DHANDHO HOLDINGS CORP. AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Tel: 787-754-3999
Fax: 787-754-3105
www.bdopr.com

PO Box 363436
San Juan, PR 00936-3436

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of
Dhandho Holdings Corp. and subsidiaries:

We have audited the accompanying consolidated financial statements of Dhandho Holdings Corp. and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2014 and 2013, and the related consolidated statement of operations, changes in stockholders' equity, and cash flows for the period from October 31, 2014 (commencement of operations) to December 31, 2014, and the related notes to the consolidated 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 entity'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 entity'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.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dhandho Holdings Corp. and subsidiaries as of December 31, 2014, and the results of their operations and their cash flows for the period from October 31, 2014 (commencement of operations) to December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

BDO Puerto Rico, P.S.C.

June 5, 2015

Certified Public Accountants
(of Puerto Rico)
License No. 53 expires December 1, 2015
Stamp E151646 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2014

	2014
ASSETS	
Investments in securities available for sale:	
Bonds	$ 47,195,543
Common stocks	3,119,659
Total investments	50,315,202
Cash and cash equivalents	147,944,065
Premiums receivable	22,393,184
Reinsurance receivables and recoverables	3,053,411
Investment income due and accrued	362,378
Deferred tax assets	2,262,343
Property and equipment - net	7,438,463
Income taxes receivable	1,599,146
Deferred policy acquisition cost	1,669,482
Intangible assets	5,768,795
Goodwill	2,927,047
Other assets	1,416,564
Total assets	$ 247,150,081
LIABILITIES AND STOCKHOLDERS' EQUITY	
Losses and loss adjustment expenses	$ 53,500,227
Commissions payable	2,021,948
Unearned premiums	25,208,373
Advance premiums	735,296
Ceded reinsurance premium payable	63,951
Accounts payable and other liabilities	2,366,613
Taxes, licenses and fees, excluding federal income taxes	3,232,255
Dividends payable to former stockholder of Stonetrust Management Services	618,887
Due to related party	11,777
Accounts payable to former stockholder of Stonetrust Management Services	2,200,000
Security deposits	2,133,889
Note payable	4,000,000
Total liabilities	96,093,216
Stockholders' equity:	
Common stock, no par value, 1,000 shares authorized, issued and outstanding	151,278,990
Accumulated deficit	(222,124)
Total stockholders' equity	151,056,866
Total liabilities and stockholders' equity	$ 247,150,081

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

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

DHANDHO HOLDINGS CORP.
STATEMENT OF OPERATIONS
FOR THE PERIOD FROM OCTOBER 31, 2014 (COMMENCEMENT OF OPERATIONS) TO DECEMBER 31, 2014

	2014
Income:	
Dividend income	$ 8,318
Interest income	1,119
Capital gain	468
Total income	9,905
Expenses:	
Professional fees	200,698
Travel	8,742
Subscription expense	5,718
Supplies expense	5,643
Rent	3,692
Other fees	2,744
Relocation expense	2,780
Other taxes	4,229
Repair and maintenance	1,200
Depreciation and amortization	597
Other expenses	5,058
Total expenses	241,101
LOSS BEFORE INCOME TAX BENEFIT	(231,196)
INCOME TAX BENEFIT	9,072
NET LOSS	$ (222,124)

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

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE PERIOD FROM OCTOBER 31, 2014 (COMMENCEMENT OF OPERATIONS) TO DECEMBER 31, 2014

	Common Stock	Accumulated Deficit	Total Stockholders' Equity
Balance, at commencement of operations	$ -	$ -	$ -
Issuance of common stock	151,278,990	-	151,278,990
Net loss	-	(222,124)	(222,124)
Balance, December 31, 2014	$ 151,278,990	$ (222,124)	$ 151,056,866

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

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

DHANDHO HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM OCTOBER 31, 2014 (COMMENCEMENT OF OPERATIONS) TO DECEMBER 31, 2014

	2014
CASH FLOWS FROM OPERATING ACTIVITIES -	
Net loss	$ (222,124)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation expense	597
Deferred tax benefit	(9,072)
Changes in assets and liabilities:	
Increase in other assets	(4,648)
Increase in accounts payable and other liabilities	99,536
Increase in due to related party	11,777
Net cash used in operating activities	(123,934)
CASH FLOWS USED IN INVESTING ACTIVITIES -	
Payments for the acquisition of property and equipment	(20,526)
Payments for business acquisition, net of cash received of $29,609,535	(3,190,465)
Net cash used in investing activities	(3,210,991)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES -	
Proceeds from issuance of common stock	151,278,990
NET INCREASE IN CASH AND CASH EQUIVALENTS	147,944,065
CASH AND CASH EQUIVALENTS, beginning of period	-
CASH AND CASH EQUIVALENTS, end of period	$ 147,944,065
SUPPLEMENTAL SCHEDULE OF NON-CASH TRANSACTIONS -	
Amount due to former stockholder	$ 2,200,000

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

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Dhandho Holdings Corp. (the Company) is a holding corporation organized under the laws of the Commonwealth of Puerto Rico on October 31, 2014. The Company is owned approximately 73.597% by Dhandho Holdings, L.P., and approximately 26.403% by Dhandho Holdings Qualified Purchaser, L.P., both limited partnerships organized under the laws of the State of Delaware. The Company's main business purpose is to make equity investments in privately and publicly held businesses.

