of year	346	-
Plus reinsurance recoverables	-	-
Balance at end of year	$ 346	$ -

NOTE 7 - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company has a common paymaster agreement with HARRG, in which HARRG is the common paymaster for the Company. HARRG provides management services to the Company and charges the Company for its direct allocation of salaries, benefits and overhead, along with the use of its facility. Expenses incurred for HARRG's management services were approximately $568,545 and $455,963 for the years ended December 31, 2015 and 2014, respectively. The amounts due to HARRG under this agreement, which are included in due to affiliates, amounted to $49,516 and $73,138 as of December 31, 2015 and 2014, respectively.

As of December 31, 2014, the Company owed HAPI $114,464 for an overpayment of contributed surplus.

The Company pays Housing Authority Insurance, Inc. (HAI) fees for the development of public and affordable housing insurance programs, research and government affairs activities under a Membership Agreement. The Company paid fees of $68,720 and $8,986 for the years ended December 31, 2015 and 2014, respectively.

The Company entered into an agreement with Housing Telecommunications, Inc. (HTI), an affiliated entity through common management, to support the delivery of risk management training to insureds. The Company paid fees of $2,804 and $951 for the years ended December 31, 2015 and 2014, respectively.

(Continued)

NOTE 8 - EMPLOYEE BENEFITS

HSIC does not maintain a retirement plan, deferred compensation or other post retirement benefit plan. HSIC participates in the HARRG employee benefit plans through its common paymaster agreement with HARRG.

HARRG maintains a defined contribution profit sharing plan and is the sponsor of the Housing Authority Risk Retention Group 401(k) plan, covering substantially all employees. The Company recorded profit sharing plan expenses of $24,689 and $23,517 and 401(k) expenses of $3,183 and $3,021, for the years ended December 31, 2015 and 2014, respectively.

HARRG is the sponsor of a supplemental executive retirement plan (SERP) covering certain key employees of the Company. The purpose of the SERP is to reward the employees for their loyal and continuous service to the Company. The SERP was not intended to qualify under or satisfy the requirements of Sections 401(a) and 501(a) of the Internal Revenue Code of 1986. The expense allocated to HEIC related to the SERP amounted to $6,494 and $3,536 for the years ended December 31, 2015 and 2014, respectively.

NOTE 9 - LEASES

The Company occupies office space in Cheshire, Connecticut, which is owned by HARRG. The cost of occupying the premises is part of the management services fees, which are paid to HARRG (See Note 7).

NOTE 10 - SURPLUS

As an admitted property and casualty insurance company, HSIC is required by the Vermont Department of Financial Regulation (the Department) to maintain minimum statutory surplus of $5,000,000.

NOTE 11 - STATUTORY ACCOUNTING PRACTICES

The Company’s statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Department. Vermont has adopted the National Association of Insurance Commissioners’ (NAIC) statutory accounting practices as the basis of its statutory accounting practices. The amount of statutory net loss amounted to $108,784 and $384,160 for the years ended December 31, 2015 and 2014, respectively. The amount of statutory surplus amounted to $15,451,095 and $15,599,187 as of December 31, 2015 and 2014, respectively. No dividends were declared or paid in fiscal year 2015 and 2014.

As part of its regulatory filings the Company is required to disclose its risk-based capital (RBC) requirements. The NAIC develops the RBC program to enable regulators to take appropriate and timely regulatory actions with respect to insurers that show signs of weak or deteriorated financial condition. RBC is a series of dynamic surplus-related formulas that contain a variety of factors that are applied to financial balances based on a degree of certain risks, such as asset, credit and underwriting risks. The Company’s statutory capital and surplus exceeded the NAIC’s authorized control level risk based capital as of December 31, 2015 and 2014.

(Continued)

NOTE 12 - FEDERAL INCOME TAXES

The provision for income taxes differs from the amount of federal income tax expense (benefit) determined by applying the 34% regular federal income tax rate to pre-tax net loss as follows:

	2015		2014	
	Amount	Percent	Amount	Percent
Federal income taxes computed at the statutory rate	$ (19,414)	34.00%	$ (129,754)	34.00%
Valuation allowance	33,337	(58.38%)	118,044	(30.93%)
Other	1,129	(1.98%)	(92)	0.02%
Total	$ 15,052	(26.36%)	$ (11,802)	3.09%

Federal income tax expense (benefit) consists of the following for the years ended December 31, 2015 and 2014:

	2015	2014
Current	$ -	$ -
Deferred	15,052	(11,802)
Total	$ 15,052	$ (11,802)

The components of the deferred tax provision are as follows for December 31, 2015 and 2014:

	2015	2014
Supplemental employee retirement plan	$ (967)	$ (1,341)
Organizational costs	104	103
Retiree medical	(1,341)	(2,114)
Discounted loss reserves	(3,646)	-
Unearned premiums	(22,007)	-
Treasury Inflated Protected Securities	(1,041)	-
Capital loss carry-forward	15,502	(15,502)
Net operating loss carry-forward	(22,263)	(110,992)
Deferred policy acquisition costs	17,374	-
Valuation allowance	33,337	118,044
Total	$ 15,052	$ (11,802)

(Continued)

NOTE 12 - FEDERAL INCOME TAXES (Continued)

The tax effect of temporary differences, which result in deferred tax assets and liabilities, are as follows as of December 31, 2015 and 2014:

	2015	2014
Deferred tax assets		
Supplemental employee retirement plan	$ 2,308	$ 1,341
Organizational costs	1,334	1,438
Retiree medical	3,455	2,114
Discounted loss reserves	3,646	-
Unearned premiums	22,007	-
Treasury Inflated Protected Securities	1,041	-
Unrealized losses on investments	36,122	-
Capital loss carry-forward	-	15,502
Net operating loss carry-forward	134,963	112,700
Gross deferred tax assets	204,876	133,095
Deferred tax liabilities		
Deferred policy acquisition costs	(17,374)	-
Unrealized gains on investments	-	(15,051)
Gross deferred tax liabilities	(17,374)	(15,051)
Valuation allowance	(187,502)	(118,044)
Deferred tax asset, net	$ -	$ -

The Company has net operating loss carry-forwards as of December 31, 2015 and 2014 of $396,951 and $331,471, respectively that will begin to expire in 2033. The Company has no capital loss carry-forwards available. The Company has no AMT Credits available.

As of December 31, 2015 and 2014, the Company recorded a valuation allowance against the deferred tax asset of $187,502 and $118,044, respectively.

HOUSING SPECIALTY INSURANCE COMPANY, INC.

Management's Discussion and Analysis
For the Years Ended December 31, 2015 and 2014

The Company - An Overview

Housing Specialty Insurance Company, Inc. (the Company or HSIC), is a subsidiary of Housing Authority Property Insurance, A Mutual Company (HAPI) and Housing Authority Risk Retention Group, Inc. (HARRG). HARRG owns 50% and HAPI owns 50% of the outstanding common stock. HSIC was incorporated on December 9, 2013 as a stock insurance company under the laws of the State of Vermont and was capitalized on December 20, 2013 with a total of $6.0 million from HARRG and HAPI. On May 23, 2014, HARRG and HAPI contributed to the Company a total of $10.0 million of gross paid in and contributed surplus maintaining their ownership of the Company at 50% each.

HSIC was formed as an excess and surplus lines insurer which will provide a non-traditional insurance program to the public and affordable housing providers throughout the United States.

HSIC is currently licensed in the State of Vermont and eligible to write surplus lines in Florida and Rhode Island.

Effective January 1, 2015, HAPI and Housing Enterprise Insurance Company, Inc. (HEIC) began providing reinsurance coverage to the Company for commercial property coverage on public and affordable housing units. In accordance with the reinsurance agreement, the Company retains the first $250 thousand of loss. Loss adjustment expenses are shared on a pro-rata basis and are in addition to the per occurrence limits.

HSIC, HARRG, HAPI and Housing Enterprise Insurance Company, Inc. (HEIC) have a reinsurance agreement with Hannover Ruckversicherungs Aktiengesellschaft, Lloyds Syndicate Number 33 (Hiscox) and Lloyds Syndicate Number 2003 (Catlin), where the Companies retain the first $2.0 million of terrorism loss with the reinsurers assuming the next $60.0 million. For losses arising from nuclear, chemical and biological release, the Company retains the first $250 thousand with the reinsurers assuming the next $5.0 million.

The following discussion provides an assessment by management of the current financial position, results of operations, cash flow and liquidity, and changes in financial position for HSIC. Information presented in this discussion supplements the financial statements, schedules, and exhibits of the 2015 Annual Report.

Financial Position

HSIC's total assets at year-end 2015 were $16.5 million, an increase of 4.4% from 2014. This was a result of an increase in cash and cash equivalents and an increase in premium receivables due to written business in 2015.

The carrying value of the investments available-for-sale was $14.9 million at December 31, 2015, a decrease of 0.4% from 2014.

Reserves for unpaid losses and loss adjustment expenses at December 31, 2015 reflected the estimate of the liability for the ultimate net cost of reported claims and estimated IBNR claims arising from losses which occurred by year-end. At December 31, 2015, loss reserves were $306 thousand on four open claims. The Company carries its reserves at the selected (expected) level within the actuary's range of reasonably possible outcomes. Loss and loss adjustment expense reserves are not discounted. Salvage and subrogation recoveries are not considered when setting reserves.

Unearned premiums increased to $510 thousand at December 31, 2015 which tracked with the increase in net written premium.

Shareholders' equity decreased $208 thousand to $15.4 million in 2015. This decrease was primarily a result of a net loss of $72 thousand and unrealized holding losses on available-for-sale securities.

Results of Operations

The Company started writing business in January 2015. As such, net premiums written for 2015 were $1.1 million. Earned premiums were $770 thousand for the year. The Company is writing at a ratio of 7.1% (net) to policyholders' surplus.

Investment income, net of expenses, increased $151 thousand over 2014 from a full year of activity in 2015 versus eight months in 2014. Net realized gains for 2015 were $83 thousand compared to the realized loss they reported in 2014. The Company did not realize any other-than-temporary impairment losses during the year

Incurred loss and loss adjustment expenses were $408 thousand for 2015. This was attributed to eight claims during the year. The calendar year loss ratio was 53.0% in 2015.

Other expenses increased 41.9% to $671 thousand over 2014. Expenses increased as a result of insurance operations commencing in 2015.

HSIC recorded a net loss of $72 thousand and a combined ratio of 125% in 2015.

Cash Flow and Liquidity

The Company generated net positive cash flow from operations of $231 thousand. Overall cash flow generated in 2015 increased $181 thousand. Projected positive cash flow will be adequate to cover short-term liquidity needs throughout 2016.

HSIC currently has no borrowed funds and no off-balance sheet arrangements.

Outlook

Looking forward, revenue projections include an overall rate increase of 1-1.5% for 2016 for the Company while maintaining adequate and competitive pricing. The loss and loss adjustment expense ratio is projected at 48%. Investment income from a continuing weak market will produce low yields while increasing interest rates will produce lower net realized gains. Expense management will continue as infrastructure updates realize operational efficiencies. The Company intends to practice strong risk control services and claims management.

The Company’s in a strong surplus position will enable it to achieve its projected financial results.

General Matters

The Board of Directors of the Company requires that audits and analytical reviews, conducted by independent outside firms, be performed on an annual basis. The 2015 schedule included: 1) an actuarial loss certification, submitted as part of the 2015 Annual Statement; 2) a financial audit for both GAAP and SAP, which was completed in February 2016; and 3) an investment review of performance, conducted on a quarterly basis.

Opinion

The preceding Management's Discussion and Analysis provides an assessment of the financial position, results of operations, and cash flow and liquidity for the fiscal year ended December 31, 2015 as reported in the 2015 Annual Report. Representations made herein are those of management according to the best of their knowledge and belief.

Dated: May 31, 2016

John C. Thomson
President & Chief Executive Officer

Mark A. Wilson
Executive Vice President
Chief Operating Officer
Treasurer

HOUSING AUTHORITY INSURANCE, INC.

FINANCIAL STATEMENTS

December 31, 2015

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Housing Authority Insurance, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Housing Authority Insurance, Inc. (the Company), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and changes in net assets 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 of 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 auditor's 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Housing Authority Insurance, Inc. as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the January 1, 2015 opening net assets of the Company have been restated to correct a misstatement related to the Company's accounting for its grant expenditures. Our opinion is not modified with respect to this matter.

