Audited Financial Statements

(As of the Years Ended December 31, 2017 and 2016

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)

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HOUSING AUTHORITY
RISK RETENTION GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Housing Authority Risk Retention Group, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years 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 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 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 entity'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 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 consolidated 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 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, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and consolidating statements of comprehensive income (loss) (collectively, the “consolidating information”) are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and are not a required part of the consolidated financial statements. Such consolidating 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 consolidating information has been subjected to the auditing procedures applied in the audits 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 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Accounting principles generally accepted in the United States of America require that claims development information for periods prior to 2017 and average payout of incurred claims information in Note 6 on pages 22-26 be presented to supplement the basic consolidated financial statements. Such information, although not part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Crowe Horwath LLP
Crowe Horwath LLP

Simsbury, Connecticut
April 13, 2018

	2017	2016
ASSETS		
Investments:		
Available for sale, at fair value	$ 305,941,535	$ 293,959,537
Investment in HSIC	8,211,329	7,854,348
Investment in HIG	4,174,733	4,744,836
Federal Home Loan Bank of Boston stock, at cost	240,300	240,300
Total investments	318,567,897	306,799,021
Cash and cash equivalents	15,109,564	8,635,495
Reinsurance recoverables on unpaid losses	9,338,427	5,053,727
Reinsurance recoverables on paid losses	2,196,946	2,937,303
Premiums receivable	23,065,436	22,017,691
Prepaid reinsurance premiums	3,567,534	4,960,476
Due from affiliates	2,859,554	2,240,139
Accrued investment income	1,241,896	1,267,977
Deferred policy acquisition costs	2,411,586	2,919,318
Investments receivable	-	2,400,000
Property and equipment, net	14,242,646	20,287,606
Federal income tax receivable	78,744	-
Other assets	3,648,009	4,437,795
Total assets	$ 396,328,239	$ 383,956,548
LIABILITIES AND EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 129,143,347	$ 127,584,448
Unearned premiums	32,555,961	33,360,289
Reinsurance balances payable	957,723	1,402,041
Term loan	6,510,934	7,011,156
Accrued policyholder dividends	3,529,688	1,066,943
Advance premiums	7,930,443	7,828,361
Due to affiliates	176,433	6,741
Accrued expenses and other liabilities	10,564,560	9,566,063
Federal income taxes payable	-	1,846
Total liabilities	191,369,089	187,827,888
Equity:		
Members' contributions	10,961,905	10,952,114
Accumulated other comprehensive income	10,121,456	5,765,173
Retained earnings	170,638,960	166,465,299
Total equity before non-controlling interest	191,722,321	183,182,586
Non-controlling interest	13,236,829	12,946,074
Total equity	204,959,150	196,128,660
Total liabilities and equity	$ 396,328,239	$ 383,956,548

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

	2017	2016
Revenues		
Premiums earned	$ 70,991,541	$ 67,303,377
Ceded premiums earned	(11,291,781)	(11,262,340)
Net earned premiums	59,699,760	56,041,037
Investment income, net	8,035,325	7,720,784
Unrealized loss on investments in affiliates	(633,973)	(5,260,584)
Net realized investment gains	1,102,046	829,790
Other income	35,918	-
Total revenues	68,239,076	59,331,027
Expenses		
Losses and loss adjustment expenses	31,170,638	51,360,065
Salaries and other compensation	11,390,948	9,355,151
Contractual services and professional fees	1,941,538	1,188,831
General and administrative expenses	11,612,492	7,501,063
Policy acquisition costs	3,609,170	4,241,328
Total expenses	59,724,786	73,646,438
Net income (loss) before policyholder dividends	8,514,290	(14,315,411)
Policyholder dividends	3,469,538	708,234
Net income (loss) before federal income tax (benefit) expense	5,044,752	(15,023,645)
Federal income tax (benefit) expense	(76,028)	2,362,586
Net income (loss)	5,120,780	(17,386,231)
Less net income (loss) attributable to non-controlling interest	280,265	(480,255)
Net income (loss) attributable to the Company	4,840,515	(16,905,976)
Other comprehensive income		
Unrealized holding gains on available for sale securities, net of tax expense (benefit) of $18,300 and $(117,853) in 2017 and 2016, respectively	5,424,466	2,596,452
Reclassification adjustments for realized gains included in net income (loss), net of tax expense of $2,859 and $37,183 in 2017 and 2016, respectively	(1,095,579)	(745,691)
Other comprehensive income	4,328,887	1,850,761
Less other comprehensive income (loss) attributable to non-controlling interest	10,490	(105,331)
Other comprehensive income attributable to the Company	4,318,397	1,956,092
Comprehensive income (loss) attributable to the Company	$ 9,158,912	$ (14,949,884)

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
Years Ended December 31, 2017 and 2016

	Members' Contributions	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity Before Non-controlling Interest	Non-controlling Interest	Total Equity
Balance as of January 1, 2016	$ 10,921,290	$ 3,809,081	$ 183,897,120	$ 198,627,491	$ 13,531,660	$ 212,159,151
Net loss	-	-	(16,905,976)	(16,905,976)	(480,255)	(17,386,231)
Other comprehensive income	-	1,956,092	-	1,956,092	(105,331)	1,850,761
Equity dividends	-	-	(496,922)	(496,922)	-	(496,922)
Members' contributions, net	1,901	-	-	1,901	-	1,901
Members' recapitalization dividends	28,923	-	(28,923)	-	-	-
Balance as of December 31, 2016	10,952,114	5,765,173	166,465,299	183,182,586	12,946,074	196,128,660
Net income	-	-	4,840,515	4,840,515	280,265	5,120,780
Other comprehensive income	-	4,318,397	-	4,318,397	10,490	4,328,887
Reclassification adjustment - federal income tax rate change	-	37,886	(37,886)	-	-	-
Equity dividends	-	-	(628,221)	(628,221)	-	(628,221)
Members' contributions, net	9,044	-	-	9,044	-	9,044
Members' recapitalization dividends	747	-	(747)	-	-	-
Balance as of December 31, 2017	$ 10,961,905	$ 10,121,456	$ 170,638,960	$ 191,722,321	$ 13,236,829	$ 204,959,150