On December 31, 2014, the Company acquired 100% of the outstanding common stocks of Stonetrust Management Services, LLC and Stonetrust Holding Company and its Subsidiaries (collectively Stonetrust companies). Stonetrust companies are engaged in providing statutory workers' compensation and employers' liability insurance coverage in Louisiana, Mississippi, Arkansas, Oklahoma and Texas. The acquisition was completed on December 31, 2014 for a total purchase price of $35,000,000. See Note 2.

Stonetrust Commercial Insurance Company (SCIC), formerly known as Amicus Mutual Insurance Company, was formed in March 2000, as a Louisiana-domiciled mutual insurance company. SCIC received its Certificate of Authority effective June 30, 2000, to write workers' compensation business in Louisiana. Operations began July 1, 2000, as the successor to Louisiana Associated Commercial Employers Self Insurers Fund (LACE-SIF).

Effective January 1, 2006, after a vote of approval by its members, SCIC was converted from a mutual insurance company to a stock insurance company wholly owned by a mutual insurance holding company parent (Stonetrust Commercial Mutual Insurance Holding Company). Pursuant to the conversion, Stonetrust Commercial Mutual Insurance Holding Company was owned by the company's policyholders. In addition, effective January 1, 2006, the name was changed from Amicus Mutual Insurance Company to Stonetrust Commercial Insurance Company.

During 2014, SCIC formed Stonetrust Realty, LLC (SR), a wholly-owned subsidiary, for the purpose of acquiring and holding real estate.

Effective December 31, 2014, Stonetrust Commercial Mutual Insurance Holding Company entered into a sponsored demutualization transaction and was renamed Stonetrust Holding Company and converted to a stock company. Immediately following the demutualization, Stonetrust Holding Company and its subsidiaries, Stonetrust Commercial Insurance Company, Stonetrust Realty, LLC and Stonetrust Management Services, LLC were acquired by the Company.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Stonetrust Management Services, LLC (SMS) is a limited liability company organized under the laws of the State of Louisiana in January 2006. Up to December 31, 2014, SMS was a general managing agency contracted to manage and administer 100% of the insurance operations of Stonetrust Commercial Insurance Company. Effective January 2015, the contract between SMS and SCIC was cancelled and all employees and operations of SMS were transferred to SCIC.

Basis of presentation and consolidation

The Company's fiscal year ends on December 31st of each year. All references to period in these notes to consolidated financial statements represent period then ended, unless otherwise noted. The Company has evaluated subsequent events through June 5, 2015, the date the financial statements were available to be issued.

The accompanying consolidated financial statements include the accounts of Dhandho Holdings Corp. and its wholly-owned subsidiaries, Stonetrust Holding Company and subsidiaries, and Stonetrust Management Services, LLC. All significant intercompany accounts and transactions are eliminated in the consolidation.

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers cash balances and short-term investments with original maturities of ninety days or less to be cash equivalents.

Premiums

Premiums are recognized when earned over the premium paying period of the related workers' compensation policies. Unearned premiums are established to cover the unexpired portion of premiums written. Premiums are billed and collected according to policy terms predominantly in the form of installments during the policy period. Workers' compensation premiums are determined based upon the payroll of the insured, the applicable premium rates and, where applicable, an experience-based modification factor, debits, credits, and discounts applied by SCIC underwriters based upon individual risk characteristics. Audit of policyholders' records are conducted after policy expiration to make a final determination of applicable premiums. As of December 31, 2014, $2,485,985 were included in premiums receivable for estimated additional amounts of premiums to be billed to SCIC's policyholders.

Premiums collected in advance of the next succeeding policy year are deferred from income recognition and are recorded as advance premiums in the accompanying consolidated balance sheet.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Premium receivables consist of amounts due in the normal course of collection from policyholders located within the states SCIC serves. Receivables for premiums are not secured, other than by security deposits received by SCIC. The portions of premium that are unbilled and will be earned in the future are reported as unearned premiums.

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb probable losses on existing accounts receivable that may become uncollectible based on evaluations of their collectability and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the receivables outstanding and the related allowance may change as a result of future developments. As of December 31, 2014 the allowance for doubtful accounts had a balance of $633,375. The potential for additional loss is not believed to be material to the Company's financial position.

Investments

The Company classifies its investments as available-for-sale or held-to-maturity based upon its intent and ability to hold the investment, and the nature of the securities purchased. The classification is made at the acquisition date of the security and reassessed each year.

Debt securities for which the Company has the intent and ability to hold to maturity are reported at amortized cost, adjusted for amortization of premiums or discounts and other-than-temporary declines in fair value. Debt and equity securities classified as available-for-sale are reported at estimated fair value, adjusted for other than temporary declines in fair value, with unrealized gains and losses reported as a separate component of stockholder's equity. Realized gains and losses are determined on the specific identification method. Also, see Note 4 for further disclosure regarding fair value.

Management evaluates securities for other-than-temporary impairment (OTTI) periodically and more frequently when economic or market conditions warrant such evaluation. The accounting guidance on OTTI specifies that (a) if an entity does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security and it is more likely than not that the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an OTTI of a debt security in earnings and the remaining portion in other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Net investment income consists primarily of interest and dividends. Interest is recognized on the accrual basis and dividends are recorded as earned at the ex-dividend date. Accrual of interest income is suspended for bonds that are in default or when the receipt of interest payment is in doubt. Realized capital gains and losses are determined under the specific identification basis and are recorded in earnings.