[redacted]

Simsbury, Connecticut
May 16, 2016

HOUSING AUTHORITY INSURANCE, INC.
STATEMENT OF FINANCIAL POSITION
Year Ended December 31, 2015

ASSETS	
Cash	$ 1,039,483
Refundable advance	736,854
Due from affiliates	154,118
Prepaid expenses	50,147
Total assets	$ 1,980,602
LIABILITIES AND NET ASSETS	
Accounts payable	$ 107,368
Due to affiliates	455,631
Deferred grant revenue	953,317
Total liabilities	1,516,316
Unrestricted net assets	464,286
Total liabilities and net assets	$ 1,980,602

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

HOUSING AUTHORITY INSURANCE, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2015

Unrestricted revenues:	
Membership fees	$ 4,750,000
Grant revenue	2,390,479
Total unrestricted revenues	7,140,479
Expenses:	
Salaries and benefits	2,120,158
General and administrative expenses	3,325,758
Grants and donations	2,185,016
Event support	7,675
Member benefits	280,597
Total expenses	7,919,204
Change in unrestricted net assets	(778,725)
Unrestricted net assets, January 1, 2015	730,814
Restatement adjustment (Note 1)	512,197
Unrestricted net assets, January 1, 2015 (as restated)	1,243,011
Unrestricted net assets, end of year	$ 464,286

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

HOUSING AUTHORITY INSURANCE, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2015

Cash flows from operating activities:	
Change in unrestricted net assets	$ (778,725)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Changes in assets and liabilities:	
Refundable advance	146,125
Due from affiliates	330,014
Prepaid expenses	11,466
Accounts payable	(75,933)
Due to affiliates	(278,272)
Deferred grant revenue	(253,831)
Net cash used in operating activities	(899,156)
Net change in cash	(899,156)
Cash, beginning of year	1,938,639
Cash, end of year	$ 1,039,483

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

NOTE 1 - GENERAL

Reporting Entity and Operations: Housing Authority Insurance, Inc. (the Company or HAI) was incorporated on October 26, 1987, as a non-stock District of Columbia corporation. The Company is a nonprofit organization, which has undertaken the responsibility for the development of public housing insurance programs. The Company will carry out research, feasibility studies and funding for projects that will inform residents, owners, operators, developers and vendors through grants provided by Housing Authority Risk Retention Group, Inc. (HARRG) and Housing Authority Property Insurance, A Mutual Company (HAPI). The programs of the Company are funded by HARRG, HAPI, Housing Enterprise Insurance Company, Inc. (HEIC) and Housing Specialty Insurance Company, Inc. (HSIC) through membership fees. The Company provides the development of insurance programs and public relations through advocacy services on member risk management, information on sponsored insurance programs and other member related services. In addition, the Company sponsors an internship program, a scholarship program and provides life insurance benefits, through a third party, to its members' employees. The Company is governed by the same Board of Directors of HARRG, HAPI, HEIC, HSIC and other affiliated companies.

The Company is part of an affiliated group of companies and has entered into various transactions with the group members. The accompanying financial statements have been prepared from the separate records maintained by the Company and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated company.

Concentrations of Risk: The Company develops public housing insurance programs and public relations programs for HARRG, HAPI, HEIC and HSIC. Public Housing Authorities (PHAs) are governed and funded by the United States Department of Housing and Urban Development. Changes in public policy and/or funding of PHAs or affiliated entities with common management could have a significant impact on the operations of the Company. All of the Company's revenue is generated from affiliated entities as described in Note 4. A reduction in revenue from these affiliated entities could have a significant impact on the operations of the Company.

Restatement of Net Assets: The unrestricted net assets of the Company as of January 1, 2015 have been restated to correct an error in the reporting of HAI's grant expenditures to affiliated companies, whereby HAI expensed the grants fully in the year that they were granted. As the grants were deemed to be exchange transactions, under generally accepted accounting principles in the United States of America, the amount of grant funds expended by affiliates should be recognized as an expense and any unused funds would be recognized as a remaining refundable advance. As a result of the restatement, the January 1, 2015 unrestricted net assets have been increased by $512,197. The impact to prior year's change in net assets amounted to an increase of $121,635.

The following table shows the restated January 1, 2015 financial statement balances:

	Unrestricted Net Assets
Balance as of January 1, 2015	$ 730,814
Prior period adjustment	512,197
Balance as of January 1, 2015 (as restated)	$ 1,243,011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Net Assets: The Company follows the provisions of FASB ASC 958, *Not-for-Profit Entities*. FASB ASC 958 establishes standards for external financial reporting by not-for-profit organizations. Resources are reported for accounting purposes, in separate classes of net assets based on the existence or absence of donor-imposed restrictions. Within the financial statements, net assets that have similar characteristics are combined into the following categories:

> Unrestricted: Net assets that are not subject to donor-imposed stipulations are considered unrestricted. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.
>
> Temporarily Restricted: Net assets whose use by the Company is subject to donor-imposed stipulations that can be fulfilled by actions of the Company pursuant to those stipulations or that expire by the passage of time are considered temporarily restricted. The Company did not have any net assets that were temporarily restricted as of December 31, 2015.
>
> Permanently Restricted: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Company are considered permanently restricted. Generally, the donors of these assets permit the Company to use all or part of the investment return on these assets. The Company did not have any net assets that were permanently restricted as of December 31, 2015.

Currently all of the Company's net assets are classified as unrestricted net assets.

Revenue Recognition: Membership fees are recorded as revenue based on the underlying contractual agreements and earned over their respective periods. Grant funds applicable to a future period, received but not earned, are classified as deferred grant revenue.

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, liabilities, revenues and expenses as of and during the reporting period, along with the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Cash: Cash is comprised of two cash accounts as of December 31, 2015. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Company's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Company may maintain cash balances in excess of the FDIC insurance limit.

Allowance for Doubtful Accounts: The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific members, historical trends and other information. Generally, the Company does not require collateral or other security to support member receivables. As of December 31, 2015, the Company did not record an allowance for doubtful accounts.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: Subsequent events have been evaluated through May 16, 2016, which is the date the financial statements were available to be issued. Management believes there are no subsequent events having a material impact on the financial statements.

NOTE 3 - INCOME TAXES

The Company has received a determination letter from the Internal Revenue Service indicating that the Company qualifies under the provisions of Section 501(c)(4) of the Internal Revenue Code and is exempt from federal and state income taxes.

The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, with respect to how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Company did not record any unrecognized tax benefits as of December 31, 2015. The Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months. All tax years from 2012 forward are open and subject to examination by the Internal Revenue Service.

The Company's policy is to include interest and penalties related to unrecognized tax benefits as a component of its provision for income taxes. As of December 31, 2015, the Company did not record any penalties or interest associated with unrecognized tax benefits.

NOTE 4 - AFFILIATE AND RELATED PARTY TRANSACTIONS

Pursuant to agreements with HARRG, HAPI and HEIC, the Company earned membership fees of $1,689,852 from HARRG, $2,915,201 from HAPI, $76,227 from HEIC and $68,720 from HSIC for the year ended December 31, 2015.

The Company has a common paymaster agreement with HARRG, in which HARRG is the common paymaster for the Company. HARRG provides various management services to the Company and charges the Company for its direct allocation of salaries, benefits and overhead, along with the use of its facility. Expenses incurred for HARRG's management services were $3,575,570 for the year ended December 31, 2015. As of December 31, 2015, $409,312 was due to HARRG under this agreement and is reflected within due to affiliates on the statement of financial position.

For the year ended December 31, 2015, the Company recorded grant revenue in the amount of $2,390,479 from HARRG and HAPI. The primary objective of the grant is to carry out research, feasibility studies and funding for projects for residents, owners, operators, developers and vendors, on behalf of HARRG and HAPI. Amounts not spent with regards to the above grants are deferred until future periods.

During 2015, the Company recorded grant expenditures in the amount of $861,504 to Public and Affordable Housing Research Corporation (PAHRC), an affiliated company through common management. The grant was made to support PAHRC's primary function of carrying out research projects, on behalf of the Company, for residents, owners, operators, developers, vendors and regulators oh public and affordable housing throughout the United States. Amounts not spent with regards to the above grant is deferred until future periods. As of December 31, 2015, PAHRC had unspent grant funds of $133,840, which is recorded as a refundable advance within the statement of financial position.

As of December 31, 2015, Housing Alliance Group LLC (HAGL), an affiliated company through common management, owed the Company $54 for expenses paid by the Company on HAGL's behalf. These amounts are included within due from affiliates on the statements of financial position.

(Continued)

NOTE 4 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)

As of December 31, 2015, the Company owed Housing System Solutions, Inc., an affiliated company through common management, $46,319 for expenses paid on behalf of the Company included within due to affiliates on the statements of financial position.

As of December 31, 2015, PAHRC owed the Company $1,659 for expenses paid by the Company on PAHRC's behalf. These amounts are included within due from affiliates on the statements of financial position.

Effective January 1, 2014, the Company and Affordable Housing Accreditation Board (AHAB), an affiliated entity through common management, entered into a professional services agreement whereby the Company provides various professional services to AHAB and charges AHAB for its direct allocation of personnel, supplies and miscellaneous expenses. As of December 31, 2015, $152,405 was due from AHAB for professional services provided to AHAB.

During 2015, the Company recorded grant expenditures in the amount of $650,866 to AHAB. The grant was made to provide general support and to assist AHAB, on behalf of the Company, in creating an accreditation system for public and affordable housing throughout the United States. Amounts not spent with regards to the above grant is deferred until future periods. As of December 31, 2015, AHAB had unspent grant funds of $360,987, which is recorded as a refundable advance within the statement of financial position.

NOTE 5 - EMPLOYEE BENEFITS

HAI does not maintain a retirement plan, deferred compensation or other postretirement benefit plan. HAI participates in the HARRG employee benefit plans through its common paymaster agreement with HARRG.

HARRG maintains a defined contribution profit sharing plan and is the sponsor of the Housing Authority Risk Retention Group 401(k) Plan, covering substantially all of its employees, for which the Company and its employees are a part of. As part of the insurance services and cost-sharing agreement with HARRG, for the year ended December 31, 2015, the Company recorded profit sharing plan expenses of $134,097 and 401(k) expenses of $17,992. In addition, the Company recorded incentive compensation expense of $16,654 for the year ended December 31, 2015, which is included within salaries and benefits within the statements of activities and changes in net assets.

HARRG is also the sponsor of a supplemental executive retirement plan (SERP) covering certain key employees of the Company. The purpose of the SERP is to reward the employees for their loyal and continuous service. The SERP was not intended to qualify under or satisfy the requirements of Sections 401(a) and 501(a) of the Internal Revenue Code of 1986. The expenses allocated to the Company related to the SERP amounted to $139,652 for the year ended December 31, 2015.

NOTE 6 - LEASES

The Company occupies office space located in Cheshire, Connecticut, which is owned by HARRG. The cost of occupying the premises is part of the management services fees, which are paid to HARRG as described in Note 4.

(Continued)

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Effective August 1, 2013, HAI agreed to award a grant in the amount of $1,000,000 to the Urban Institute (UI) to support the Assisted Housing Initiative. The grant was payable in equal installments of $333,333 at each anniversary date. At HAI's sole discretion, HAI may require UI to cease further performance and return unused funds. In addition, HAI will have no further obligation to provide any future payments due under the grant and UI will return any unused funds. In accordance with the terms of the agreement, HAI recognized $462,088 of funds spent as of December 31, 2015, within the statements of activities and changes in net assets. HAI has a remaining refundable advance of $242,027 related to UI as of December 31, 2015, recorded within the statement of financial position.

NOTE 8 - FUNCTIONAL EXPENSES

The Company develops public housing insurance programs for HARRG, HAPI, HEIC and HSIC, which are affiliated entities through common management. In addition, the Company carries out research, feasibility studies and funding for projects that will inform residents, owners, operators, developers and vendors through grants. Expenses related to providing these services for the year ended December 31, 2015, are as follows:

Program expenses	$ 4,572,205
Administrative expenses	3,346,999
	$ 7,919,204

HOUSING AUTHORITY INSURANCE, INC.