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
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Net income (loss)	$ 5,120,780	$ (17,386,231)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	1,445,534	1,171,980
Net realized investments gains	(1,102,046)	(829,790)
Amortization on investments, net	280,168	451,766
Unrealized loss on investment in HIG	570,103	5,345,149
Unrealized loss (gain) on investment in HSIC	63,868	(84,567)
Deferred federal income taxes	(15,438)	2,347,263
Disposals of property and equipment	6,758,161	-
Changes in assets and liabilities		
Reinsurance recoverables on unpaid losses	(4,284,700)	(3,081,455)
Reinsurance recoverables on paid losses	740,357	(2,463,492)
Premiums receivable	(1,047,745)	(1,180,870)
Prepaid reinsurance premiums	1,392,942	318,627
Due from affiliates	(619,415)	(817,635)
Accrued investment income	26,081	(21,510)
Deferred policy acquisition costs	507,732	(255,788)
Federal income tax receivable	(78,744)	-
Other assets	789,786	(552,782)
Unpaid losses and loss adjustment expenses	1,558,899	19,093,932
Unearned premiums	(804,328)	2,426,560
Reinsurance balances payable	(444,318)	(854,203)
Accrued policyholder dividends	2,462,745	(2,903,057)
Advance premiums	102,082	913,657
Due to affiliates	169,692	(40,367)
Accrued expenses and other liabilities	998,497	(2,075,140)
Federal income taxes payable	(1,846)	(11,677)
Cash provided by (used in) operating activities	14,588,847	(489,630)
Cash flows from investing activities		
Purchases of available for sale securities	(125,217,579)	(127,829,714)
Purchase of Federal Home Loan Bank of Boston stock	-	(240,300)
Proceeds from securities sold	89,484,802	102,604,051
Proceeds from prepayments and maturities of securities	31,296,133	33,186,667
Capital contributions to HSIC	(400,000)	-
Capital contributions to HIG	-	(4,000,000)
Purchases of property and equipment	(2,158,735)	(3,502,197)
Cash (used in) provided by investing activities	(6,995,379)	218,507
Cash flows from financing activities		
Payments on term loan	(500,222)	(484,651)
Equity dividends	(628,221)	(496,922)
Members' contributions	9,044	1,901
Cash used in financing activities	(1,119,399)	(979,672)
Change in cash and cash equivalents	6,474,069	(1,250,795)
Cash and cash equivalents, beginning of year	8,635,495	9,886,290
Cash and cash equivalents, end of year	$ 15,109,564	$ 8,635,495
Supplemental disclosure		
Cash paid for interest	$ 206,332	$ 221,902
Cash paid for taxes	$ 20,000	$ 27,000

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 subsidiaries (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), with a 65% ownership and Innovative Housing Insurance Company, Inc (IHIC), with a 100% ownership as of December 31, 2017 and 2016.

HEIC is a licensed domestic stock insurance company domiciled 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 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, 2017 and 2016, 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. No additional contributions were made during 2017 and 2016.

In July 2015, the Company formed 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. During 2017 and 2016, HARRG paid in an additional $2,100,000 and $750,000, respectively, in contributed capital. HARRG has a 100% ownership interest in IHIC.

Concentration of Risk: 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

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).

Principles of Consolidation: 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 income (loss) 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, 2017 and 2016. 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, 2017 and 2016, 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, 2017 and 2016. The investment in HIG is carried on the equity method of accounting. No contributions were made during 2017. During 2016, the Company contributed $4,000,000 of additional capital to HIG. There were no dividends declared or paid by HIG during 2017 or 2016.

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 2017, the Company contributed $400,000 of additional capital to HSIC. No contributions were made during 2016. The Company owns 50% of HSIC as of December 31, 2017 and 2016.

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 consolidated statements of comprehensive income (loss).

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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, 2017 and for the year then ended, is as follows:

	Total Assets	Total Liabilities	Total Equity	Net Loss
Housing Investment Group, Inc.	$ 43,853,890	$ 35,504,426	$ 8,349,464	$ (1,140,210)
Housing Specialty Insurance Company, Inc.	$ 18,595,649	$ 2,172,992	$ 16,422,657	$ (86,040)

Summarized financial information from the audited financial statements of these affiliates as of December 31, 2016 and for the year then ended, is as follows:

	Total Assets	Total Liabilities	Total Equity	Net (Loss) Income
Housing Investment Group, Inc.	$ 44,077,519	$ 34,587,845	$ 9,489,674	$ (10,690,297)
Housing Specialty Insurance Company, Inc.	$ 17,015,378	$ 1,306,681	$ 15,708,697	$ 169,134

Federal Home Loan Bank of Boston Stock: The Company, which is a member of the Federal Home Loan Bank, is required to maintain an investment in capital stock of the Federal Home Loan Bank of Boston (FHLBB). Based on redemption provisions of the FHLBB, the fair value of the stock is not readily determinable and is carried at cost. At its discretion, the FHLBB may declare dividends on the stock. The Company reviews for impairment based on the ultimate recoverability of the cost basis in the FHLBB stock. As of December 31, 2017 and 2016, no impairment has been recognized.

Other-Than-Temporary Impairments on Investments: When a decline in fair 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 income (loss) 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.

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, 2017 and 2016.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 2017 and 2016.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

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, 2017 and 2016, as management believes all amounts are fully collectable.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income (Loss): The Company accounts for comprehensive income (loss) in accordance with FASB ASC 220, *"Comprehensive Income".* Comprehensive income (loss) 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 (loss) to arrive at comprehensive income (loss). The cumulative amount of these changes is reported in the consolidated balance sheets within accumulated other comprehensive 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.

The Company did not record any unrecognized tax benefits as of December 31, 2017 and 2016. 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, 2017 and 2016, the Company did not record any penalties or interest associated with unrecognized tax benefits. All tax years from 2015 forward are open and subject to examination by the Internal Revenue Service.

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.