Losses and loss adjustment expenses incurred and payable

Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported (IBNR). Loss reserves are estimates and are inherently uncertain; they do not and cannot represent an exact measure of ultimate liability. SCIC performs a comprehensive review of its loss reserves at the end of each quarter. Estimating loss reserves is a complex process that involves a combination of actuarial techniques and methods and management judgment to establish the most reasonable estimate of loss reserves. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in the period determined. SCIC does not discount its liabilities for unpaid losses and loss adjustment expenses.

Property and equipment

Property and equipment is stated at cost. Depreciation and amortization are provided under the straight-line method over the estimated useful lives of the related assets. Major additions and betterments are charged to the property accounts, while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed currently. When property is retired or otherwise disposed of, the cost of the asset and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in current earnings.

Impairment of long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Recoverability of assets to be held and used (the fair value) is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of assets. Management has concluded that there are no impairment losses to be recognized as of December 31, 2014.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Reinsurance

The Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with reinsurers. Amounts recoverable from reinsurance are estimated in a manner consistent with the claims liability associated with the reinsurance policy. All reinsurance contracts in place transfer underwriting risks to reinsurers (see Note 11).

The Company limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with other insurers under general reinsurance contracts known as "treaties" or by negotiation on an individual risk basis. Amounts recoverable from reinsurance are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Deferred policy and acquisition costs

Deferred policy acquisition costs represent the cost of writing business that vary with, and are primarily related to, the successful production of insurance business (principally commissions and premium taxes). Policy acquisition costs are deferred and recognized as expense as related premiums are earned.

Goodwill and other intangibles

Goodwill represents the excess of the purchase price of an acquired business over the amount assigned to the assets acquired and liabilities assumed. The Company evaluates goodwill on an annual basis, or more frequently if management believes indicators of impairment exist. Such indicators could include, but are not limited to (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competitions, or (3) an adverse action or assessment by a regulator. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If management concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, management conducts the two-step quantitative goodwill impairment test. The first step of the impairment test involves comparing the fair value of the applicable reporting unit with its carrying value. The Company estimates the fair values of its reporting units using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes the comparable companies' data. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, management performs the second step of the goodwill impairment test. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that goodwill. The amount, by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Since goodwill resulted from the acquisition transaction on December 31, 2014, no evaluation for impairment was performed during 2014 and no impairment loss needs to be recorded in the accompanying consolidated statement of operations. See Note 2.

Tradenames are initially measured based on their fair values. Tradenames were categorized as an intangible asset with indefinite life since management expects to continue using the SCIC tradename indefinitely and the tradename renovation process is expected to be easily achievable.

Definite-lived intangible assets, such as product customer relationships, are amortized on a straight-line basis over their estimated or contractual useful lives. The Company continually evaluates the reasonableness of the useful lives of these assets.

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts more likely than not to be realized.

The Company follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, 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 taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Fair value measurement

The fair value of a financial instrument is the amount that would be received in an assets sale or paid to transfer a liability in an orderly transaction between unaffiliated market participants. Assets and liabilities measured at fair value are categorized based on whether the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial instruments within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 - Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

Derivative Interest rate swap - The Company's derivative instruments are measured on a recurring basis through a model used by the primary lender. These instruments are considered Level 3 as they are valued using a discounted cash flow model.

Concentration of credit risk

SCIC provides workers' compensation insurance primarily to employers and individuals within the states it serves. The Company extends credit to policyholders using practices common to the insurance industry.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits, investment securities, reinsurance recoverable and receivables, and balances due from agents and insureds. The Company invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Management continually evaluates its investment portfolio to manage concentrations in individual securities, issuers of securities, and types of securities, industries, and geographic regions. The Company generally limits its exposure to credit risk from balances on deposit in financial institutions in excess of the federally insured limits. Management believes the credit risk associated with these deposits is minimal.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Loss Portfolio Transfer

Under the terms of a Loss Portfolio Transfer (LPT) agreement, SCIC acquired the outstanding amounts due under the claim reserves of LACE-SIF for all loss years as valued by LACE-SIF's independent actuary as of December 31, 2000. In addition, the transfer agreement moved all loss-related liabilities (such as the liability for assessments by the Second Injury Fund and the Office of Workers' Compensation) and placed SCIC into the place of LACE-SIF to settle all claims and estimated excess policy recoveries. Estimated amounts remaining to be paid under the LPT as of December 31, 2014 totaled $35,207.

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates susceptible to change are those used in determining the reserves for losses and loss adjustment expenses, recoverability of deferred assets and the estimate of additional premium to be billed to policyholders. Although considerable variability is inherent in these estimates, management believes that the estimates are adequate. The estimates are continually revised and adjusted as necessary. Such adjustments are reflected in current operations.

Adoption of New Accounting Policies

In February 2013, the Financial Accounting Standards Board ("FASB"), issued authoritative guidance to improve the reporting of reclassifications out of accumulated other comprehensive income or loss ("AOCI"). The guidance requires an entity to present changes in AOCI by component and report the effect of significant reclassifications out of AOCI on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The new authoritative guidance became effective for annual and interim reporting periods beginning on or after December 15, 2013 with early adoption permitted. The Company adopted this guidance in the first quarter of fiscal year 2014. As a result the Company presents, by component, changes in AOCI and the effect of significant reclassifications out of AOCI on the respective line items in net income.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Recently Issued Accounting Guidance

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance in U.S. GAAP and is intended to improve and converge with International Standards the financial reporting requirements for revenue from contracts with customers. The core principle of ASU 2014-09 requires an entity to recognize revenue for the transfer of goods or service equal to the amount that it expects to be entitled to receive for those goods or services. ASU 2014-09 also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flow arising from customer contracts, including significant judgements. ASU 2014-09 allows for both retrospective and prospective methods of adoption and is effective for periods beginning after December 15, 2016. The Company is currently evaluating the impact that the adoption of ASU 2014-09 will have on its consolidated financial statements.