Management's Discussion and Analysis
For the Years Ended December 31, 2015 and 2014

The Company - An Overview

Housing Authority Insurance, Inc. (HAI) was incorporated on October 26, 1987, as a non-stock District of Columbia corporation. It is a nonprofit organization, which has undertaken the responsibility for the development of public housing insurance programs. The program is funded by Housing Authority Risk Retention Group, Inc. (HARRG), Housing Authority Property Insurance, A Mutual Company (HAPI), Housing Enterprise Insurance Company, Inc. (HEIC) and Housing Specialty Insurance Company, Inc. (HSIC) through membership fees.

The following discussion provides an assessment by management of the current financial position, results of operations, cash flow and liquidity, and changes in financial position for HAI. Information presented in this discussion supplements the financial statements, schedules, and exhibits of the 2015 Annual Report.

Financial Position

Cash decreased $899 thousand from 2014 due to payouts of grant funds to carry out research, feasibility studies, and funding for new initiatives as approved by the Board of Directors.

Accounts payable amounted to $563 thousand and includes amounts due under various management services agreements.

Results of Operations

Membership fees increased as a result of the funding and activities of the Government Affairs and Research Committee under the Board of Directors, and the member life insurance program sponsored by the Company and available to all employees of member housing authorities. A prior year restatement resulted in a $512 thousand increase of net assets to correct an error in the reporting of grant expenditures to affiliated companies. The restatement coupled with the increase in membership fees offset by government affairs and research expenses resulted in an overall increase in net assets of $267 thousand.

On January 9, 2015, the Company contributed via a grant of $600 thousand to Public and Affordable Housing Research Corporation (PAHRC), an affiliated company through common management. The contribution was made to support PAHRC's primary function of carrying out research projects that inform residents, owners, operators, developers, vendors and regulators of public and affordable housing throughout the United States. On January 2, 2015, the Company contributed via a grant of $895 thousand to Affordable Housing Accreditation Board (AHAB), an affiliated company through common management. The contribution was made to support AHAB's creation of an accreditation system for public and affordable housing throughout the United States.

Board Polices and Management Practices

The Board of Directors of the Company currently requires that an audit, conducted by an independent outside firm, be performed on an annual basis. The 2015 financial audit was completed in February 2016.

Opinion

The preceding Management's Discussion and Analysis provides an assessment of the financial position, results of operations, and cash flow and liquidity for the fiscal year ended December 31, 2015 as reported in the 2015 Annual Report. Representations made herein are those of management according to the best of their knowledge and belief.

Dated: May 31, 2016

John Thomson
President & Chief Executive Officer

Mark A. Wilson
Executive Vice President
Chief Operating Officer
Treasurer

HOUSING TELECOMMUNICATIONS, INC.

FINANCIAL STATEMENTS

December 31, 2015 and 2014

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Housing Telecommunications, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Housing Telecommunications, Inc. (the Company), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and changes in net assets 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 auditor's 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Housing Telecommunications, Inc. as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Housing Telecommunications, Inc. as of and for the year ended December 31, 2014, were audited by Saslow Lufkin & Buggy, LLP, who combined with Crowe Horwath LLP as of July 1, 2015, and whose report dated March 13, 2015 expressed an unmodified opinion on those financial statements.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
March 11, 2016

HOUSING TELECOMMUNICATIONS, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash	$ 1,189,525	$ 852,213
Accounts receivable	27,175	31,268
Prepaid expenses	154,216	154,292
Due from affiliates	55,696	45,600
Total assets	$ 1,426,612	$ 1,083,373
LIABILITIES AND NET ASSETS		
Accounts payable	$ 17,060	$ 11,457
Due to affiliates	112,729	134,626
Deferred income	49,500	64,300
Unearned subscription fees	670,292	349,255
Total liabilities	849,581	559,638
Unrestricted net assets	577,031	523,735
Total liabilities and net assets	$ 1,426,612	$ 1,083,373

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

HOUSING TELECOMMUNICATIONS, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2015 and 2014

	2015	2014
Unrestricted revenues:		
Subscription fees	$ 788,613	$ 730,387
Risk management service fees	125,000	125,000
Sponsorship fees	200,000	400,000
Pay per view fees	352,032	202,339
Contributions and other income	35,000	92,750
Total unrestricted revenues	1,500,645	1,550,476
Expenses:		
Salaries and benefits	624,269	688,548
General and administrative expenses	548,908	453,578
Studio rental	-	191,667
Program costs	274,172	151,298
Total expenses	1,447,349	1,485,091
Change in unrestricted net assets	53,296	65,385
Unrestricted net assets, beginning of year	523,735	458,350
Unrestricted net assets, end of year	$ 577,031	$ 523,735

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

HOUSING TELECOMMUNICATIONS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in unrestricted net assets	$ 53,296	$ 65,385
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	4,093	14,145
Prepaid expenses	76	(47,883)
Due from affiliates	(10,096)	(15,525)
Accounts payable	5,603	9,168
Due to affiliates	(21,897)	39,912
Deferred income	(14,800)	(1,000)
Unearned subscription fees	321,037	13,913
Net cash provided by operating activities	337,312	78,115
Net change in cash	337,312	78,115
Cash, beginning of year	852,213	774,098
Cash, end of year	$ 1,189,525	$ 852,213

NOTE 1 - GENERAL

Reporting Entity and Operations: Housing Telecommunications, Inc. (the Company) was incorporated on September 15, 1993, as a non-stock Connecticut corporation. The Company is a nonprofit organization, which has been organized to provide education through a variety of media to employees and residents of public and low income and affordable housing authorities throughout the United States. The Company's main programming delivery method is through a web-based service. The operations of the Company are dependent on its affiliations with Housing Authority Risk Retention Group, Inc. (HARRG), Housing Authority Property Insurance, A Mutual Company (HAPI), Housing Enterprise Insurance Company, Inc. (HEIC) and Housing Specialty Insurance Company (HSIC), which are affiliated through common management and common ownership. The Company is governed by the same Board of Directors as HARRG, HAPI, HEIC, HSIC (collectively, the Related Companies) and other affiliated companies.

The Company is part of an affiliated group of companies and has entered into various transactions with the group members. The accompanying financial statements have been prepared from the separate records maintained by the Company and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated company.

Concentrations of Risk: A significant portion of the Company's revenue is derived from risk management and sponsorship agreements with the Related Companies. In connection with the agreements, the Company provides broadcasting services to the Related Companies, their members and insureds.

Public Housing Authorities (PHAs) are governed and funded by the United States Department of Housing and Urban Development. Changes in public policy and/or funding of PHAs or the affiliated entities could have a significant impact on the operations of the Company. A reduction in revenue from these affiliated entities could have a significant impact on the operations of the Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Net Assets: The Company follows the provisions of FASB ASC 958, *Not-for-Profit Entities.* FASB ASC 958 establishes standards for external financial reporting by not-for-profit organizations. Resources are reported for accounting purposes, in separate classes of net assets based on the existence or absence of donor-imposed restrictions. Within the financial statements, net assets that have similar characteristics are combined into the following categories:

Unrestricted: Net assets that are not subject to donor-imposed stipulations are considered unrestricted. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted: Net assets whose use by the Company is subject to donor-imposed stipulations that can be fulfilled by actions of the Company pursuant to those stipulations or that expire by the passage of time are considered temporarily restricted. The Company did not have any net assets that were temporarily restricted as of December 31, 2015 and 2014.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanently Restricted: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Company are considered permanently restricted. Generally, the donors of these assets permit the Company to use all or part of the investment return on these assets. The Company did not have any net assets that were permanently restricted as of December 31, 2015 and 2014.

Currently all of the Company's net assets are classified as unrestricted net assets.

Revenue Recognition: The Company enters into subscription agreements with public and low income and affordable housing providers. Subscription fees are recorded as revenue on a pro rata basis over the period of the subscription agreement. The unearned portion of revenue is deferred and reported as unearned subscription fees on the statements of financial position. Subscription fees that have been billed for contracts beginning on or after January 1, are reported as deferred income on the statements of financial position. Pay per view revenue is earned as services are provided. Risk management service fees and sponsorship fees are recorded based on the underlying contractual agreements and earned over their respective periods.

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, liabilities, revenues and expenses as of and during the reporting period, along with the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Cash: Cash is comprised of three cash accounts as of December 31, 2015 and 2014. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Company's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Company may maintain cash balances in excess of the FDIC insurance limit.

Accounts Receivable: Accounts receivable consists of subscription fees billed and uncollected as of year- end. The Company does not charge interest or late fees to its customers.

Allowance for Doubtful Accounts: The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. Generally, the Company does not require collateral or other security to support customer receivables. As of December 31, 2015 and 2014, no allowance for doubtful accounts was established, as management believes all balances are full collectible.

Subsequent Events: Subsequent events have been evaluated through March 11, 2016, which is the date the financial statements were available to be issued. Management believes there are no subsequent events having a material impact on the financial statements.

NOTE 3 - INCOME TAXES

The Company has received a determination letter from the Internal Revenue Service indicating that the Company qualifies under the provisions of 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

(Continued)

NOTE 3 - INCOME TAXES (Continued)

The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, with respect to how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Company did not record any unrecognized tax benefits as of December 31, 2015 and 2014. The Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months. All tax years from 2013 forward are open and subject to examination by the Internal Revenue Service.

The Company's policy is to include interest and penalties related to unrecognized tax benefits as a component of its provision for income taxes. As of December 31, 2015 and 2014, the Company did not record any penalties or interest associated with unrecognized tax benefits.

NOTE 4 - AFFILIATES AND RELATED PARTY TRANSACTIONS

The Company has a common paymaster agreement with HARRG, in which HARRG is the common paymaster for the Company. HARRG provides various management services to the Company and charges the Company for its direct allocation of salaries, benefits and overhead, along with the use of its facility. Expenses incurred for HARRG's management services were approximately $1,344,499 and $926,993 for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, $112,729 and $105,035, respectively, was due to HARRG under this agreement and is reflected within due to affiliates on the statements of financial position.

The Company recorded $125,000 of risk management service fees from HARRG, HAPI and HEIC for both the years ended December 31, 2015 and 2014.

Effective January 1, 2014, the Related Companies began providing a sponsorship fee to the Company, which is intended to support membership training and education. For the years ended December 31, 2015 and 2014, the Company recorded $200,000 and $400,000, respectively, of sponsorship fee income.

Satellite Telecommunications, Inc. (STI), a related party through common management, was formed to provide web streaming to PHAs and other unrelated third parties. The Company utilized STI's studio and incurred $191,667 of rental costs in 2014, included in general and administrative expenses on the statements of activities and changes in net assets. As of October 31, 2014, STI was dissolved and absorbed by Housing Investment Group, Inc. (HIG). Effective with the dissolution of STI, the rental agreement was cancelled.

The Company has amounts due to Housing Investment Group, Inc., (HIG), a related party through common management, of $0 and $29,591 as of December 31, 2015 and 2014, respectively, for operating costs paid on the Company's behalf. Within due from affiliates is $0, and $74, respectively, due from STI for related party services for the years ended December 31, 2015 and 2014.

On the statements of financial position, within due from affiliates, are receivables from HARRG in the amounts of $47,108 and $35,075, respectively, and from HAPI in the amounts of $8,588 and $10,525, respectively, related to equity dividends declared by HARRG and HAPI that have been applied to the PHA's current subscription fees for the years ended December 31, 2015 and 2014, respectively.

NOTE 5 - EMPLOYEE BENEFITS

The Company does not maintain a retirement plan, deferred compensation or other postretirement benefit plan. The Company participates in the HARRG employee benefit plans through its common paymaster agreement with HARRG.

(Continued)

Note 5 - EMPLOYEE BENEFITS (Continued)

HARRG maintains a defined contribution profit sharing plan and is the sponsor of the Housing Authority Risk Retention Group 401(k) Plan, covering substantially all of its employees, for which the Company and its employees are a part of. As part of the insurance services and cost-sharing agreement with HARRG, for the years ended December 31, 2015 and 2014, the Company recorded profit sharing plan expenses of $43,657 and $47,887, respectively, and 401(k) expenses of $5,496 and $6,811, respectively. In addition, the Company recorded incentive compensation expenses of $939 and $2,644 for the years ended December 31, 2015 and 2014, respectively, which is included within salaries and benefits within the statements of activities and changes in net assets.