On December 22, 2017, H.R. 1, commonly referred to as the Tax Cuts and Jobs Act ("the Act"), was signed into law. The Act reduces the corporate federal tax rate from 34% to 21% effective January 1, 2018. As a result, the Company was required to re-measure, through income tax (benefit) expense, deferred tax assets and liabilities using the enacted rate at which the Company expects them to be recovered or settled. The re-measurement of the Company's net deferred tax asset resulted in additional income tax expense of $2,268,319, which was fully offset by a change in valuation allowance.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. Given the longstanding practice of private companies electing to apply SABs, the FASB did not object to private companies applying the provisions of SAB 118. Due to a lack of information, specifically as it relates to IRS provided discounting factors as modified for the corporate bond yield, the Company is unable to provide a reasonable estimate for the additional tax basis discounting that may be required as a result of enactment of the Act; however, a provisional amount has been recorded using the current discount rates, which amounted to $332,274 and is recorded within deferred tax asset on the balance sheet. Accordingly, the Company has elected to apply the provisions of SAB 118 in their financial statements and forgo estimating any additional impact to current and deferred taxes. The effects of the Act, specifically as it relates to provisional tax basis loss reserve discounting will be adjusted in the first reporting period in which a reasonable estimate can be determined, which will coincide with the IRS’s release of the applicable discounting components.

Additionally, the Act repealed the Corporate Alternative Minimum Tax in tax years beginning after December 31, 2017. As a result of these provisions, 50% of the AMT credits not used in each of the subsequent three years, starting with 2018, will be refunded to the taxpayer. Credits not used by the end of 2021 will be fully refunded. Given the ability of the Company to have all AMT credits fully refunded by 2021, during 2017 management adopted an accounting policy which treats all AMT credits as current income tax receivables.

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.

Subsequent Events: Subsequent events have been evaluated through April 13, 2018, which is the date the consolidated financial statements were available to be issued.

Recently Adopted Accounting Standards: Effective for fiscal years beginning after December 15, 2016, the FASB issued guidance that requires insurance entities that issue short-duration contracts to provide detailed disclosures relative to the reserve for losses and loss adjustment expenses in annual reporting periods. The guidance also requires disclosures regarding significant changes in the methodologies and assumptions used to calculate the reserve for losses and loss adjustment expenses, including reasons for and the effects of such changes. The Company has adopted the guidance with the issuance of its December 31, 2017 consolidated financial statements. Adoption of the guidance did not have a material effect on the Company’s results of operations or financial position as it affects disclosures only.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This update permits a reclassification from accumulated other comprehensive income to retained earnings of the stranded tax effects resulting from the application of the new federal corporate income tax rate. FASB ASU 2018-02 is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The Company has adopted this update with the issuance of is December 31, 2017 consolidated financial statements. The adoption of this standard resulted in a reclassification of $37,886 from accumulated other comprehensive income to retained deficit within the statement of changes in stockholders’ equity.

(Continued)

NOTE 3 - INVESTMENTS

Investments, classified as available for sale, and carried at fair value as of December 31, 2017, are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. treasury and government agencies	$ 89,845,411	$ 1,681,598	$ (821,046)	$ 90,705,963
State and political subdivisions	16,375,637	484,555	(139,449)	16,720,743
Corporate bonds	88,589,512	1,975,085	(555,427)	90,009,170
Residential mortgage-backed securities	36,782,484	368,827	(342,640)	36,808,671
Commercial mortgage-backed securities	18,050,838	95,668	(171,795)	17,974,711
Collateralized debt obligations	24,281,800	10,723	(111,411)	24,181,112
Total debt securities	273,925,682	4,616,456	(2,141,768)	276,400,370
Mutual funds	21,545,541	7,995,624	-	29,541,165
Total	$ 295,471,223	$ 12,612,080	$ (2,141,768)	$ 305,941,535

Investments, classified as available for sale, and carried at fair value as of December 31, 2016, are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. treasury and government agencies	$ 58,876,062	$ 1,193,681	$ (565,132)	$ 59,504,611
State and political subdivisions	18,153,206	541,004	(170,402)	18,523,808
Corporate bonds	115,119,751	2,333,961	(976,646)	116,477,066
Residential mortgage-backed securities	32,574,171	520,302	(291,394)	32,803,079
Commercial mortgage-backed securities	19,089,100	250,934	(114,258)	19,225,776
Collateralized debt obligations	23,145,905	38,973	(55,679)	23,129,199
Total debt securities	266,958,195	4,878,855	(2,173,511)	269,663,539
Mutual funds	20,855,537	3,440,461	-	24,295,998
Total	$ 287,813,732	$ 8,319,316	$ (2,173,511)	$ 293,959,537

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The cost and fair value of debt securities are shown by contractual maturity as of December 31, 2017. 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	$ 10,032,360	$ 10,028,448
After one year through five years	65,351,885	65,784,589
After five years through ten years	99,039,709	99,005,374
After ten years	20,386,606	22,617,465
Residential mortgage-backed securities	36,782,484	36,808,671
Commercial mortgage-backed securities	18,050,838	17,974,711
Collateralized debt obligations	24,281,800	24,181,112
Total	$ 273,925,682	$ 276,400,370

Proceeds from sales of securities amounted to $89,484,802 and $100,204,051 during the years ended December 31, 2017 and 2016, respectively. Gross gains of $1,525,715 and $1,492,121 and gross losses of $423,669 and $662,331 were realized on those sales during 2017 and 2016, respectively.

The Company holds 465 securities that are in an unrealized loss position as of December 31, 2017, of which 196 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, 2017:

	Less than 12 Months		12 Months or Greater	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Debt securities:				
U.S. treasury and government agencies	$ 70,278,903	$ (630,047)	$ 5,442,273	$ (190,999)
State and political subdivisions	2,897,310	(23,639)	2,358,211	(115,810)
Corporate bonds	23,729,747	(157,556)	15,788,982	(397,871)
Residential mortgage-backed securities	13,028,262	(109,423)	9,856,649	(233,217)
Commercial mortgage-backed securities	6,429,225	(48,107)	3,785,282	(123,688)
Collateralized debt obligations	17,135,605	(77,910)	3,531,899	(33,501)
Total	$ 133,499,052	$ (1,046,682)	$ 40,763,296	$ (1,095,086)

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The Company holds 409 securities that are in an unrealized loss position as of December 31, 2016, of which 186 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, 2016:

	Less than 12 Months		12 Months or Greater	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Debt securities:				
U.S. treasury and government agencies	$ 28,426,344	$ (511,989)	$ 9,157,931	$ (53,143)
State and political subdivisions	2,912,814	(73,231)	2,281,132	(97,171)
Corporate bonds	24,563,262	(665,919)	19,551,480	(310,727)
Residential mortgage-backed securities	6,806,111	(94,727)	9,934,339	(196,667)
Commercial mortgage-backed securities	148,287	(10,944)	5,697,256	(103,314)
Collateralized debt obligations	6,323,252	(51,720)	2,875,505	(3,959)
Total	$ 69,180,070	$ (1,408,530)	$ 49,497,643	$ (764,981)