During the year ended December 31, 2014 the FASB issued other accounting standard updates that were not relevant to the Company's operations.

2. BUSINESS COMBINATION

All entities acquired in 2014 were accounted for in accordance with GAAP relating to business combinations.

On December 31, 2014, the Company completed the acquisition of Stonetrust Commercial Mutual Holding Insurance Company, owner of 100% equity interest in Stonetrust Commercial Insurance Company, which provides statutory workers' compensation and employers' liability insurance coverage to businesses in five (5) states of the United States of America (the Acquisition). The Acquisition also included Stonetrust Realty, L.L.C. and Stonetrust Management Services, L.L.C., both Louisiana limited liability companies. Stonetrust Realty owns the real estate used by Stonetrust companies. SMS is the Managing General Agent of Stonetrust.

Prior to consummating the Acquisition, Stonetrust Commercial Mutual Holding Insurance Company, was converted into a stock holding company pursuant to a Plan of Conversion and Reorganization filed with the Louisiana Department of Insurance.

The total consideration for the Acquisition was $35 million in cash, of which $24 million was allocated to the purchase price of all of the authorized shares of capital stock of Stonetrust Holding Company (Stonetrust Holding) and its subsidiaries (including SCIC and Stonetrust Realty), and $11 million was allocated to the purchase price of all of the issued and outstanding membership interests of Stonetrust Management. A total of $2,200,000 of the total consideration of $35 million was paid subsequent to the acquisition to former stockholder of SMS as 220,000 units of Dhandho Holdings Qualified Purchaser, L.P. and is recorded as a liability in the accompanying consolidated balance sheet.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

In addition to the $35 million of consideration, the Company also contributed $30 million to Stonetrust Holding for the benefit of Stonetrust (the Capital Contribution). The Capital Contribution was made simultaneously with the closing of the transaction.

The purchase consideration for Stonetrust companies was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the acquisition date. Goodwill amounting to $2,927,047 was recognized equal to the excess of the purchase price over the net fair value of identifiable assets acquired and liabilities assumed. Factors contributing to the recognition of goodwill include strategic and synergistic benefits that are expected to be realized as a result of the acquisition. These benefits include insurance market diversification. The allocation of purchase consideration is shown in the table below:

	2014
Assets, at fair value:	
Investments in bonds and common stock	$ 50,315,202
Cash and cash equivalents	29,609,535
Premiums receivable	22,393,184
Receivable from reinsurance on paid and unpaid losses	3,053,411
Property and equipment, net	7,418,534
Deferred tax asset	2,253,271
Deferred policy acquisition cost	1,669,482
Other assets	4,010,939
	120,723,558
Liabilities, at fair value:	
Reserve for losses and loss adjustment expenses	(53,500,227)
Unearned premiums	(25,208,373)
Surplus note	(4,000,000)
Other liabilities	(11,710,800)
	(94,419,400)
Fair value of net assets acquired	26,304,158
Intangible assets	8,695,842
Total purchase consideration	$ 35,000,000

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Intangible assets acquired included the following:

	2014	
	Estimated Fair Value on Acquisition Date	Estimated Useful Life
Distribution channel	$ 4,724,446	10 years
Tradenames	1,044,349	indefinite
Total identifiable intangible assets	5,768,795	
Goodwill (including assembled workforce)	2,927,047	
Total intangible assets	$ 8,695,842	

The results of operations of the acquired entities for the year ended December 31, 2014, immediately before the acquisition, are summarized below:

	2014				
	Stonetrust Holding	Stonetrust Management	Total	Elimination Entries	Combined
Revenues:					
Net underwriting gain	$ 646,262	$ -	$ 646,262	$ 8,331,274	$ 8,977,536
Net investment gain	1,178,094	-	1,178,094	-	1,178,094
Service fee	-	8,331,274	8,331,274	(8,331,274)	-
Rental income	591,799	-	591,799	-	591,799
Other income	333,315	26,483	359,798	-	359,798
Total revenues	2,749,470	8,357,757	11,107,227	-	11,107,227
Expenses:					
Payroll and related expenses	-	6,036,129	6,036,129	-	6,036,129
Insurance	-	531,196	531,196	-	531,196
Bad debt	508,865	-	508,865	-	508,865
Travel and entertainment	-	377,434	377,434	-	377,434
Interest	257,227	-	257,227	-	257,227
Loss on impairment of investment securities	2,098,883	-	2,098,883	-	2,098,883
Other expenses	-	834,884	834,884	-	834,884
	2,864,975	7,779,643	10,644,618	-	10,644,618
Income/(loss) before taxes	(115,505)	578,114	462,609	-	462,609
Provision for income tax	(354,075)	-	(354,075)		(354,075)
Net income/(loss)	$ (469,580)	$ 578,114	$ 108,534	$ -	$ 108,534

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

3. INVESTMENTS

The Company reports its short-term investment securities and bonds not backed by other loans at amortized cost using the interest method. Loan-backed bonds are stated at amortized cost using the retrospective-adjustment period. Prepayment assumptions for single class and multi-class mortgage-backed/asset-backed securities were obtained from broker/dealer survey values. The Company had no negative yield situations requiring a change from the retrospective to the prospective method.