HARRG is also the sponsor of a supplemental executive retirement plan (SERP) covering certain key employees of HARRG. The purpose of the SERP is to reward the employees for their loyal and continuous service. The SERP was not intended to qualify under or satisfy the requirements of Sections 401(a) and 501(a) of the Internal Revenue Code of 1986. The expenses allocated to the Company related to the SERP amounted to $9,661 and $9,692, respectively, for the years ended December 31, 2015 and 2014, respectively.

NOTE 6 - LEASES

The Company occupies office space located in Cheshire, Connecticut, which is owned by HARRG. The cost of occupying the premises is part of the management services fees, which are paid to HARRG as described in Note 4.

NOTE 7 - FUNCTIONAL EXPENSES

The Company provides education through a variety of media to employees and residents of public and low income and affordable housing throughout the United States. Expenses related to providing these services for the years ended December 31, 2015 and 2014, are as follows:

	2015	2014
Program expenses	$ 907,960	$ 916,149
Administrative expenses	539,389	568,942
Total	$ 1,447,349	$ 1,485,091

HOUSING TELECOMMUNICATIONS, INC.

Management's Discussion and Analysis
For the Years Ended December 31, 2015 and 2014

The Company - An Overview

Housing Telecommunications, Inc. (HTI) was incorporated on September 15, 1993 as a non-stock Connecticut corporation. It is a nonprofit organization which was organized to provide education through a national telecommunications network to public housing authorities and their residents throughout the United States and the U.S. Department of Housing and Urban Development. The operations of HTI are totally dependent on its affiliations with Housing Authority Risk Retention Group, Inc. (HARRG), Housing Authority Property Insurance, A Mutual Company (HAPI), Housing Enterprise Insurance Company, Inc. (HEIC) and Housing Specialty Insurance Company, Inc. (HSIC), which are affiliated through common Boards of Directors and common management.

A large portion of HTI's cash flow and income is derived from a risk management agreement with HARRG, HAPI, HEIC and HSIC. All of these companies are related parties through common ownership and management. The agreement provides for various broadcasting services for the companies' members and insureds. Continuation of this agreement is critical to HTI maintaining its existing revenue and cash flow.

The following discussion provides an assessment by management of the current financial position, results of operations, cash flow and liquidity, and changes in financial position for HTI. Information presented in this discussion supplements the financial statements, schedules, and exhibits of the 2015 Annual Report.

Financial Position

Accounts receivable were $27 thousand at December 31, 2015, a decrease of $4 thousand from 2014. All receivables were in a current collection status.

Due to affiliates was $113 thousand at December 31, 2015, and included amounts due to HARRG under various management services agreements.

The unearned subscription fees totaled $670 thousand, an increase of $321 thousand over 2014 and in line with the increase in subscription fees.

Results of Operations

Total unrestricted revenues decreased $50 thousand. While subscription and pay per view fees showed an increase over 2014, this was offset by the decrease in sponsorship fees, contributions and other income. Sponsorship fees represents the value added to HARRG, HAPI, HEIC and HSIC by HTVN for member education and training.

Overall, HTI reported a $53 thousand increase in net assets, driven by a decrease in expenses.

Board Polices and Management Practices

The Board of Directors of the Company currently requires that a financial audit, conducted by an independent outside firm, be performed on an annual basis. The 2015 financial audit was completed in February 2016.

Opinion

The preceding Management's Discussion and Analysis provides an assessment of the financial position, results of operations, and cash flow and liquidity for the fiscal year ended December 31, 2015 as reported in the 2015 Annual Report. Representations made herein are those of management according to the best of their knowledge and belief.

Dated: May 31, 2016

John C. Thomson
President & Chief Executive Officer

Mark A. Wilson
Executive Vice President
Chief Operating Officer
Treasurer

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Housing Investment Group, Inc. and Subsidiaries:

We have audited the accompanying consolidated financial statements of Housing Investment Group, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Housing Investment Group, Inc. and Subsidiaries as of December 31, 2015, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

(Continued)

Other Matters

The consolidated financial statements of Housing Investment Group, Inc. and Subsidiaries as of and for the year ended December 31, 2014, were audited by Saslow, Lufkin & Buggy, LLP, who combined with Crowe Horwath, LLP as of July 1, 2015 and whose report dated March 13, 2015, expressed an unmodified opinion on those statements.

Our audit was conducted for the purpose of forming an opinion on the 2015 consolidated financial statements as a whole. The consolidating balance sheets, statements of operations and cash flows are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the 2015 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2015 information is fairly stated in all material respects in relation to the 2015 consolidated financial statements as a whole. The 2014 consolidating balance sheet and consolidating statements of operations and cash flows are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The 2014 information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 consolidated financial statements. The information has been subjected to the auditing procedures applied by other auditors in the audit of the 2014 consolidated financial statements and certain additional procedures, including comparing and reconciling other information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and whose report dated March 13, 2015 expressed an opinion that such information was fairly stated in all material respects in relation to the 2014 consolidated financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
March 11, 2016

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2015 and 2014

	2015	2014
ASSETS		
Current assets		
Cash	$ 23,624,585	$ 22,560,500
Agency and commission accounts receivables	17,500,528	11,719,379
Due from related parties	327,982	335,913
Income taxes receivable	162,344	197,368
Other assets	204,642	161,515
Total current assets	41,820,081	34,974,675
Software and equipment (net of accumulated amortization and depreciation of $1,700,199 and $1,186,247 in 2015 and 2014, respectively)	4,075,432	3,668,163
Total assets	$ 45,895,513	$ 38,642,838
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Commission payable and accounts current	$ 29,192,594	$ 23,118,686
Deferred commissions	3,005,071	2,689,825
Accounts payable and accrued expenses	861,716	1,339,450
Due to related parties	656,161	906,084
Total current liabilities	33,715,542	28,054,045
Stockholders' equity		
Common stock, Class A, no par value, $5,000 per share stated value, 2 shares authorized, issued and outstanding in 2015 and 2014	10,000	10,000
Common stock, Class B, no par value, various stated values, 300,000 shares authorized in 2015 and 2014, 190,700 and 182,500 shares issued and outstanding in 2015 and 2014, respectively	31,400,000	23,200,000
Additional paid-in capital	482,234	482,234
Retained deficit	(19,712,263)	(13,103,441)
Total stockholders' equity	12,179,971	10,588,793
Total liabilities and stockholders' equity	$ 45,895,513	$ 38,642,838

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

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2015 and 2014

	2015	2014
Net revenues		
Commission income	$ 4,894,489	$ 4,478,177
Insurance management services	221,754	237,149
Studio rental income	-	191,667
Product revenue	44,856	8,032
Other income	3,069	1,761
Total revenues	5,164,168	4,916,786
Costs and expenses		
Salaries and benefits	3,533,084	3,928,474
General and administrative	2,233,936	2,257,710
Software research and development	2,602,539	6,043,980
Impairment of software asset	1,500,000	-
Cost of product revenue	665,897	1,115,745
Sales expense	249,432	76,898
Depreciation	934,455	766,827
Total costs and expenses	11,719,343	14,189,634
Loss before provision for income taxes	(6,555,175)	(9,272,848)
Income tax expense	53,647	1,602,629
Net loss	$ (6,608,822)	$(10,875,477)

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

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2015 and 2014

	Common Stock Class A		Common Stock Class B (1)		Additional Paid-In	Retained	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance as of January 1, 2014	2	$ 10,000	132,500	$ 18,200,000	$ 482,234	$ (2,227,964)	$ 16,464,270
Net loss	-	-	-	-	-	(10,875,477)	(10,875,477)
Proceeds from issuance of stock	-	-	50,000	5,000,000	-	-	5,000,000
Balance as of December 31, 2014	2	10,000	182,500	23,200,000	482,234	(13,103,441)	10,588,793
Net loss	-	-	-	-	-	(6,608,822)	(6,608,822)
Proceeds from issuance of stock	-	-	8,200	8,200,000	-	-	8,200,000
Balance as of December 31, 2015	2	$ 10,000	190,700	$ 31,400,000	$ 482,234	$ (19,712,263)	$ 12,179,971

(1) 182,000 shares issued and outstanding at $100 per share stated value as of December 31, 2015 and 2014, 500 shares issued and outstanding at $10,000 per share stated value as of December 31, 2015 and 2014, 8,200 and 0 shares issued and outstanding at $1,000 per share stated value as of December 31, 2015 and 2014, respectively

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

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Net loss	$ (6,608,822)	$ (10,875,477)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred income taxes	-	1,487,935
Depreciation and amortization	934,455	766,827
Loss on disposal of assets	727	-
Impairment of software asset	1,500,000	-
Changes in assets and liabilities		
Agency and commissions accounts receivables	(5,781,149)	455,257
Due from related parties	(6,669)	(190,247)
Income taxes receivable	35,024	353,346
Other assets	(43,127)	8,479
Commission payable and accounts current	6,073,908	49,926
Deferred commissions	315,246	197,530
Accounts payable and accrued expenses	(477,734)	(21,163)
Due to related parties	(235,323)	613,390
Net cash used in operating activities	(4,293,464)	(7,154,197)
Cash flows from investing activities		
Capitalized software costs	(2,842,451)	(1,815,169)
Purchased software	-	(1,295)
Net cash used in investing activities	(2,842,451)	(1,816,464)
Cash flows from financing activities		
Proceeds from issuance of shares	8,200,000	5,000,000
Net cash provided by financing activities	8,200,000	5,000,000
Net change in cash	1,064,085	(3,970,661)
Cash, beginning of year	22,560,500	26,531,161
Cash, end of year	$ 23,624,585	$ 22,560,500
Supplemental disclosure		
Income taxes recovered during the year	$ (18,623)	$ (238,652)

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

NOTE 1 - GENERAL

Reporting Entity: Housing Investment Group, Inc. (HIG) and Subsidiaries (the Company) was incorporated on June 13, 1995 as a Delaware Corporation. The Company is a holding company, which governs the related for-profit businesses of Housing Authority Risk Retention Group, Inc. (HARRG) and Housing Authority Property Insurance, A Mutual Company (HAPI), affiliated entities through common management. The Company has two classes of stock, voting class (Class A) and non-voting class (Class B), which are owned 50% by HARRG and 50% by HAPI. During 2015 and 2014, the Company sold equally, additional shares of Class B shares in the amount of $4,100,000 and $2,500,000, respectively, to each HARRG and HAPI. The Company is governed by the same Board of Directors as HARRG, HAPI and other affiliated companies through common management.

The Company has three wholly owned subsidiaries; Housing Insurance Services, Inc. (HIS), Housing Systems Solutions, Inc. (HSS) and Housing Alliance Group, LLC (HAGL). Satellite Telecommunications, Inc. (STI), a prior subsidiary, was organized pursuant to the laws of the State of Delaware and provided web-based telecommunication services to Public Housing Authorities (PHAs) and other unrelated third parties. STI was fully dissolved on October 31, 2014 and all operations and assets were relinquished to HIG. HIS was organized pursuant to the laws of the State of Connecticut and provides agency and brokerage services for HAPI, HARRG, Housing Enterprise Insurance Company, Inc. (HEIC), Housing Specialty Insurance Company, Inc. (HSIC), and other unaffiliated entities. HSS was incorporated under the laws of the State of Connecticut and was organized to develop and market enterprise software solutions for PHAs and other unrelated organizations. During 2015 and 2014, HIG contributed an additional $8,200,000 and $8,000,000 in exchange for an additional 8,200 and 8,000 shares of common stock of HSS. HAGL was incorporated in July 2015 under the laws of the State of Vermont. HAGL will engage in the business of assisting public housing authorities and their affiliates by sponsoring funding and assisting in transformation of their housing portfolio. HAGL is a limited liability company whose sole member is HIG. During 2015, HIG contributed $700,000 to HAGL.

During 2014, HIS declared and paid a $3,000,000 dividend to HIG, which is eliminated in consolidation. There were no other dividends declared or paid by HIG's wholly-owned subsidiaries in 2015 and 2014.

There were no dividends paid or declared during 2015 or 2014 by the Company to HARRG or HAPI.

The Company is part of an affiliated group of companies and has entered into various transactions with the group members. The accompanying consolidated financial statements have been prepared from the separate records maintained by the Company and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated company.