As of December 31, 2017 and 2016, HEIC had bonds with an amortized cost of $4,962,967 and $4,878,093, respectively, deposited with state insurance departments and regulatory authorities, and are restricted as required by certain state statutes. 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, 2017 and 2016 are as follows:

	HARRG Available-for-Sale Securities	HEIC Available-for-Sale Securities Attributable to the Company	HSIC Available-for-Sale Securities Attributable to the Company	Total
Balance at January 1, 2016	$ 3,673,512	$ 188,506	$ (52,937)	$ 3,809,081
Other comprehensive income (loss), net before reclassifications	2,825,092	(148,700)	69,371	2,745,763
Amounts reclassified from accumulated other comprehensive income (a)	(720,429)	(46,916)	(22,326)	(789,671)
Net current-period other comprehensive income (loss)	2,104,663	(195,616)	47,045	1,956,092
Balance at December 31, 2016	5,778,175	(7,110)	(5,892)	5,765,173
Other comprehensive income, net before reclassifications	5,371,706	23,089	36,979	5,431,774
Amounts reclassified from accumulated other comprehensive income (a)	(1,093,637)	(3,608)	(16,132)	(1,113,377)
Net current-period other comprehensive income	4,278,069	19,481	20,847	4,318,397
Reclassification adjustment - federal income tax rate change	-	34,975	2,911	37,886
Balance at December 31, 2017	$ 10,056,244	$ 47,346	$ 17,866	$ 10,121,456

(a) See consolidating statements of comprehensive income (loss) for details about these reclassifications including tax effects.

At December 31, 2017, the Company early adopted ASU 2018-02 and reclassified $37,886 of tax expense out of accumulated other comprehensive income and into retained earnings that was recorded to income tax expense at December 22, 2017 due to the re-measurement of deferred taxes to 21% on available for sale securities.

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).

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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 at the measurement date.
>
> *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 asset's fair value measurement level, within the fair value hierarchy, is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used to measure financial instruments at fair value. The same methodologies were used as of December 31, 2017 and 2016.

The Company's valuation techniques used to measure the fair value of investments including money market funds, repurchase agreements, mutual funds and common stocks were derived from quoted prices in active markets for identical assets. The valuation techniques used to measure the fair value of all other financial instruments, all of which have counterparties with high credit ratings, were valued based on quoted market prices for either identical or similar instruments or model

The following tables set forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2017:

2017	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 90,705,963	$ -
State and political subdivisions	-	16,720,743	-
Corporate bonds	-	90,009,170	-
Residential mortgage-backed securities	-	36,808,671	-
Commercial mortgage-backed securities	-	17,974,711	-
Collateralized debt obligations	-	24,181,112	-
Money market funds	993,772	-	-
Repurchase agreements	-	2,300,000	-
Vanguard Institutional Index Fund	29,541,165	-	-
Total	$ 30,534,937	$ 278,700,370	$ -

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The following tables set forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2017:

2016	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 59,504,611	$ -
State and political subdivisions	-	18,523,808	-
Corporate bonds	-	116,477,066	-
Residential mortgage-backed securities	-	32,803,079	-
Commercial mortgage-backed securities	-	19,225,776	-
Collateralized debt obligations	-	23,129,199	-
Money market funds	1,531,718	-	-
Repurchase agreements	-	800,000	-
Vanguard Institutional Index Fund	24,295,998	-	-
Total	$ 25,827,716	$ 270,463,539	$ -

The following table provides further details of the Level 3 fair value measurements for the other invested assets as of December 31, 2016:

	Available for Sale Debt Securities
Beginning balance as of January 1, 2016	$ 673,618
Transfers in	1,416,200
Purchases	4,898,517
Transfers out	(6,956,111)
Amortization	206
Total unrealized losses	(32,430)
Ending balance as of December 31, 2016	$ -

During 2016, 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 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:

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.

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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

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.

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 measurements 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 year ended December 31, 2017 there were no transfers of level 3 investments. For the year ended December 31, 2016 the significant transfers in and out of Levels 2 and 3 are disclosed within the schedule above.

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, 2017 and 2016, 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.

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.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

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, 2017 and 2016, HARRG obtained coverage with various subscribing reinsurers, which provides 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, 2017 and 2016, HARRG obtained reinsurance coverage with various subscribing reinsurers, which provides for $10,000,000 of coverage in excess of $5,000,000.

<u>Housing Enterprise Insurance Company, Inc.</u>: HEIC writes both property and casualty coverages on a direct basis. In 2017 and 2016, 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 limit up to $300,000,000 and $750,000,000 per occurrence for property in 2017 and 2016, respectively. Additionally, HEIC secured reinsurance for amounts in excess of their retained limit up to $5,000,000 per occurrence for casualty as of July 1, 2017 and 2016. The property limit of $300,000,000 and $750,000,000 per occurrence in 2017 and 2016, respectively, is a shared aggregate limit with HAPI.

In 2017, HEIC secured additional reinsurance coverage for retained property catastrophic event losses in excess of a $10,000,000 shared aggregate retention limit with HAPI up to $22,000,000. As of December 31, 2017, HEIC recorded a reinsurance recoverable in the amount of $1,733,857, related to this coverage, which is recorded in reinsurance recoverable on unpaid losses within the consolidated balance sheets. In 2016, HEIC secured reinsurance coverage for property losses within HEIC's retention, in excess of $10,000,000, per catastrophic event. There is no reinsurance recoverable recorded related to this coverage.

Effective January 1, 2015, 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 2017 and 2016, the Company assumed $31,058 and $548 of premiums, respectively, from HSIC related to this contract. There were no ceded losses recorded for the years ended December 31, 2017 and 2016 under this contract.

NOTE 6 - INSURANCE ACTIVITY (Continued)

Innovative Housing Insurance Company, Inc.: IHIC provides contractual liability insurance coverage to HAGL on a claims made basis. IHIC indemnifies HAGL against losses arising out of the payment of contractual reimbursement benefits to any of HAGL's associates in accordance with the certificate of benefits issued to such associates. Policy limits are defined in each individual certificate of benefit issued.