The Company acquired investments at December 31, 2014, at their fair value as part of the business combination described in Note 2. The amortized cost and estimated fair value of investment securities as of December 31, 2014 are as follows:

	2014	
	Amortized Cost	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government Corporation and agencies	$ 4,975,052	$ 4,975,052
State and political subdivisions	30,102,794	30,102,794
Industrial and miscellaneous	411,764	411,764
Mortgage-backed securities	11,705,299	11,705,299
Total bonds	47,195,543	47,195,543
Common stocks	3,119,659	3,119,659
Total	$ 50,315,202	$ 50,315,202

The assessment of other-than-temporary impairment is performed periodically. Factors considered in determining whether a loss is temporary include the length of time and the extent to which fair value has been below cost, the severity of the impairment, the cause of the impairment and the financial condition and near-term prospects of the issuer, activity in the market of the issuer which may indicate adverse credit conditions, and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

The Company's review for impairment generally entails identification and evaluation of investments that have indications of possible impairment; analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period; discussion of evidential matter, including and evaluation of factors or triggers that could cause individual investments to qualify as having other-than-temporary

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

impairment and those that would not support other-than-temporary impairment; and documentation of the results of these analyses.

For equity securities, management considers the various factors described above, including its intent and ability to hold the equity security for a period of time sufficient for recovery to amortized cost. Where management lacks the intent or ability, the security's decline in fair value is deemed to be other-than-temporary and is recorded in earnings. During the year ended December 31, 2014, SCIC did not record any other-than-temporary impairment adjustments for equity securities.

For debt securities that are not deemed to be credit impaired, management performs additional analysis to assess whether it intends to sell or more-likely-than-not would be required to sell the investment before the expected recovery of the amortized cost basis. In most cases, management has asserted that it has no intent to sell and that it believes it is more-likely-than-not that it will not be required to sell the investment before recovery of its amortized cost basis.

The amortized cost and estimated fair values of investment securities as of December 31, 2014, by contractual maturity are shown below. 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. Mortgage backed securities provide for periodic payments throughout their lives so they are listed in a separate category.

	2014	
	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$ 3,770,738	$ 3,770,738
Due after 1 year through 5 years	16,152,652	16,152,652
Due after 5 years through 10 years	9,296,186	9,296,186
Due after 10 years through 20 years	5,782,823	5,782,823
Due after 20 years	487,845	487,845
	35,490,244	35,490,244
Mortgage-backed securities	11,705,299	11,705,299
	$ 47,195,543	$ 47,195,543

In accordance with regulatory provisions, the Company has pledged bonds with a fair market value of $1,881,264 to various regulatory agencies as of December 31, 2014. Additionally, at December 31, 2014, the Company has pledged bonds with a fair market value of $501,566, as collateral as required by the Company's counterparty in relation to the interest rate swap transaction described in Note 13.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

4. FAIR VALUE MEASUREMENT

The following table provides information as of December 31, 2014, about the Company's financial assets measured at fair value at the reporting date:

	2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Bonds	$ -	$ 47,195,543	$ -	$ 47,195,543
Common stocks	$ 3,119,659	$ -	$ -	$ 3,119,659
Liabilities -				
Derivative instrument	$ -	$ -	$ (99,263)	$ (99,263)

The Company's investments in common stock are exchanged-listed common stocks that are actively traded. Unadjusted quoted prices for these securities are provided to the Company principally by independent pricing services that meet Level 1 criteria.

The Company's available for sale debt securities are carried on a recurring basis at estimated fair value and are obtained from independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. These securities are considered Level 2.

The Company's derivative instruments are measured on a recurring basis through a model used by the primary lender. These instruments are considered Level 3 as they are valued using a discounted cash flow model.

The following table presents estimated fair values of the Company's financial instruments at December 31, 2014.

	2014	
	Carrying Amount	Fair Value
Cash and cash equivalents	$ 147,944,065	$ 147,944,065
Bonds	47,195,543	47,195,543
Common stocks	3,119,659	3,119,659
Long-term debt	(4,000,000)	(4,000,000)
Derivative instrument - liability	(99,263)	(99,263)

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

The following methods were used to estimate the fair value of all other financial instruments:

Cash and cash equivalents - carrying values of cash and cash equivalents approximates fair values.

Bonds - fair values are obtained from independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows.

Common stocks - fair values generally represent quoted market prices for the securities.

Derivative instruments - interest rate swap is valued using discounted cash flows models.

Note payable - carrying value reported in the consolidated balance sheets for these financial instruments approximates fair value due to the variable interest rate.

5. CASH AND SHORT-TERM INVESTMENTS

As of December 31, 2014, cash and cash equivalents consists of the following:

	2014
Overnight repurchase agreements	$ 146,494,759
Money market funds	1,449,306
Total cash and cash equivalents	$ 147,944,065

All demand deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. The overnight repurchase agreements and money market funds are not insured by the FDIC. However, these funds are backed by the underlying securities.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

6. PROPERTY AND EQUIPMENT

As of December 31, 2014, property and equipment consisted of the following:

	2014	
	Estimated Useful Life (in years)	Amount
Building	39	$ 3,629,659
Building improvements	5-7	32,452
Informations systems	5	1,919,764
Office and computer equipments	3-7	123,978
Less: accumulated depreciation and amortization		(597)
Net depreciable assets		5,705,257
Land		930,274
Construction in process		802,932
Total		$ 7,438,463

Construction-in-progress consists of architect design fees and construction cost incurred in connection with improvements to the rental properties which are deferred until completed and put in service. Upon completion and placed in service they are reclassified to rental property and depreciation over its useful life.