Concentrations of Risk: The Company provides services to PHAs, which are governed and funded by the U.S. Department of Housing and Urban Development and also to affiliated entities. A majority of the Company's revenue is derived from transactions with affiliated entities which have common management. Changes in the affiliated groups policies, changes in public policy and/or funding of the PHAs could have a significant impact on the operations of the Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying consolidated 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). Significant intercompany accounts and transactions have been eliminated in consolidation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of HIG and its wholly owned subsidiaries STI, HIS, HSS and HAGL as of December 31, 2015 and 2014. All material intercompany transactions and accounts have been eliminated in the consolidated financial statements.

The operations of the Company are primarily determined by the activities and contractual relationships with HARRG, HAPI, HEIC, HSIC, and Housing Telecommunications, Inc. (HTI), related parties through common management. HIG charges its wholly-owned subsidiaries a service fee to act on the behalf of its subsidiaries in a holding company function, which is eliminated in consolidation. In addition, HIG has been funded by HARRG and HAPI to invest in HSS to develop and market software solutions to HARRG and HAPI's members and outside parties.

Cash: The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Company's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Company maintains cash balances in excess of the FDIC insurance limit.

Revenue Recognition: HIG management services revenue is recorded based upon the underlying contractual agreements and their respective periods. Management services revenue for HIS is based off of the assumed written premium of HARRG and HAPI and is earned on a pro-rata basis in line with the underlying policies to which it attaches. HIS commission income is recorded on the effective date of the policy based off of direct written premium. Commission income is earned on a pro-rata basis over the underlying policy to which it attaches. The portion of commission that will be earned in the future is deferred and reported as unearned commission.

HSS derives revenue from the sale of packaged software products, software subscriptions, hosted services and multiple element arrangements that may include a combination of these items. HSS recognizes revenue when all four revenue recognition criteria have been met: persuasive evidence of an arrangement exists, HSS delivered the product or performed the service, the fee is fixed or determinable and collectability is probable. Determining whether and when these criteria have been satisfied involves exercising judgment and using estimates and assumptions that can have a significant impact on the timing and amount of revenue that HSS recognizes. In some situations, HSS receives advance payments from its customers. HSS defers revenue associated with these advance payments and the relative fair value of undelivered elements under multiple element arrangements until HSS supplies the products or performs the services.

Software Development Costs: HSS expenses software development costs, including research and development costs incurred until technological feasibility has been established. Post technological feasibility costs are capitalized until the product is available for general release to customers. During 2014, HSS reached technological feasibility on two separate components of its first release and began depreciating its capitalized assets as the products were being used by customers. HSS has capitalized cumulative net development costs of $4,075,432 and $3,666,991 as of December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, accumulated depreciation related to the software asset amounted to $1,700,199 and $766,189, respectively.

Costs HSS incurs to enhance its existing products or after the general release of the service using the product, are expensed in the period they are incurred and included in research and development expense in the consolidated statements of operations.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Customer Service and Technical Support: HSS includes customer service and technical support costs in cost of products revenue in the consolidated statements of operations. Customer service and technical support costs include costs associated with performing order processing, regularly scheduled product updates, answering customer inquiries by telephone and through websites, e-mail and other electronic means, and providing technical assistance to customers. Included in the sale price of certain products, HSS provides a limited amount of technical support to its customers and all software updates. HSS does not defer the recognition of any revenue associated with sales of these products, since the cost of providing this technical support is insignificant. The technical support is generally provided within one year after the associated revenue is recognized and free product updates are minimal and infrequent. HSS accrues the estimated cost of providing this support upon product shipment.

Software and Equipment: Equipment is recorded at cost and is depreciated on a straight-line basis over the estimated useful lives of the underlying assets, which range from 3 to 5 years. Software is recorded at cost, including all costs to enhance the software if technological feasibility is reached, and is amortized based on the greater of: (1) the current gross revenues for the product to the total of the current and anticipated future gross revenue; or (2) the straight-line basis of the estimated economic life of the product. Software is also subject to an annual net realizable value test. In 2015, it was determined that a portion of the software product's unamortized capitalized costs exceeded the net realizable value as of December 31, 2015. As a result, management recorded an impairment of $1,500,000. In 2014, there were no impairments recorded.

Income Taxes: The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*. FASB ASC 740 is an asset and liability method, which requires the recognition of deferred tax assets and liabilities. The Company, under certain provisions of FASB ASC 740, accounts for how uncertain tax positions should be recognized, measured, presented and disclosed within their consolidated financial statements. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Company did not record any unrecognized tax benefits as of and for the years ended December 31, 2015 and 2014. The Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months.

It is the Company's policy to include interest and penalties related to unrecognized tax benefits as a component of its provision for income taxes. As of December 31, 2015 and 2014, the Company did not record any penalties or interest associated with unrecognized tax benefits. All tax years from 2013 forward are open and subject to examination by the Internal Revenue Service.

The Company has a formal tax sharing agreement. As part of the tax sharing agreement, the subsidiaries settle taxes on a standalone basis. If losses are generated, the subsidiaries will receive the benefit to the extent the losses are used, in the consolidation, in the year used.

Allowance for Doubtful Accounts: The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. Generally, the Company does not require collateral or other security to support customer receivables. As of December 31, 2015 and 2014, the Company did not record an allowance for doubtful accounts against its accounts receivable.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates: The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses at and during the reporting period, along with disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

Subsequent Events: Subsequent events have been evaluated through March 11, 2016, which is the date the consolidated financial statements were available to be issued. Management believes there are no subsequent events having a material impact on the consolidated financial statements.

NOTE 3 - INCOME TAXES

The provision for income tax benefit consists of the following for the years ended December 31, 2015 and 2014:

	2015	2014
Current federal and state tax	$ 53,647	$ 114,694
Deferred federal and state tax	-	1,487,935
Total	$ 53,647	$ 1,602,629

The tax effect of temporary differences, which result in deferred tax assets, as of December 31, 2015 and 2014, are as follows:

	2015	2014
Net operating loss	$ 6,907,887	$ 4,806,399
Supplemental executive retirement plan	228,466	221,696
State taxes	401,395	280,637
Accrued retirement benefits	84,743	-
Accrued bonus	171,031	-
Research and development	446,300	252,512
Contingency reserve	14,459	-
AMT	14,078	14,078
Depreciation	157,696	260,504
Gross deferred tax asset	8,426,055	5,835,826
Valuation allowance	(8,426,055)	(5,835,826)
Net deferred tax asset	$ -	$ -

(Continued)

NOTE 3 - INCOME TAXES (Continued)

The 2015 and 2014 provision for income taxes differs from the amount of income tax expense determined by applying the 34% U.S. statutory federal income tax rate as follows:

	2015		2014	
Federal tax at statutory rate	$ (2,234,384)	34.0%	$ (3,152,768)	34.0%
State taxes	(59,160)	0.9%	16,093	-0.3%
Valuation allowance	2,590,229	-39.4%	4,347,832	-46.9%
Split dollar life	17,603	-0.3%	(3,375)	0.0%
Meals and entertainment	3,283	0.0%	4,351	0.0%
Retiree medical	-	0.0%	30,760	-0.3%
Research and development	14,754	-0.2%	21,480	-0.2%
Other	(278,678)	4.2%	338,256	-3.6%
Income tax expense	$ 53,647	-0.8%	$ 1,602,629	-17.3%

The Company has a net operating loss carry-forward as of December 31, 2015 of $20,317,316 that will begin to expire in 2033. The Company has no capital loss carryovers available. The Company has $14,078 of AMT credits which do not expire, as of December 31, 2015. The Company has $446,300 of research and development credit carry-forwards that will begin to expire in 2032.

As of December 31, 2015 and 2014, the Company recorded a valuation allowance against the deferred tax asset of $8,426,055 and $5,835,826, respectively, as the Company believes it is more likely than not that all of the deferred tax asset will not be realized. The amount of the deferred tax asset considered realizable, however, could increase in the near term if it is estimated that the Company will not be able to generate future taxable income.

NOTE 4 - RELATED PARTY TRANSACTIONS

In 2014, HTI utilized media equipment owned by STI. The revenue earned by STI as a rental fee for the studio and equipment use was $191,667 in 2014. As of October 31, 2014, STI was dissolved and absorbed by HIG. Effective with the dissolution of STI, the rental agreement was cancelled. HTI, an affiliated non-profit entity through common management, has been organized to provide education to PHAs and their residents throughout the United States of America and to the U.S. Department of Housing and Urban Development.

The Company has a common paymaster agreement with HARRG, in which HARRG is the common paymaster for the Company. HARRG provides various management services to the Company and charges the Company for its direct allocation of salaries, benefits and overhead, along with the use of its facility. Expenses incurred under the common paymaster agreement related to each entity are as follows:

	2015	2014
HIS	$ 5,889,474	$ 4,291,959
HIG	158,955	259,676
STI	-	111,476
HSS	3,692,488	3,562,093
Total	$ 9,740,917	$ 8,225,204

(Continued)

NOTE 4 - RELATED PARTY TRANSACTIONS (Continued)

The Company is party to various intercompany agreements and activities, which from time to time result in amounts receivable from and payable to affiliated entities. As of December 31, 2015 and 2014, the Company had the following amounts receivable from and payable to affiliated entities:

	2015		2014	
	Amounts Receivable	Amounts Payable	Amounts Receivable	Amounts Payable
HARRG	$ -	$ 656,107	$ -	$ 838,633
HAPI	261,391	-	306,248	67,377
HSIC	20,272	-	-	-
HTI	-	-	29,665	74
HAI	46,319	54	-	-
Total	$ 327,982	$ 656,161	$ 335,913	$ 906,084

NOTE 5 - EMPLOYEE BENEFITS

The Company does not maintain a retirement plan, deferred compensation or other postretirement benefit plan. The Company participates in the HARRG employee benefit plans through its common paymaster agreement with HARRG.

HARRG maintains a defined contribution profit sharing plan and is the sponsor of the Housing Authority Risk Retention Group 401(k) Plan, covering substantially all of its employees. As part of the cost-sharing agreement with HARRG, for the years ended December 31, 2015 and 2014, the Company recorded profit sharing expenses of $301,741 and $404,601, respectively and 401(k) expenses of $49,174 and $59,577, respectively. In addition, the Company recorded accrued incentive compensation expenses of $301,215 and $310,136, for the years ended December 31, 2015 and 2014, respectively, which is included within salaries and benefits within the consolidated statements of operations.

HARRG is also the sponsor of a supplemental executive retirement plan (SERP) covering certain key employees of HARRG. The purpose of the SERP is to reward the employees for their loyal and continuous service. The SERP was not intended to qualify under or satisfy the requirements of Sections 401(a) and 501(a) of the Internal Revenue Code of 1986. The expenses allocated to the Company related to the SERP amounted to $57,725 and $61,018 for the years ended December 31, 2015 and 2014, respectively.

NOTE 6 - LEASES

The Company occupies office space in Cheshire, Connecticut, which is owned and leased by HARRG. The cost of occupying the premises is part of the management services fees, which are paid to HARRG (See Note 4).

NOTE 7 - SOFTWARE AND EQUIPMENT

The cost, accumulated depreciation and net book value for the Company's equipment and software asset are as follows, as of December 31, 2015 and 2014:

	2015	2014
Media equipment	$ -	$ 421,230
Software	5,775,631	4,433,180
	5,775,631	4,854,410
Less: accumulated amortization and depreciation	(1,700,199)	(1,186,247)
	$ 4,075,432	$ 3,668,163

Amortization and depreciation expense for the years ended December 31, 2015 and 2014 amounted to $934,010 and $766,827, respectively.

NOTE 8 - SERVICE AGREEMENTS

HIS entered into a program administration agreement with The Travelers Indemnity Company, Inc. (Travelers), a fronting company to part of the HAPI insurance program and the HARRG auto insurance program. HIS has agreed to underwrite, rate, quote and bind risks, solicit from and market to brokers, issue policies, collect premiums and account for the premiums of the book of business being reinsured by HAPI and HARRG. HIS collects a 1% commission from Travelers on all premiums underwritten.

NOTE 9 - INSURANCE MANAGEMENT SERVICES AGREEMENT AND COMMISSION ARRANGEMENTS

HIS has an insurance management services agreements with HAPI and HARRG to provide various insurance agency activities. Fees for these services in 2015 amounted to $114,864 for HAPI and $106,890 for HARRG. Fees for these services in 2014 amounted to $147,068 for HAPI and $90,081 for HARRG. These fees are calculated based upon a percentage of gross written premium for years ended December 31, 2015 and 2014. All business associated with these insurance management service agreements originates from the service agreement in Note 8.