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 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 Companies 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.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

Premiums written, assumed and ceded for the years ended December 31, 2017 and 2016, are summarized as follows:

	Premiums Written		Premiums Earned	
	2017	2016	2017	2016
Direct premiums	$ 68,421,340	$ 68,035,108	$ 69,262,499	$ 65,485,243
Premiums assumed	1,765,873	1,694,829	1,729,042	1,818,134
Premiums ceded	(9,898,839)	(10,943,713)	(11,291,781)	(11,262,340)
Net premiums	$ 60,288,374	$ 58,786,224	$ 59,699,760	$ 56,041,037

A reconciliation of changes in unpaid losses and loss adjustment expenses are summarized as follows as of and for the years ended December 31, 2017 and 2016:

	2017	2016
Balance at beginning of year	$ 127,584,448	$ 108,491,000
Less: reinsurance recoverables	(5,053,727)	(1,972,272)
Net balance at beginning of year	122,530,721	106,518,728
Incurred related to		
Current year	56,280,000	52,542,000
Prior years	(25,109,362)	(1,181,935)
Total incurred	31,170,638	51,360,065
Paid related to		
Current year	(9,349,000)	(6,379,000)
Prior years	(24,547,439)	(28,969,072)
Total paid	(33,896,439)	(35,348,072)
Net balance at end of year	119,804,920	122,530,721
Plus: reinsurance recoverables	9,338,427	5,053,727
Balance at end of year	$ 129,143,347	$ 127,584,448

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by approximately $25,109,362 and $1,181,935 in 2017 and 2016, respectively. The development during 2017 relates primarily to favorable development on HARRG's retained liability book of business for accident years 2016 and 2015. The development during 2016 relates to favorable development on HARRG's retained liability book of business for accident years 2011 and 2009.

The tables that follow present the Company's incurred and paid claims development by accident year for the last ten years (or losses based on the inception of the coverage). Management believes that the most meaningful presentation of claims development is presenting all relevant historical information for all periods presented. The following tables show incurred and paid claims development, by accident year. Incurred claims and allocated claim adjustment expenses for the year ended December 31, 2017 is audited. All prior years are considered required supplementary information and, therefore, are unaudited.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

The Company incorporates a variety of actuarial methods and judgments in its reserving process. Two key inputs in the various actuarial methods employed by the Company are initial expected loss ratios and expected loss reporting patterns. These key inputs impact the potential variability in the estimate of the reserve for losses and loss adjustment expenses and are applicable to each of the Company's business segments. The Company's loss and loss adjustment reserves consider and reflect, in part, deviations resulting from differences between expected loss and actual loss reporting as well as judgments relating to the weights applied to the reserve levels indicated by the actuarial methods. Expected loss reporting patterns are based upon internal and external historical data and assumptions regarding claims reporting trends over a period of time that extends beyond the Company's own operating history. Reserves are not discounted for the purposes of calculating the liability for unpaid claims.

The Company counts an insurance claim when either an indemnity or allocated adjustment expense amount has been paid, or at any period end, the Company recorded a case reserve.

The following is information about incurred and paid claims development net of reinsurance, as well as cumulative claim frequency and the total of IBNR liabilities as of December 31, 2017. The information about incurred and paid claims development for the years ended December 31, 2008 to 2016 is presented as supplementary information and is unaudited.

HARRG - General Liability - Occurrence
($ in thousands)

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										As of December 31, 2017	
	For the Years Ended December 31, (Unaudited)											Cumulative Number of
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	IBNR Reserves	Reported Claims
2008	$ 26,491	$ 19,824	$ 16,180	$ 12,854	$ 9,274	$ 8,602	$ 8,409	$ 11,731	$ 10,398	$ 8,902	$ 64	804
2009		22,219	20,407	16,639	13,146	10,936	9,315	8,567	7,953	7,798	134	780
2010			22,312	19,818	17,730	15,053	12,723	11,968	12,510	12,186	177	961
2011				20,229	17,021	14,424	11,715	10,180	9,465	9,148	439	903
2012					21,628	17,024	13,161	10,655	9,875	9,283	476	834
2013						18,432	17,118	15,596	14,727	14,351	1,202	967
2014							21,794	19,143	20,506	18,337	2,745	1,316
2015								21,219	23,501	20,606	4,742	1,268
2016									26,524	20,346	10,696	887
2017										23,017	17,194	699
									Total	$ 143,974		

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance									
	For the Years Ended December 31, (Unaudited)									
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
2008	$ 296	$ 1,481	$ 3,249	$ 4,912	$ 6,348	$ 6,905	$ 7,121	$ 8,101	$ 8,120	$ 8,809
2009		394	1,483	3,567	5,157	6,775	7,239	7,462	7,574	7,581
2010			467	1,485	3,657	5,126	8,427	10,080	11,438	11,671
2011				302	1,174	3,483	5,788	7,400	7,763	8,039
2012					311	4,169	5,968	7,318	7,926	8,306
2013						302	1,222	6,056	8,899	10,575
2014							434	1,979	5,624	9,708
2015								479	5,090	7,220
2016									350	1,636
2017										414
									Total	73,959
						Net liabilities for claims and claim adjustment expenses				$ 70,015

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

HARRG - General Liability - Claims Made

($ in thousands)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, (Unaudited) — As of December 31, 2017

Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	IBNR Reserves	Cumulative Number of Reported Claims
2008	$ 11,507	$ 8,545	$ 3,275	$ 1,488	$ 1,039	$ 1,002	$ 968	$ 961	$ 961	$ 990	$ 4	58
2009		12,778	6,672	3,190	1,369	1,067	1,149	1,138	1,094	1,067	-	56
2010			13,913	8,904	10,622	8,399	7,971	7,967	7,687	7,963	25	91
2011				8,334	5,073	2,273	2,193	2,193	2,105	2,076	56	94
2012					7,357	7,010	4,512	3,925	3,702	3,522	42	94
2013						6,765	6,206	4,844	4,297	3,325	260	88
2014							7,291	5,308	3,503	2,210	260	105
2015								6,456	5,808	5,238	1,555	125
2016									6,467	5,271	2,580	86
2017										5,526	4,470	96
									Total	$ 37,188		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, (Unaudited)

Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
2008	$ 230	$ 469	$ 633	$ 912	$ 946	$ 947	$ 947	$ 958	$ 958	$ 958
2009		92	611	769	929	972	1,032	1,061	1,067	1,067
2010			152	2,014	6,284	6,826	7,034	7,416	7,563	7,750
2011				114	616	1,015	1,349	1,819	1,850	1,903
2012					147	1,605	2,973	3,095	3,362	3,477
2013						107	863	1,933	2,854	2,990
2014							140	790	1,440	1,719
2015								260	1,235	2,712
2016									145	1,424
2017										68
									Total	24,068
All outstanding liabilities for unpaid claims and allocated claim adjustment expenses before 2008, net of reinsurance										23
Net liabilities for claims and claim adjustment expenses										$ 13,143

HARRG - Auto

($ in thousands)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, (Unaudited) — As of December 31, 2017

Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	IBNR Reserves	Cumulative Number of Reported Claims
2008	$ 2,815	$ 2,715	$ 1,775	$ 1,190	$ 1,102	$ 1,101	$ 1,094	$ 1,094	$ 1,094	$ 1,094	$ -	406
2009		5,007	2,937	2,566	2,276	2,002	1,964	1,964	1,959	1,959	-	386
2010			4,003	3,284	2,449	2,630	2,351	2,278	2,196	2,196	-	473
2011				3,925	2,168	2,023	1,875	1,718	1,694	1,666	9	506
2012					2,026	1,902	2,225	2,775	2,836	2,786	9	435
2013						2,121	2,229	1,904	2,256	2,508	85	401
2014							3,459	2,638	3,055	3,487	(68)	500
2015								1,562	2,522	2,299	612	492
2016									3,727	3,701	1,160	476
2017										3,764	2,754	427
									Total	$ 25,460		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, (Unaudited)

Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
2008	$ 396	$ 721	$ 870	$ 1,001	$ 1,094	$ 1,094	$ 1,094	$ 1,094	$ 1,094	$ 1,094
2009		406	805	1,584	1,722	1,960	1,960	1,959	1,959	1,959
2010			527	1,235	1,791	2,175	2,191	2,191	2,196	2,196
2011				510	977	1,380	1,603	1,613	1,616	1,617
2012					386	846	1,004	1,960	2,689	2,777
2013						296	685	1,636	1,703	2,050
2014							466	1,456	2,032	2,915
2015								434	1,056	1,423
2016									511	1,376
2017										455
									Total	17,862
All outstanding liabilities for unpaid claims and allocated claim adjustment expenses before 2008, net of reinsurance										170
Net liabilities for claims and claim adjustment expenses										$ 7,768

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

HEIC - Commercial Property

($ in thousands)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, (Unaudited) — As of December 31, 2017

Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	IBNR Reserves	Cumulative Number of Reported Claims
2008	$ 2,149	$ 1,965	$ 1,645	$ 1,603	$ 1,598	$ 1,491	$ 1,491	$ 1,491	$ 1,491	$ 1,491	$ -	73
2009		2,938	1,995	1,753	1,698	1,766	1,711	1,711	1,711	1,711	-	93
2010			4,981	4,145	4,061	4,054	3,941	3,943	3,941	3,941	-	91
2011				9,322	8,860	8,213	8,227	8,010	7,994	7,994	-	140
2012					9,603	8,354	8,187	8,140	8,140	8,140	-	132
2013						9,585	7,615	7,431	7,403	7,418	-	150
2014							5,640	5,606	5,098	5,060	-	130
2015								6,715	7,217	6,678	44	143
2016									10,288	9,178	(49)	192
2017										16,512	2,923	213
									Total	$ 68,123		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, (Unaudited)

Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
2008	$ 1,010	$ 1,398	$ 1,456	$ 1,458	$ 1,491	$ 1,491	$ 1,491	$ 1,491	$ 1,491	$ 1,491
2009		613	1,583	1,698	1,698	1,698	1,711	1,711	1,711	1,711
2010			1,932	3,688	3,940	3,940	3,941	3,941	3,941	3,941
2011				5,498	7,818	7,976	7,977	7,983	7,994	7,994
2012					5,375	7,657	8,126	8,140	8,140	8,140
2013						5,276	7,343	7,403	7,403	7,418
2014							2,879	4,875	5,081	5,060
2015								4,079	5,889	6,601
2016									5,760	8,389
2017										8,092
									Total	58,837
									Net liabilities for claims and claim adjustment expenses	$ 9,286

HEIC - General Liability

($ in thousands)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, (Unaudited) — As of December 31, 2017

Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	IBNR Reserves	Cumulative Number of Reported Claims
2008	$ 1,331	$ 1,325	$ 1,135	$ 1,186	$ 1,236	$ 1,070	$ 1,068	$ 1,062	$ 1,062	$ 1,062	$ 1	120
2009		1,458	1,514	1,767	1,350	1,163	1,093	919	919	919	-	123
2010			3,103	2,120	2,243	1,914	1,755	1,504	1,548	1,543	26	120
2011				2,373	4,368	3,406	3,741	3,457	2,964	3,066	54	219
2012					5,179	6,339	6,446	5,910	5,579	4,742	85	198
2013						6,507	8,394	8,662	7,817	7,778	320	222
2014							7,354	5,432	5,124	4,238	520	191
2015								6,996	6,247	5,079	1,613	198
2016									8,452	6,300	2,313	186
2017										7,461	4,059	222
									Total	$ 42,188		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance — For the Years Ended December 31, (Unaudited)

Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
2008	$ 45	$ 139	$ 374	$ 630	$ 856	$ 983	$ 1,002	$ 1,052	$ 1,053	$ 1,053
2009		75	324	582	745	880	896	919	919	919
2010			142	619	931	1,139	1,324	1,478	1,484	1,510
2011				327	897	1,433	2,255	2,709	2,753	2,797
2012					187	1,273	2,167	3,089	4,147	4,252
2013						351	1,499	3,153	4,806	6,221
2014							165	663	1,473	2,691
2015								187	1,129	2,048
2016									183	795
2017										322
									Total	22,608
									All outstanding liabilities for unpaid claims and allocated claim adjustment expenses before 2008, net of reinsurance	13
									Net liabilities for claims and claim adjustment expenses	$ 19,593

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

The reconciliation of the net incurred and paid claims development tables to the liability for unpaid loss and loss adjustment expense in the consolidating balance sheet, expressed in thousands, as of December 31, 2017 is as follows:

Net outstanding liabilities for unpaid losses and loss adjustment expenses:	
HARRG - General liability - occurrence	$ 70,015
HARRG - General liability - claims made	13,143
HARRG - Auto	7,768
HEIC - Commercial property	9,286
HEIC - General liability	19,593
Net outstanding liabilities for unpaid losses and loss adjustment expenses	119,805
Reinsurance recoverable on unpaid losses and loss adjustment expenses:	
HARRG - General liability - occurrence	-
HARRG - General liability - claims made	-
HARRG - Auto	-
HEIC - Commercial property	9,338
HEIC - General liability	-
Reinsurance recoverable on unpaid losses and loss adjustment expenses	9,338
Total gross liability for unpaid losses and loss adjustment expenses	$ 129,143

The following is required supplementary information about average historical claims duration as of December 31, 2017.