Depreciation expense for the period ended December 31, 2014 amounted to $597.

7. DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs represent those costs that are incremental and directly related to the successful acquisition of new or renewal of existing insurance contracts. The Company defers incremental costs that result directly from the acquisition or renewal of an insurance contract. These costs are deferred and expensed over the life of the related policies. Major categories of the Company's deferred policy acquisition costs are as follows:

	2014
Agents' commissions	$ 810,633
Premium related taxes and assessments	858,849
Total deferred policy acquisition costs	$ 1,669,482

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

The following summarizes the activity in the deferred policy acquisition costs:

	2014
Balance, beginning of year	$ 1,497,162
Policy acquisition costs deferred	6,808,867
Amortization during the year	(6,636,547)
Balance, end of year	$ 1,669,482

8. OTHER INTANGIBLE ASSETS

The following table reflects the components of other intangible assets as of December 31, 2014:

	2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible asset - Distribution channel	$ 4,724,446	$ -	$ 4,724,446
Indefinite-lived intangible asset - Tradenames			1,044,349
Total intangible assets			$ 5,768,795

The following table represents the total estimated amortization of intangible assets with definite lives for each of the next five (5) years:

Year Ending December 31,	Amount
2015	$ 472,445
2016	472,445
2017	472,445
2018	472,445
2019	472,445
Thereafter	2,362,221
	$ 4,724,446

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

As of December 31, 2014, the weighted average remaining life of the intangible assets is approximately 10 years. No significant events or circumstances have occurred that would reduce the fair value of the reporting unit below its carrying amount.

9. UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Unpaid losses and loss adjustment expenses at December 31, 2014 consists of the following:

	2014
Unpaid losses	$ 47,730,668
Unpaid loss adjustment expenses	5,769,559
Total	$ 53,500,227

Activity in the liability for unpaid losses and loss adjustment expenses (LAE) is summarized as follows as of December 31, 2014:

	2014
Reserves for loss and LAE, gross - at January 1	$ 45,785,529
Amounts recoverable from reinsurers on unpaid losses	3,498,143
Reserves for loss and LAE, net - at January 1	42,287,386
Net incurred related to:	
Current year	38,164,785
Prior years	963,381
Total incurred	39,128,166
Net paid related to:	
Current year	11,172,591
Prior years	19,784,195
Total incurred	30,956,786
Reserves for loss and LAE, net - at December 31	50,458,766
Amounts recoverable from reinsurers on unpaid losses	3,041,461
Reserves for loss and LAE, gross - at December 31	$ 53,500,227

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

The estimated cost of loss and LAE attributable to insured events of prior years increased by $963,381 during 2014. Increases or decreases of this nature occur as the result of claim settlements during current year and as additional information is received regarding individual claims, causing changes from the original estimates of the cost of these claims. Recent loss development trends are also taken into account in evaluating the overall adequacy of unpaid losses and LAE.

SCIC has purchased annuities from life insurers under which claimants are payees under structured settlement agreements. These annuities have been used to reduce unpaid losses by approximately $1,710,000 as of December 31, 2014. SCIC remains liable should the insurers of these annuities fail to perform under the terms of the annuities.

The liability for unpaid losses and loss adjustment expenses as of December 31, 2014 was reviewed by an independent actuary who concluded that such amounts were reasonable to cover SCIC's obligation for all unpaid losses and loss adjustment expenses.

10. SECURITY DEPOSITS

Security deposits are additional funds available to satisfy policyholder obligations to the Company, if necessary, and are non-interest bearing and refundable upon termination from the Company after all expenses are settled for the policyholder. As of December 31, 2014, policyholder security deposits amount to $2,133,889.

11. REINSURANCE ACTIVITY

A Summary of SCIC's reinsurance arrangements follows:

Period Covered	Company Retention	Per Loss Occurrence Coverage
12/01/00 - 3/31/02	$500,000	Statutory in excess of $500,000
4/01/02 - 3/31/03	See Below	See Below
4/01/03 - 3/31/04	See Below	See Below
4/01/04 - 3/31/05	500,000	$9,500,000 in excess of $500,000
4/01/05 - 12/31/05	500,000	$14,500,000 in excess of $500,000
1/01/06 - 12/31/06	750,000	$14,250,000 in excess of $750,000
1/01/07- 12/31/07	1,000,000	$14,000,000 in excess of $1,000,000
1/01/08 - 12/31/08	1,000,000	$49,000,000 in excess of $1,000,000
1/01/09 - 12/31/09	750,000	$49,250,000 in excess of $750,000
1/01/10 - 12/31/10	1,000,000	$99,000,000 in excess of $1,000,000
1/01/11 - 12/31/11	1,000,000	$49,000,000 in excess of $1,000,000
1/01/12 - 12/31/12	1,000,000	$29,000,000 in excess of $1,000,000
1/01/13 - 12/31/13	750,000	$29,250,000 in excess of $750,000
1/01/14 - 12/31/14	750,000	$39,250,000 in excess of $750,000

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

SCIC entered into a reinsurance treaty providing coverage effective April 1, 2002 through March 31, 2003, for an initial layer of 50% of $500,000 in excess of $500,000 per occurrence and an additional layer of $9,000,000 in excess of the first $1,000,000 layer.