The Company maintains commission agreements with HAPI, HEIC and HSIC for policies issued on a direct basis. The commission agreement provides for a commission percentage to be paid based upon gross direct written premium, which is then earned based on the underlying policies to which it relates. The commission percentage varies based on several underlying factors. During 2015 and 2014, commission income under this agreement amounted to $3,455,756 and $3,073,638, respectively, and the Company has recorded deferred commission income of $2,136,208 and $1,894,489, respectively, as of December 31, 2015 and 2014.

In addition, the Company provides agency and brokerage services to unaffiliated insurance carriers. Commission percentages vary by carrier and line of business. For the years ended December 31, 2015 and 2014, commission income related to unaffiliated carriers amounted to $1,438,733 and $1,404,539, respectively, and the Company has deferred $868,863 and $795,336, respectively.

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2015

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Systems Solutions, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
ASSETS						
Current assets						
Cash	$ 79,827	$ 22,544,599	$ 305,785	$ 694,374	$ -	$ 23,624,585
Agency and commission accounts receivable	-	17,500,528	-	-	-	17,500,528
Due from related parties	14,600	281,663	46,319	-	(14,600)	327,982
Income taxes (payable) receivable	(134,301)	(1,819,706)	2,116,351	-	-	162,344
Other assets	1,117	155,867	47,658	-	-	204,642
Total current assets	(38,757)	38,662,951	2,516,113	694,374	(14,600)	41,820,081
Software and equipment (net of accumulated amortization and depreciation of $1,700,199 in 2015)	-	-	4,075,432	-	-	4,075,432
Investment in HSS	5,537,464	-	-	-	(5,537,464)	-
Investment in HIS	6,041,797	-	-	-	(6,041,797)	-
Investment in HAG	679,720	-	-	-	(679,720)	-
Total assets	$ 12,220,224	$ 38,662,951	$ 6,591,545	$ 694,374	$ (12,273,581)	$ 45,895,513
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities						
Commission payable and accounts current	$ -	$ 29,192,594	$ -	$ -	$ -	$ 29,192,594
Deferred commissions	-	3,005,071	-	-	-	3,005,071
Accounts payable and accrued expenses	1,052	174,958	685,706	-	-	861,716
Due to related parties	39,201	248,531	368,375	14,654	(14,600)	656,161
Total current liabilities	40,253	32,621,154	1,054,081	14,654	(14,600)	33,715,542
Stockholders' equity						
Common stock, Class A, no par value, $5,000 per share stated value, 2 shares authorized, issued and outstanding	10,000	-	-	-	-	10,000
Common stock, Class B, no par value, various stated values, 300,000 shares authorized, 190,700 shares issued and outstanding	31,400,000	-	-	-	-	31,400,000
Common stock, no par value, $25 per share stated value, 1,000 shares authorized, 1,000 shares issued and outstanding	-	25,000	-	-	(25,000)	-
Common stock, no par value, $1,000 per share stated value, 33,200 shares authorized, issued and outstanding	-	-	33,200,000	-	(33,200,000)	-
Additional paid-in capital	269,664	-	-	700,000	(487,430)	482,234
Retained (deficit) earnings	(19,499,693)	6,016,797	(27,662,536)	(20,280)	21,453,449	(19,712,263)
Total stockholders' equity	12,179,971	6,041,797	5,537,464	679,720	(12,258,981)	12,179,971
Total liabilities and stockholders' equity	$ 12,220,224	$ 38,662,951	$ 6,591,545	$ 694,374	$ (12,273,581)	$ 45,895,513

See independent auditor's report

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2014

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Systems Solutions, Inc.	Elimination Entries	Consolidated
ASSETS					
Current assets					
Cash	$ 1,032,593	$ 21,223,651	$ 304,256	$ -	$ 22,560,500
Agency and commissions accounts receivable	-	11,719,379	-	-	11,719,379
Due from related parties	29,665	306,248	-	-	335,913
Income taxes (payable) receivable	(424,930)	(1,404,597)	2,026,895	-	197,368
Other assets	13,022	86,573	61,920	-	161,515
Total current assets	650,350	31,931,254	2,393,071	-	34,974,675
Software and Equipment (net of accumulated amortization and depreciation of $1,186,247 in 2014)	1,172	-	3,666,991	-	3,668,163
Investment in HSS	4,623,965	-	-	(4,623,965)	-
Investment in HIS	5,345,868	-	-	(5,345,868)	-
Total assets	$ 10,621,355	$ 31,931,254	$ 6,060,062	$ (9,969,833)	$ 38,642,838
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities					
Commission payable and accounts current	$ -	$ 23,118,686	$ -	$ -	$ 23,118,686
Deferred commissions	-	2,689,825	-	-	2,689,825
Accounts payable and accrued expenses	-	150,285	1,189,165	-	1,339,450
Due to related parties	32,562	626,590	246,932	-	906,084
Total current liabilities	32,562	26,585,386	1,436,097	-	28,054,045
Stockholders' equity					
Common stock, Class A, no par value, $5,000 per share stated value, 2 shares authorized, issued and outstanding	10,000	-	-	-	10,000
Common stock, Class B, no par value, various stated values, 300,000 shares authorized, 182,500 shares issued and outstanding	23,200,000	-	-	-	23,200,000
Common stock, no par value, $25 per share stated value, 1,000 shares authorized, 1,000 shares issued and outstanding	-	25,000	-	(25,000)	-
Common stock, no par value, $1,000 per share stated value, 25,000 shares authorized, issued and outstanding	-	-	25,000,000	(25,000,000)	-
Additional paid-in capital	269,664	-	-	212,570	482,234
Retained (deficit) earnings	(12,890,871)	5,320,868	(20,376,035)	14,842,597	(13,103,441)
Total stockholders' equity	10,588,793	5,345,868	4,623,965	(9,969,833)	10,588,793
Total liabilities and stockholders' equity	$ 10,621,355	$ 31,931,254	$ 6,060,062	$ (9,969,833)	$ 38,642,838

See independent auditor's report

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
December 31, 2015

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Systems Solutions, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
Net revenues						
Commission income	$ -	$ 4,894,489	$ -	$ -	$ -	$ 4,894,489
Insurance management services	-	221,754	-	-	-	221,754
Product revenue	-	-	44,856	-	-	44,856
Other income	199,500	1,705	1,364	-	(199,500)	3,069
Loss on investment in subsidiaries	(6,610,852)	-	-	-	6,610,852	-
Total revenues	(6,411,352)	5,117,948	46,220	-	6,411,352	5,164,168
Costs and expenses						
Salaries and benefits	65,489	2,689,739	757,630	20,226	-	3,533,084
General and administrative	134,436	1,298,548	1,000,398	54	(199,500)	2,233,936
Software research and development	-	-	2,602,539	-	-	2,602,539
Impairment of software asset	-	-	1,500,000	-	-	1,500,000
Cost of product revenue	-	-	665,897	-	-	665,897
Sales expense	-	-	249,432	-	-	249,432
Depreciation	445	-	934,010	-	-	934,455
Total costs and expenses	200,370	3,988,287	7,709,906	20,280	(199,500)	11,719,343
(Loss) income before income taxes	(6,611,722)	1,129,661	(7,663,686)	(20,280)	6,610,852	(6,555,175)
Income tax (benefit) expense	(2,900)	433,732	(377,185)	-	-	53,647
Net (loss) income	$ (6,608,822)	$ 695,929	$ (7,286,501)	$ (20,280)	$ 6,610,852	$ (6,608,822)

See independent auditor's report

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
December 31, 2014

	Housing Investment Group, Inc.	Satellite Telecommunications, Inc.	Housing Insurance Services, Inc.	Housing Systems Solutions, Inc.	Elimination Entries	Consolidated
Net revenues						
Commission income	$ -	$ -	$ 4,478,177	$ -	$ -	$ 4,478,177
Insurance management services	-	-	237,149	-	-	237,149
Studio rental income	-	191,667	-	-	-	191,667
Product revenue	-	-	-	8,032	-	8,032
Other income	208,250	-	-	1,761	(208,250)	1,761
Loss on investment in subsidiaries	(10,830,680)	-	-	-	10,830,680	-
Total revenues	(10,622,430)	191,667	4,715,326	9,793	10,622,430	4,916,786
Costs and expenses						
Salaries and benefits	76,864	99,388	2,875,182	877,040	-	3,928,474
General and administrative	177,546	186,256	1,424,419	677,739	(208,250)	2,257,710
Software research and development	-	-	-	6,043,980	-	6,043,980
Cost of product revenue	-	-	-	1,115,745	-	1,115,745
Sales expense	-	-	-	76,898		76,898
Depreciation	123	515	-	766,189	-	766,827
Total costs and expenses	254,533	286,159	4,299,601	9,557,591	(208,250)	14,189,634
Income (loss) before income taxes	(10,876,963)	(94,492)	415,725	(9,547,798)	10,830,680	(9,272,848)
Income tax (benefit) expense	(1,486)	-	379,183	1,224,932	-	1,602,629
Net (loss) income	$ (10,875,477)	$ (94,492)	$ 36,542	$ (10,772,730)	$ 10,830,680	$ (10,875,477)

See independent auditor's report

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
December 31, 2015

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Systems Solutions, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
Cash flows from operating activities						
Net (loss) income	$ (6,608,822)	$ 695,929	$ (7,286,501)	$ (20,280)	$ 6,610,852	$ (6,608,822)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:						
Depreciation and amortization	445	-	934,010	-	-	934,455
Loss on disposal of assets	727	-	-	-	-	727
Impairment of software asset	-	-	1,500,000	-	-	1,500,000
Loss on investment in subsidiaries	6,610,852	-	-	-	(6,610,852)	-
Changes in assets and liabilities						
Agency and commissions accounts receivables	-	(5,781,149)	-	-	-	(5,781,149)
Due from related parties	15,065	24,585	(46,319)	-	-	(6,669)
Income tax receivable	(290,629)	415,109	(89,456)	-	-	35,024
Other assets	11,905	(69,294)	14,262	-	-	(43,127)
Premiums payable	-	6,073,908	-	-	-	6,073,908
Deferred commissions	-	315,246	-	-	-	315,246
Accounts payable and accrued expenses	1,052	24,673	(503,459)	-	-	(477,734)
Due to related parties	6,639	(378,059)	121,443	14,654	-	(235,323)
Net cash (used in) provided by operating activities	(252,766)	1,320,948	(5,356,020)	(5,626)	-	(4,293,464)
Cash flows from investing activities						
Capitalized software costs	-	-	(2,842,451)	-	-	(2,842,451)
Purchase of common stock in HSS	(8,200,000)	-	-	-	8,200,000	-
Capital contribution to HAG	(700,000)	-	-	-	700,000	-
Net cash used in investing activities	(8,900,000)	-	(2,842,451)	-	8,900,000	(2,842,451)
Cash flows from financing activities						
Capital contribution	-	-	-	700,000	(700,000)	-
Proceeds from issuance of shares	8,200,000	-	8,200,000	-	(8,200,000)	8,200,000
Net cash provided by financing activities	8,200,000	-	8,200,000	700,000	(8,900,000)	8,200,000
Net change in cash	(952,766)	1,320,948	1,529	694,374	-	1,064,085
Cash, beginning of year	1,032,593	21,223,651	304,256	-	-	22,560,500
Cash, end of year	$ 79,827	$ 22,544,599	$ 305,785	$ 694,374	$ -	$ 23,624,585