	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)									
Years	1	2	3	4	5	6	7	8	9	10
HARRG - General Liability - Occurrence	2.9%	14.5%	21.6%	19.0%	16.6%	6.8%	4.9%	4.8%	0.1%	7.7%
HARRG - General Liability - Claims Made	6.2%	28.5%	29.1%	15.7%	7.4%	3.1%	1.8%	1.4%	0.0%	0.0%
HARRG - Auto	19.5%	24.6%	22.4%	16.0%	10.3%	0.7%	0.1%	0.0%	0.0%	0.0%
HEIC - Commercial Property	58.8%	34.2%	5.0%	0.0%	0.4%	0.2%	0.0%	0.0%	0.0%	0.0%
HEIC - General Liability	5.6%	18.1%	20.7%	21.7%	17.2%	5.5%	1.5%	2.2%	0.0%	0.0%

(Continued)

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, 2017 and 2016:

	2017	2016
Land	$ 2,580,836	$ 2,580,836
Building	14,261,715	13,769,324
Furniture and fixtures	1,788,423	1,747,938
EDP equipment	5,616,489	4,510,889
	24,247,463	22,608,987
Less: accumulated depreciation	(10,430,864)	(8,871,761)
	13,816,599	13,737,226
Construction in progress	426,047	6,550,380
Total property and equipment	$ 14,242,646	$ 20,287,606

Depreciation expense for the years ended December 31, 2017 and 2016 was $1,445,534 and $1,171,980, respectively. Depreciation expense of $672,085 and $670,510 was allocated to affiliated entities per the management services agreement, as disclosed in Note 9 in 2017 and 2016, respectively.

During 2017, the Company ceased the development of an internal use software project which had been under development for several years. As a result the Company wrote off the asset in the amount of $6,758,161, which had been included in property and equipment on the consolidated balance sheet. The Company allocated $3,088,871 of the write down to affiliated entities in accordance with the facilities agreement further described in Note 9.

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 in 2018. The term loan contains certain financial and compliance covenants. As of December 31, 2017 and 2016, HARRG was in compliance with all of these covenants. The term loan matures on October 15, 2018. As of December 31, 2017 and 2016, the term loan had an outstanding balance of $6,510,934 and $7,011,156, respectively. Interest expense related to the term loan amounted to $205,665 and $221,256 for the years ended December 31, 2017 and 2016 respectively, and is included within general and administrative expenses on the consolidated statements of comprehensive income (loss).

The aggregate scheduled principal repayments on the long-term debt of HARRG are as follows as of December 31, 2017:

2018	$ 6,510,934
	$ 6,510,934

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 $1,512,596 and $1,546,382 for the years ended December 31, 2017 and 2016, respectively. During 2017 and 2016, the Company disbursed $125,000, 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 $69,011 and $119,569 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, commission expense under this agreement amounted to $657,788 and $613,203, respectively, expensed within policy acquisition costs within the consolidated statements of comprehensive income (loss).

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 $83,481 and $75,100 fees paid to HTI for the years ended December 31, 2017 and 2016, respectively.

HARRG has common paymaster and facilities agreements 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	
	2017	2016
HIS	$ 3,983,884	$ 3,733,887
HAPI	13,272,195	7,702,121
HEIC	5,964,299	4,387,995
HTI	1,242,966	998,141
HAI	1,788,611	2,076,717
HIG	547,671	610,952
IHIC	127,570	114,961
Housing Systems Solutions, Inc. (HSS)	955,107	2,939,337
Public and Affordable Housing Research Corporation (PAHRC)	474,224	602,445
Housing Specialty Insurance Company, Inc. (HSIC)	986,713	604,362
Total	$ 29,343,240	$ 23,770,918

(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, 2017 and 2016, the Company had the following amounts receivable from and payable to affiliated entities:

	2017		2016	
	Amounts Receivable	Amounts Payable	Amounts Receivable	Amounts Payable
HAPI	$ 1,952,212	$ -	$ 1,010,347	$ -
HAI	132,590	-	201,641	-
HTI	-	65,773	194,024	-
HSIC	144,878	-	67,675	-
HIG	126,011	-	32,912	-
HIS	458,338	8,873	420,745	6,741
HSS	-	101,787	264,857	-
PAHRC	45,525	-	47,938	-
Total	$ 2,859,554	$ 176,433	$ 2,240,139	$ 6,741

NOTE 10 - EMPLOYEE BENEFITS

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 makes safe harbor profit sharing contributions to the Plan equal to 100% of the first 6% of participants' eligible compensation after one year of service. In addition, HARRG may make an additional profit sharing contribution at the discretion of the Board of Directors. Prior to January 1, 2017, the Company also made discretionary matching contributions equal to 50% of each participant's elective deferral contribution up to a maximum of 4% of eligible compensation. Contributions amounted to $936,937 and $676,424 for the years ended December 31, 2017 and 2016, respectively. Administration expenses for the plan are paid by HARRG.

Participants are immediately vested in their deferral and rollover contributions, including the earnings on those amounts. Participants are also immediately vested in discretionary employer matching contributions and safe harbor profit sharing contributions. Vesting in discretionary profit sharing contributions is based on years of continuous service. Participants are fully vested in discretionary profit sharing contributions upon the completion of three years of service. Participants are also fully vested upon reaching normal retirement age, death or total disability.

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. During 2016, accumulated benefits were paid out to all participants covered. As of December 31, 2017 and 2016, the SERP's cash value associated with related life insurance amounted to $1,826,795 and $1,768,008, respectively. SERP expenses incurred amounted to $180,444 and $34,882 for the years ended December 31, 2017 and 2016, respectively.