SCIC entered into reinsurance treaties providing coverage effective April 1, 2003 through March 31, 2004, for a specific layer of $750,000 in excess of $250,000 per occurrence limited to the SCIC's retention of the greater of $1,000,000 or 7.15% of gross net earned premium and an additional layer for the same period of $9,000,000 in excess of the first $1,000,000 layer.

The reinsurance contracts do not relieve SCIC from its obligations to policyholders. SCIC evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. As of December 31, 2014, SCIC has approximately $3,041,461 of reinsurance recoverables based on its actuarially determined ultimate losses and loss adjustment expenses payable, which are unsecured. As of December 31, 2014, amounts due from reinsurers for claims actually paid were $11,950.

The effects of reinsurance on premiums written and earned for 2014 are as follows:

	2014	
	Written	Earned
Direct	$ 64,367,095	$ 63,312,741
Assumed - assigned risk pools	1,008,521	954,127
Ceded	(3,865,244)	(3,865,244)
Net	$ 61,510,372	$ 60,401,624

As of December 31, 2014, SCIC has unsecured aggregate reinsurance recoverables amounting to $3,041,461, for unpaid losses and loss adjustment expenses from authorized reinsurers that exceed 3% of policyholders' surplus.

12. INTERCOMPANY PAYABLE

As of December 31, 2014, the Company owes $11,777 to Dhandho Holdings, L.P, Company's major stockholder. The balance results from equipment transferred, valued at $11,642 and other miscellaneous transactions. The balance is non-interest bearing and has no specific repayment terms.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

13. NOTE PAYABLE

On December 14, 2006, SCIC issued a surplus note in the amount of $4,000,000 in exchange for cash. The note was underwritten by FIN Financial Capital Markets and is administered by Wilmington Trust Company as registrar/paying agent. Each payment of principal and interest may be made only with the prior approval of the Louisiana Insurance Department and only to the extent SCIC has sufficient policyholders' surplus to make such payment. In the event of a liquidation proceeding, holders of indebtedness, policy claims and prior claims would have greater priority under both the Liquidation Act and terms of the note and, accordingly, would have the right to be paid in full before any payments of interest and principal are made to note holders.

The terms of the surplus note are as follows:

Date Issued:	December 14, 2006
Interest rate:	Fixed at 8.9% until December 15, 2011 (3 month LIBOR + 4.0% floating rate thereafer)
Carrying value of note:	$ 4,000,000
Date of maturity:	December 15, 2036

On December 15, 2011, SCIC entered into an interest rate swap agreement in connection with the note payable. The swap has a notional amount of $4,000,000 used to minimize the interest rate exposure on the Floating Rate Surplus Note. The interest swap is used to fix the variable interest rate on the associated debt. The agreement provides for quarterly settlements with maturity date on September 15, 2021. The interest rate to be received on this swap agreement is the 90 days LIBOR plus 4%, (4.23% as of December 31, 2014) and the fixed interest rate to be paid is 6.36%.

As of December 31, 2014, the fair value of this instrument is ($99,263) and is presented as a liability in the accompanying consolidated balance sheet.

14. EMPLOYEES' SAVINGS PLAN

SMS maintains a contributory profit sharing plan as defined under Section 401(k) of the U.S. Internal Revenue Code covering substantially all employees. For the year ended December 31, 2014, SMS contributed 3% of all eligible employees' compensation to the Plan. Additionally, SMS contributed a dollar for dollar match, up to 4% of eligible compensation, on elective deferrals made by employees to the Plan. Employer contributions for the year ended December 31, 2014 was $307,802.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

15. RENTAL INCOME

SR's main activity consists of leasing its real estate facilities to third parties and to an affiliated company under operating lease agreements. The leases are generally for a period of five (5) years with an option to renew for an additional period. Rental income earned from tenants during the year ended December 31, 2014 amounted to $591,799, including $125,527 from an affiliated company.

FASB's authoritative guidance on Leases requires rental income to be recorded on a straight-line basis over the non-cancellable terms of the leases. Certain lease agreements contain escalation clauses. Tenant receivable at December 31, 2014 includes $5,421 for the difference between rental income billed under the contractual terms and the revenue recognized on the straight-line basis.

Year Ending December 31,		Amount
2015	$	343,466
2016		219,980
2017		191,580
2018		88,834
2019		80,070
Thereafter		313,608
	$	1,237,538

16. INCOME TAXES

On November 21, 2014, Dhandho Holdings Corp. was granted a twenty-year partial tax exemption on its consulting and management services pursuant to the terms of Puerto Rico Act No. 20 of January 17, 2012. The grant provides for 60% exemption from municipal license tax and a fixed income tax rate of 4% provided that the Company complies with certain employment requirements.

Management believes that the Company has complied with all of the requirements of the Puerto Rico tax laws under which the Company was granted its tax exemption grant.

Stonetrust companies' taxable income is subject to United States income tax at the 15% to 39% rates provided for by the amended Internal Revenue Code of 1986.

Stonetrust Holding Company files a consolidated return with its wholly-owned subsidiaries, Stonetrust Commercial Insurance Company and Stonetrust Realty, LLC.

For federal income tax purposes, SMS is treated as a partnership. All profits and losses are passed through to the sole stockholder.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

As of December 31, 2014, the Company has available \$231,196 in net operating losses (NOL) which may be used to offset any future income up to year 2024. The NOL deduction is limited to 90% of taxable income for regular income tax purposes.