See independent auditor’s report

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
December 31, 2014

	Housing Investment Group, Inc.	Satellite Telecommunications, Inc.	Housing Insurance Services, Inc.	Housing Systems Solutions, Inc.	Elimination Entries	Consolidated
Cash flows from operating activities						
Net (loss) income	$ (10,875,477)	$ (94,492)	$ 36,542	$ (10,772,730)	$ 10,830,680	$ (10,875,477)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Deferred income taxes	1,314	11,215	130,634	1,344,772	-	1,487,935
Depreciation and amortization	123	515	-	766,189	-	766,827
Loss on investment in subsidiaries	10,830,680	-	-	-	(10,830,680)	-
Changes in assets and liabilities						
Agency and commissions accounts receivables	-	-	455,257	-	-	455,257
Due from related parties	(27,202)	-	(163,045)	-	-	(190,247)
Income tax receivable	214,794	59,914	198,478	(119,840)	-	353,346
Other assets	(11,886)	45,850	(17,910)	(7,575)	-	8,479
Commission payable and accounts current	-	-	49,926	-	-	49,926
Deferred commissions	-	-	197,530	-	-	197,530
Accounts payable and accrued expenses	(3,043)	-	(68,279)	50,159	-	(21,163)
Due to related parties	32,562	(23,052)	584,795	19,085	-	613,390
Net cash provided by (used in) operating activities	161,865	(50)	1,403,928	(8,719,940)	-	(7,154,197)
Cash flows from investing activities						
Capitalized software costs	-	-	-	(1,815,169)	-	(1,815,169)
Purchased software	(1,295)	-	-	-	-	(1,295)
Dividends received from HIS	3,000,000	-	-	-	(3,000,000)	-
Purchase of common stock HSS	(8,000,000)	-	-	-	8,000,000	-
Net cash used in investing activities	(5,001,295)	-	-	(1,815,169)	5,000,000	(1,816,464)
Cash flows from financing activities						
Transfer of assets from STI	168,196	(168,196)	-	-	-	-
Dividends paid to HIG	-	-	(3,000,000)	-	3,000,000	-
Proceeds from issuance of shares	5,000,000	-	-	8,000,000	(8,000,000)	5,000,000
Net cash provided by (used in) financing activities	5,168,196	(168,196)	(3,000,000)	8,000,000	(5,000,000)	5,000,000
Net change in cash	328,766	(168,246)	(1,596,072)	(2,535,109)	-	(3,970,661)
Cash, beginning of year	703,827	168,246	22,819,723	2,839,365	-	26,531,161
Cash, end of year	$ 1,032,593	$ -	$ 21,223,651	$ 304,256	$ -	$ 22,560,500

See independent auditor's report

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis
For the Years Ended December 31, 2015 and 2014

The Company - An Overview

Housing Investment Group, Inc. (HIG) was incorporated on June 13, 1995 as a State of Delaware corporation. HIG was formed as a holding company to govern the related for-profit businesses of Housing Authority Risk Retention Group, Inc. (HARRG) and Housing Authority Property Insurance, A Mutual Company (HAPI).

HIG has three wholly owned subsidiaries: Housing Insurance Services, Inc. (HIS), Housing Systems Solutions, Inc. (HSS) and Housing Alliance Group, LLC (HAGL). HIS was organized pursuant to the laws of the State of Connecticut and provides agency and brokerage services for HARRG, HAPI and Housing Enterprise Insurance Company, Inc. (HEIC) insurance programs. HSS, incorporated April 7, 2011, was formed pursuant to the laws of the State of Connecticut to provide software solutions to housing managers. HAGL was incorporated in July 2015 pursuant to the laws of the State of Vermont to sponsor funding and assist in the transformation of housing portfolios.

The following discussion provides an assessment by management of the current financial position, results of operations, cash flow and liquidity, and changes in financial position for HIG. Information presented in this discussion supplements the financial statements, schedules, and exhibits of the 2015 Annual Report.

Financial Position

Agency and commission accounts receivables increased $5.8 million from prior year-end due to the additional commission generated from HSIC direct business and a 25% increase in policy issuance for HEIC direct policies.

The balance due from related parties includes the agency management fees charged as a percentage of assumed premiums from HARRG and HAPI.

Total current liabilities increased mainly from commission payable and accounts current as HEIC, HAPI and HSIC direct policy issuance increased.

Results of Operations

Total revenues in 2015 increased $247 thousand from 2014 due to an increase in overall earned commissions combined with the recognized revenue from implementation of HousingHub software by HSS.

HIG had a net loss of $6.6 million for 2015, which was an increase of $4.3 million from 2014. The improved results of HIG and its subsidiaries were driven by a decreased HSS net loss as the company continues product development somewhat offset by increased revenues generated by HIS.

Board Polices and Management Practices

The Board of Directors of the Company currently requires that a financial audit, conducted by an independent outside firm, be performed on an annual basis. The 2015 audit was completed in February 2016.

Opinion

The preceding Management's Discussion and Analysis provides an assessment of the financial position, results of operations, and cash flow and liquidity for the fiscal year ended December 31, 2015 as reported in the 2015 Annual Report. Representations made herein are those of management according to the best of their knowledge and belief.

Dated: May 31, 2016

John Thomson
President & Chief Executive Officer

Mark A. Wilson
Executive Vice President
Chief Operating Officer
Treasurer

PUBLIC AND AFFORDABLE HOUSING REASEARCH COROPORATION

FINANCIAL STATEMENTS

December 31, 2015 and 2014

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Public and Affordable Housing Research Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Public and Affordable Housing Research Corporation (the Company), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and changes in net assets and cash flows for the year then ended.

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 of 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 auditor's 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public and Affordable Housing Research Corporation as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Public and Affordable Housing Research Corporation as of and for the year ended December 31, 2014, were audited by Saslow Lufkin & Buggy, LLP, who combined with Crowe Horwath LLP as of July 1, 2015, and whose report dated March 13, 2015 expressed an unmodified opinion on those financial statements.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
March 11, 2016

PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash	$ 236,541	$ 109,144
Grant receivable	-	300,000
Due from affiliate	-	27,130
Prepaid expenses	7,960	6,619
Total assets	$ 244,501	$ 442,893
LIABILITIES AND NET ASSETS		
Accounts payable	$ 33,652	$ 9,282
Due to affiliate	77,009	38,267
Deferred grant revenue	133,840	395,344
Total liabilities	244,501	442,893
Unrestricted net assets	-	-
Total liabilities and net assets	$ 244,501	$ 442,893

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

PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2015 and 2014

	2015	2014
Unrestricted revenue:		
Grant revenue	$ 861,504	$ 645,218
Contribution income	9,014	-
Total revenue	870,518	645,218
Expenses:		
Salaries and benefits	352,971	260,798
General and administrative expenses	517,547	384,420
Total expenses	870,518	645,218
Change in unrestricted net assets	-	-
Unrestricted net assets, beginning of year	-	-
Unrestricted net assets, end of year	$ -	$ -

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

PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in unrestricted net assets	$ -	$ -
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Grant receivable	300,000	(300,000)
Due from affiliate	27,130	(27,130)
Prepaid expenses	(1,341)	(1,838)
Accounts payable	24,370	(26,411)
Due to affiliate	38,742	4,538
Deferred grant revenue	(261,504)	4,782
Net cash provided by (used in) operating activities	127,397	(346,059)
Net change in cash	127,397	(346,059)
Cash, beginning of year	109,144	455,203
Cash, end of year	$ 236,541	$ 109,144

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

NOTE 1 - GENERAL

Reporting Entity and Operations: Public and Affordable Housing Research Corporation (the Company or PAHRC) was incorporated on March 15, 2011, as a non-stock, State of Connecticut corporation. The Company is a nonprofit organization, which has undertaken the responsibility of carrying out research projects that will inform and educate residents, owners, operators, developers, vendors and regulators of public and affordable housing throughout the United States. The Company is governed by the same Board of Directors as Housing Authority Risk Retention Group, Inc. (HARRG), Housing Authority Property Insurance, A Mutual Company (HAPI), Housing Enterprise Insurance Company, Inc. (HEIC), Housing Specialty Insurance Company (HSIC) and other affiliated companies.

The Company is part of an affiliated group of companies and has entered into various transactions with the group members. The accompanying financial statements have been prepared from the separate records maintained by the Company and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated company.

Concentrations of Risk: All of the Company's revenue is derived from a single annual grant received from Housing Authority Insurance, Inc. (HAI), which is an affiliated entity through common management. HAI develops public housing insurance programs and public relations programs for HARRG, HAPI, HEIC and HSIC, which are affiliated entities through common management. HAI was provided the funding for the annual grants by HARRG and HAPI. Public Housing Authorities (PHAs) are governed and funded by the United States Department of Housing and Urban Development. Changes in public policy and/or funding of PHAs or affiliated entities under common management could have a significant impact on the operations of the Company. A reduction in revenue from these affiliated entities could have a significant impact on the operations of the Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Net Assets: The Company follows the provisions of FASB ASC 958, *Not-for-Profit Entities*. FASB ASC 958 establishes standards for external financial reporting by not-for-profit organizations. Resources are reported for accounting purposes, in separate classes of net assets based on the existence or absence of donor-imposed restrictions. Within the financial statements, net assets that have similar characteristics are combined into the following categories:

> Unrestricted: Net assets that are not subject to donor-imposed stipulations are considered unrestricted. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.
>
> Temporarily Restricted: Net assets whose use by the Company is subject to donor-imposed stipulations that can be fulfilled by actions of the Company pursuant to those stipulations or that expire by the passage of time are considered temporarily restricted. The Company did not have any net assets that were temporarily restricted during the years ended December 31, 2015 and 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanently Restricted: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Company are considered permanently restricted. Generally, the donors of these assets permit the Company to use all or part of the investment return on these assets. The Company did not have any net assets that were permanently restricted as of December 31, 2015 and 2014.

Currently all of the Company's net assets are classified as unrestricted net assets.

Revenue Recognition: Revenue is recognized ratably over the period of the grant or, for prepayment grants, upon actual expenses incurred. Grant funds applicable to a future period, received but not earned or due, are classified as deferred grant revenue.

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, liabilities, revenues and expenses as of and during the reporting period, along with the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Cash: Cash is comprised of a single cash account as of December 31, 2015 and 2014. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Company's policy to monitor the financial strength of the bank that holds its deposits on an ongoing basis. During the normal course of business, the Company may maintain cash balances in excess of the FDIC insurance limit.

Subsequent Events: Subsequent events have been evaluated through March 11, 2016, which is the date the financial statements were available to be issued. Management believes there are no subsequent events having a material impact on the financial statements.

NOTE 3 - INCOME TAXES

The Company received a determination letter from the Internal Revenue Service indicating that the Company qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a public charity and is exempt from federal and state income taxes.

The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, with respect to how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Company did not record any unrecognized tax benefits as of December 31, 2015 and 2014. The Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months. All tax years from 2013 forward are open and subject to examination by the Internal Revenue Service.

It is the Company's policy to include interest and penalties related to unrecognized tax benefits as a component of its provision for income taxes. As of December 31, 2015 and 2014, the Company did not record any penalties or interest associated with unrecognized tax benefits.

NOTE 4 - CONTRIBUTION INCOME

During 2015, a nonprofit, Housing Research Foundation (HRF), dissolved and donated its remaining proceeds of $9,014 to PAHRC. The donation was not subject to any donor-imposed stipulations.

NOTE 5 - AFFILIATES AND RELATED PARTY TRANSACTIONS

The Company has a common paymaster agreement with HARRG, in which HARRG is the common paymaster for the Company. HARRG provides various management services to the Company and charges the Company for its direct allocation of salaries, benefits and overhead, along with the use of its facility. Expenses incurred for HARRG's management services were approximately $537,257 and $351,270 for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, $72,150 and $38,267, respectively, was due to HARRG under this agreement and is reflected within due to affiliates on the statements of financial position.

For the years ended December 31, 2015 and 2014, the Company recorded grant revenue in the amount of $861,504 and $645,218, respectively, from HAI. The grants were made to support the Company's primary function of carrying out research projects, on behalf of HAI, for residents, owners, operators, developers, vendors and regulators of public and affordable housing throughout the United States. Amounts not spent with regards to the above grants are deferred until future periods.

As of December 31, 2015, the Company owed HAI $1,659 for expenses paid on behalf of the Company included within due to affiliates on the statements of financial position. As of December 31, 2014, HAI owed the Company $27,130 for reimbursement of expenses paid by the Company included within due to affiliates on the statements of financial position.

As of December 31, 2015 and 2014, the Company owed HTI $3,200 and $0, respectively, for expenses paid on behalf of the Company included within due to affiliates on the statements of financial position.

NOTE 6 - EMPLOYEE BENEFITS

PAHRC does not maintain a retirement plan, deferred compensation or other postretirement benefit plan. PAHRC participates in the HARRG employee benefit plans through its common paymaster agreement with HARRG.

HARRG maintains a defined contribution profit sharing plan and is the sponsor of the Housing Authority Risk Retention Group 401(k) Plan, covering substantially all of its employees, for which the Company and its employees are a part of. As part of the insurance services and cost-sharing agreement with HARRG, for the years ended December 31, 2015 and 2014, the Company recorded profit sharing plan expenses of $23,887 and $19,708, respectively, and 401(k) expenses of $3,425 and $2,241, respectively. In addition, the Company recorded incentive compensation expenses of $1,026 and $0, respectively, for the years ended December 31, 2015 and 2014, which is included within salaries and benefits within the statements of activities and changes in net assets.

NOTE 7 - LEASES

The Company occupies office space located in Cheshire, Connecticut, which is owned by HARRG. The cost of occupying the premises is part of the management services fees, which are paid to HARRG as described in Note 5.

NOTE 8 - FUNCTIONAL EXPENSES

The Company has the responsibility of carrying out research projects that inform and educate various members of public and affordable housing throughout the United States. Expenses related to providing these services for the years ended December 31, 2015 and 2014, are as follows:

	2015	2014
Program expenses	$ 517,392	$ 448,216
Administrative expenses	353,128	197,002
	$ 870,520	$ 645,218

PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION

Management's Discussion and Analysis
For the Years Ended December 31, 2015 and 2014

The Company - An Overview

Public and Affordable Housing Research Corporation (PAHRC) was incorporated on March 15, 2011, as a non-stock, State of Connecticut corporation. It is a nonprofit organization, which has undertaken the responsibility for research projects that will provide information to those associated with public and affordable housing. The research is funded by Housing Authority Insurance, Inc. (HAI) through a grant.

The following discussion provides an assessment by management of the current financial position, results of operations, cash flow and liquidity, and changes in financial position for PAHRC. Information presented in this discussion supplements the financial statements, schedules, and exhibits of the 2015 Annual Report.

Financial Position

Cash increased $127 thousand from 2014 due to the grant funds received offset by the current balance of accounts payable of $111 thousand and an unused portion of grant funds of $134 thousand due to timing of research activities. The accounts payable balance includes amounts due under various intercompany expense agreements.

Results of Operations

Grant revenue totals $862 thousand, an increase of $216 thousand from 2014 due to the timing of activities and the participation in research projects during 2015.

The contribution income consists of a third-party donation from the dissolution of Housing Research Foundation.

Board Polices and Management Practices

The Board of Directors of the Company currently requires that an audit, conducted by an independent outside firm, be performed on an annual basis. The 2015 financial audit was completed in February 2016.

Opinion

The preceding Management's Discussion and Analysis provides an assessment of the financial position, results of operations, and cash flow and liquidity for the fiscal year ended December 31, 2015 as reported in the 2015 Annual Report. Representations made herein are those of management according to the best of their knowledge and belief.

Dated: May 31, 2016

John Thomson
President & Chief Executive Officer

Mark A. Wilson
Executive Vice President
Chief Operating Officer
Treasurer

INNOVATIVE HOUSING INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS

As of December 31, 2015 and for the Period from July 21, 2015
(commencement of operations) through December 31, 2015

BALANCE SHEET

December 31, 2015

ASSETS	
Cash	$ 998,125
Deferred tax asset	3,005
Total assets	$ 1,001,130
LIABILITIES AND SHAREHOLDER'S EQUITY	
Liabilities:	
Due to affiliates	$ 6,962
Total liabilities	6,962
Shareholder's equity:	
Common stock, $10,000 stated value, 10,000 shares authorized and 50 shares issued and outstanding (Note 1)	500,000
Contributed surplus	500,000
Retained deficit	(5,832)
Total shareholder's equity	994,168
Total liabilities and shareholder's equity	$ 1,001,130

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

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Innovative Housing Insurance Company, Inc.:

We have audited the accompanying financial statements of Innovative Housing Insurance Company, Inc. (the Company), which comprise the balance sheet as of December 31, 2015, and the related statements of operations, changes in shareholder's equity and cash flows for the period from July 21, 2015 (commencement of operations) through December 31, 2015, 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 of 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 auditor's 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 Innovative Housing Insurance Company, Inc. as of December 31, 2015, and the results of its operations and its cash flows for the period from July 21, 2015 (commencement of operations) through December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
March 11, 2016

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
STATEMENT OF OPERATIONS
For the Period from July 21, 2015 (commencement of operations) through December 31, 2015

Expenses	
Salaries and benefits	$ 7,587
General and administrative expenses	1,250
Total expenses	8,837
Net loss before federal income tax benefit	(8,837)
Federal tax benefit	(3,005)
Net loss	$ (5,832)

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

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
For the Period from July 21, 2015 (commencement of operations) through December 31, 2015

	Common Stock		Contributed	Retained	Total Shareholder's
	Shares	Amount	Surplus	Deficit	Equity
Balance as of July 21, 2015 (commencement of operations)	-	$ -	$ -	$ -	$ -
Issuance of common stock	50	500,000	500,000	-	1,000,000
Net loss	-	-	-	(5,832)	(5,832)
Balance as of December 31, 2015	50	$ 500,000	$ 500,000	$ (5,832)	$ 994,168

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

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
STATEMENT OF CASH FLOWS
For the Period from July 21, 2015 (commencement of operations) through December 31, 2015

Cash flows from operating activities:		
Net loss	$	(5,832)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred federal income taxes		(3,005)
Change in assets and liabilities		
Due to affiliates		6,962
Net cash used in operating activities		(1,875)
Cash flows from financing activities:		
Proceeds from issuance of common stock		1,000,000
Net cash provided by financing activities		1,000,000
Net change in cash and cash equivalents		998,125
Cash and cash equivalents, beginning of year		-
Cash and cash equivalents, end of year	$	998,125

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

NOTE 1 - GENERAL

Reporting Entity and Operations: Innovative Housing Insurance Company, Inc. (the Company or IHIC) is a captive insurance company wholly owned by Housing Authority Risk Retention Group, Inc. (HARRG). The Company was formed for the purpose of engaging in the business of insuring and reinsuring various types of insurance risks. IHIC is licensed and domiciled in the State of Vermont and received its Certificate of Authority in July 2015.

The Company was capitalized in November of 2015 by HARRG, which contributed $1,000,000 of capital in exchange for 50 shares of no par, $10,000 stated value common stock in IHIC.

As of December 31, 2015 the Company had not yet begun to transact insurance business.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash: Cash is comprised of a cash account as of December 31, 2015. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Company's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Company may maintain cash balances in excess of the FDIC insurance limit.

Income Taxes: The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes.* FASB ASC 740 is an asset and liability method, which requires the recognition of deferred tax assets and liabilities. The Company, under certain provisions of FASB ASC 740, accounts for how uncertain tax positions should be recognized, measured, presented and disclosed within the financial statements. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Company did not have any unrecognized tax benefits as of December 31, 2015. The Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months.

The Company's policy is to include interest and penalties related to unrecognized tax benefits as a component of its provision for income taxes. As of December 31, 2015, the Company did not record any penalties or interest associated with unrecognized tax benefits. As the Company is in its first year of operations, the tax years from 2015 forward are open and subject to examination by the Internal Revenue Service.

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, liabilities, revenues and expenses, at and during the reported period, along with the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: Subsequent events have been evaluated through March 11, 2016, which is the date the financial statements were available to be issued. Management believes there are no subsequent events having a material impact on the financial statements.

NOTE 3 - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company has a common paymaster agreement with HARRG, in which HARRG is the common paymaster for the Company. HARRG provides management services to the Company and charges the Company for its direct allocation of salaries, benefits and overhead, along with the use of its facility. Expenses incurred under the common paymaster agreement were approximately $6,962 for the period ended December 31, 2015.

NOTE 4 - EMPLOYEE BENEFITS

IHIC does not maintain a retirement plan, deferred compensation or other post retirement benefit plan. IHIC participates in the HARRG employee benefit plans through its common paymaster agreement with HARRG.

HARRG maintains a defined contribution profit sharing plan and is the sponsor of the Housing Authority Risk Retention Group 401(k) plan, covering substantially all employees. The Company recorded profit sharing plan expenses of $631 and 401(k) expenses of $126 as of December 31, 2015.

NOTE 5 - LEASES

The Company occupies office space in Cheshire, Connecticut, which is owned by HARRG. The cost of occupying the premises is part of the common paymaster agreement, which are paid to HARRG (See Note 3).

NOTE 6 - SURPLUS

As a sponsored captive insurance company, IHIC is required by the Vermont Department of Financial Regulation (the Department) to maintain minimum statutory surplus of $500,000.

NOTE 7 - STATUTORY ACCOUNTING PRACTICES

The Company's statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Department. Vermont has adopted the National Association of Insurance Commissioners' (NAIC) statutory accounting practices as the basis of its statutory accounting practices. The amount of statutory net loss amounted to $8,837 for the period from July 21, 2015 (commencement of operations) through December 31, 2015. The amount of statutory surplus amounted to $991,163 for the period from July 21, 2015 (commencement of operations) through December 31, 2015. No dividends were declared or paid in fiscal year 2015.

NOTE 8 - FEDERAL INCOME TAXES

The provision for income taxes did not differ from the amount of federal income tax benefit determined by applying the 34% regular federal income tax rate.

(Continued)

NOTE 8 - FEDERAL INCOME TAXES (Continued)

Federal income tax benefit consists of the following for the period from July 21, 2015 (commencement of operations) through December 31, 2015:

Current	$ -
Deferred	(3,005)
Total	$ (3,005)

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

Deferred tax assets	
Net operating loss carry-forward	$ 3,005
Total deferred tax assets	$ 3,005

The Company has net operating loss carry-forwards as of December 31, 2015 of $8,838 that will begin to expire in 2035. The Company has no capital loss or AMT Credit carryovers available.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

For the period from July 21, 2015 (commencement of operations) through December 31, 2015, the Company has not transacted insurance business. Business operations are supported by surplus contributions received from HARRG, as discussed in Note 1.

INNOVATIVE HOUSING INSURANCE COMPANY, INC.

Management's Discussion and Analysis
For the Years Ended December 31, 2015 and 2014

The Company - An Overview

Innovative Housing Insurance Company, Inc. (the Company or IHIC), is a captive insurance company wholly owned by Housing Authority Risk Retention Group, Inc. (HARRG). IHIC was incorporated on July 20, 2015 as a stock insurance company under the laws of the State of Vermont and was capitalized on August 21, 2015 with a total of $1.0 million from HARRG. IHIC is currently licensed in the State of Vermont.

IHIC was formed for the purpose of engaging in the business of insuring and reinsuring various types of insurance risks.

The following discussion provides an assessment by management of the current financial position, results of operations, cash flow and liquidity, and changes in financial position for IHIC. Information presented in this discussion supplements the financial statements, schedules, and exhibits of the 2015 Annual Report.

Financial Position

IHIC's total assets at year-end 2015 were $1.0 million. This is mostly attributed to the total common stock and contributed surplus from HARRG.

At December 31, 2015, the Company reported a net deferred tax asset of $3 thousand.

Total liabilities are made up of amounts due to affiliates of $7 thousand.

Shareholders' equity totals $994 thousand in 2015. This increase was primarily a result of HARRG's total contribution of $1.0 million of common stock and contributed surplus offset by a net loss of $6 thousand due to general and administrative expenses incurred in 2015.

Results of Operations

IHIC had a net loss of $6 thousand.

Cash Flow and Liquidity

The Company generated an overall cash flow of $998 thousand. Projected positive cash flow will be adequate to cover short-term liquidity needs throughout 2015.

IHIC currently has no borrowed funds and no off-balance sheet arrangements.

Outlook

Looking forward, revenue projections include earned premium and investment income for 2016. Expense management will continue as continued startup costs are incurred.

General Matters

The Board of Directors of the Company currently requires that audits and analytical reviews, conducted by independent outside firms, be performed on an annual basis. The 2015 schedule included: 1) a financial audit for both GAAP and SAP, which was completed in February 2016.

Opinion

The preceding Management's Discussion and Analysis provides an assessment of the financial position, results of operations, and cash flow and liquidity for the fiscal year ended December 31, 2015 as reported in the 2015 Annual Report. Representations made herein are those of management according to the best of their knowledge and belief.

Dated: May 31, 2016

John C. Thomson
President & Chief Executive Officer

Mark A. Wilson
Executive Vice President
Chief Operating Officer
Treasurer