As of December 31, 2014, the Company's net deferred tax asset consists of the following components:

	2014
Deferred tax asset:	
Unearned and advance premium	\$ 1,764,170
Discounting of unpaid losses and LAE	1,100,214
Other than temporary impairment	713,620
Allowance for doubtful accounts	215,348
Carryforward of net operating losses	9,072
Rents received in advance	2,167
Tax credits and carryforwards	573
Gross deferred tax assets	3,805,164
Deferred tax liability:	
Deferred policy acquisition costs	567,624
Unrealized gains	496,919
Fixed assets	476,435
Deferred rent receivable	1,843
Gross deferred tax liabilities	1,542,821
Deferred tax asset, net	\$ 2,262,343

U.S. GAAP requires the Company to evaluate the recoverability of its deferred tax assets and establish a valuation allowance, if necessary, to reduce the deferred tax asset to an amount that is more likely than not to be realized (a likelihood of more than 50%). In making this evaluation, the Company is required to consider all available evidence, both positive and negative, including objectively verifiable evidence of taxable income in the immediate ensuing years. At December 31, 2014 management concluded that no such allowance was necessary.

The Company follows the accounting standard on accounting for uncertainty in income taxes. Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this standard. With few exceptions, the Company and its subsidiaries are no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2011.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

The Company recognizes any interest and penalties related to uncertain tax positions in income tax expense; however, there were none during the year ended December 31, 2014.

17. EQUITY AND STATUTORY RESULTS

A comparison of U.S. GAAP and statutory net income and total equity of SCIC as of and for the year ended December 31, 2014, is as follows:

	2014	
	U.S. GAAP	Statutory
Net income/(loss) - Year ended December 31, 2014	$ (469,580)	$ 473,397
Total equity/capital and surplus - December 31, 2014	$ 56,467,126	$ 56,641,278

SCIC is required by the State of Louisiana Department of Insurance to maintain a minimum capital and surplus of $5,000,000 and is required to obtain prior approval from the State of Louisiana Department of Insurance to pay dividends or any other distributions to its shareholders.

The Louisiana Department of Insurance also imposes minimum risk-based capital requirements that were developed by the National Association of Insurance Commissioner ("NAIC"). The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of the enterprise's regulatory total adjusted capital, also defined by the NAIC. Enterprises below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. At December 31, 2014, SCIC's calculation indicated that it exceeded the minimum risk-based capital requirements.

18. COMMITMENTS AND CONTINGENCIES

Commitments

On December 18, 2014, the Company entered into a lease agreement with an unrelated third party for their administrative office facilities for a period of three (3) years commencing January 1, 2015 and ending on December 31, 2017. Rent expense for the year ended December 31, 2014 amounted to $3,692.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

The future minimum rental commitments under the term of the lease agreement are as follows:

Year Ending December 31,		Amount
2015	$	24,648
2016		25,780
2017		26,912
	$	77,340

As of December 31, 2014, SR has commitments under construction contracts amounting to $404,132.

Contingencies

Losses and loss adjustment expenses payable consist of case based estimates of the likely loss exposure to SCIC from all known and open claims, including incurred but not reported (IBNR) attributable to open years. Such estimates are made by SCIC service agent and an actuarial study prepared for SCIC by its independent consulting actuary, using comparative payment histories after evaluating the nature of the claimants' injuries. The estimate of the total incurred loss is continually revised as additional information becomes available.

Management believes the provision for losses and loss adjustment expenses payable as of December 31, 2014 is adequate to cover the ultimate liabilities. However, it is more than reasonably possible that a change in these estimates will occur in the near term and that the amount ultimately paid may prove to be more or less than the current estimates of liability and that difference may be significant.

SCIC is subject to guaranty fund and other assessments. In the case of premium-based assessments and loss-based assessments, the assessment is accrued either at the time the premiums were written or at the time losses are incurred. SCIC has accrued a liability for guaranty fund and other assessments of $3,232,255 at December 31, 2014. The liability is included in the taxes, licenses and fees liability. The asset is included in the guaranty funds receivable or on deposit asset and is expected to be realized over the next seven years. The amounts represent management's best estimates based on current information and may change due to many factors, including SCIC's share of the ultimate cost of insolvencies and changes in the assessment rates.

Lawsuits arise against the Company in the normal course of business. Contingent liabilities arising from litigation and other matters are not considered material in relation to the financial position of the Company.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

SCIC received notice in 2014 from the Louisiana Department of Revenue (LDR) for additional taxes, penalties and interest due related to the 2012 calendar year. The LDR has denied the application of certain premium tax credits available to offset taxable income. SCIC has filed an appeal with the Louisiana Board of Tax Appeals and believes it has a strong case in defense of the additional assessments. However, a contingent liability has been recorded in these financial statements in the amount of approximately $180,000 at December 31, 2014, related to this matter.

19. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, June 5, 2015 and determined that no events occurred that required further disclosure, other than the matter described below.

As described in Note 2, in March 2015, a total of 220,000 units of Dhandho Holdings Qualified Purchaser, L.P. with a value of $2,200,000 were issued to former stockholder of SMS.

As described in Note 3, on March 2015, SCIC sold certain mortgage backed securities and realized a loss of $2,098,883. This loss is already reflected in the fair value of assets acquired by the Company at December 31, 2014.

BDO Puerto Rico, PSC, a Puerto Rico Professional Services Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.