(Continued)

NOTE 10 - EMPLOYEE BENEFITS (Continued)

The Company provides incentive compensation to its employees, on a discretionary basis. Accrued incentive compensation expense amounted to $1,604,495 and $644,158 as of December 31, 2017 and 2016, respectively, recorded in accrued expenses and other liabilities on the consolidated balance sheets. The Company expensed $1,646,344 and $546,622 of incentive compensation for the years ended December 31, 2017 and 2016, 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 $105,225 for the year ended December 31, 2016. The accrued benefit obligation recorded amounted to $2,894,682 and $2,952,730 as of December 31, 2017 and 2016. Effective December 31, 2017, contributions and interest are discontinued and the plan is frozen. Balances will be paid out as participants meet the plan requirements.

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 50% 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 for the year ended December 31, 2017. No policyholder dividends were declared for the year ended December 31, 2016. For the year ended December 31, 2017, $2,940,000 related to Class “A” members. During 2017, dividends were declared to Class “B” members in the amount of $60,000, with $30,000 to be paid in cash related to 2017 and $30,000 to be recorded as members’ recapitalization dividends within the consolidated statements of changes in equity. In total, policyholder dividends of $2,969,538 and $0 were expensed for the years ended December 31, 2017 and 2016, respectively, within the consolidated statements of comprehensive income (loss). Dividends were approved by the Vermont Department of Financial Regulation (the Department).

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 statements of comprehensive income (loss) for the years ended December 31, 2017 and 2016.

As part of its policyholder dividend program, HARRG also issues risk control dividends to eligible members. Risk control dividends of $500,000 and $708,234 were expensed during 2017 and 2016, respectively.

NOTE 11 - EQUITY AND SURPLUS (Continued)

HARRG provides its members with equity dividends for the purchase of web-based education as part of the HTI program. Equity dividends amounted to $628,221 and $496,922 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, there were member PHAs that are no longer policyholders; however, they have not formally 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 sheets. There are no member equity refunds payable as of December 31, 2017 and 2016.

HARRG is required by 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.

As a sponsored captive insurance company, IHIC is required by the Department to maintain minimum statutory surplus of $500,000.

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 (loss) was $5,063,034 and $(10,522,747) for the years ended December 31, 2017 and 2016, respectively. The amount of statutory surplus was $186,898,634 and $176,190,542 as of December 31, 2017 and 2016, 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 amounted to $1,301,713 and $727,806 for the years ended December 31, 2017 and 2016, respectively. The amount of statutory surplus amounted to $33,638,715 and $32,392,255 as of December 31, 2017 and 2016, respectively. No dividends were declared in fiscal years 2017 and 2016.

(Continued)

NOTE 12 - STATUTORY ACCOUNTING PRACTICES (Continued)

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, 2017 and 2016.

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 determined by applying the 34% regular federal income tax rate to pre-tax net income (loss) as follows:

	2017		2016	
Federal income taxes computed at the statutory rate	$ 206,385	34.00%	$ 298,406	34.00%
Valuation allowance	(2,505,528)	(412.76%)	2,104,035	239.73%
Expense due to enactment of federal tax reform	2,268,319	373.68%	-	-
Other	(45,204)	(7.45%)	(39,855)	(4.54%)
Total	$ (76,028)	(12.53%)	$ 2,362,586	269.19%

Federal income tax benefit consists of the following for the years ended December 31, 2017 and 2016:

	2017	2016
Current	$ (60,590)	$ 15,323
Deferred:		
Deferred tax expense (benefit) exclusive of the effects of other components listed below	(15,438)	280,428
Expense due to enactment of federal tax reform	2,268,319	-
Decrease in valuation allowance due to enactment of federal tax reform	(2,268,319)	-
Increase in beginning of year balance of the valuation allowance for deferred tax assets	-	2,066,835
Total	$ (76,028)	$ 2,362,586

NOTE 13 - FEDERAL INCOME TAXES (Continued)

The tax effect of temporary differences, which result in deferred tax assets and liabilities, as of December 31, 2017 and 2016, are as follows:

	2017	2016
Deferred tax assets		
Discounted loss reserves	$ 332,274	$ 592,671
Unearned premiums	587,211	1,014,807
AMT credit	-	60,590
Accrued bonus	116,248	70,743
Accrued severance	8,338	-
Retiree medical expense	30,753	53,769
Net operating loss carry-forward	3,096,124	5,357,733
Gross deferred tax assets	4,170,948	7,150,313
Deferred tax liabilities		
Deferred service fee income	(4,070)	(6,589)
Unrealized gains	(86,917)	(125,284)
Deferred policy acquisition costs	(415,754)	(848,705)
Gross deferred tax liabilities	(506,741)	(980,578)
Valuation allowance	(3,664,207)	(6,169,735)
Deferred tax asset, net	$ -	$ -

HEIC has a net operating loss carry-forward as of December 31, 2017 of $14,549,629 which will begin to expire in 2031. HEIC has no capital loss carryovers. Additionally, HEIC has $84,147 of AMT carryovers available as of December 31, 2017. Due to the refundable nature of AMT credits, these amounts have been reclassified from deferred tax asset to federal income tax receivable.

IHIC has net operating loss carry-forwards as of December 31, 2017 of $193,819, which will begin to expire in 2035. The Company has no capital loss or AMT credit carryovers available.

As of December 31, 2017 and 2016, HEIC and IHIC recorded a full valuation allowance against the deferred tax asset of $3,664,207 and $6,169,735, respectively, as they believe it is more likely than not that the gross deferred tax asset will not be realized. Management based this decision on its projections of future taxable income.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

As of December 31, 2017 and 2016, 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 were no outstanding balances as of December 31, 2017 and 2016.

As of December 31, 2017 and 2016, HEIC has a $5,000,000 line of credit with BBH for the purpose of meeting short-term operating cash requirements. There were no outstanding balanced as of December 31, 2017 and 2016.

(Continued)

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

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, 2017 and 2016, HEIC has not accrued for or been assessed by any state insurance department.

As of December 31, 2017 and 2016, HARRG had a $3,223,763 irrevocable letter of credit with 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, 2017 and 2016.

NOTE 15 - LOSS CONTINGENCY

As of December 31, 2017, the Company has recorded its share of a loss contingency relating to legal proceedings arising in the ordinary course of business. The Company and its affiliates currently estimate that the aggregate range of reasonably possible loss in excess of the amount accrued is zero to $2,000,000. It does not represent the Company's maximum possible loss exposure. This estimate is based upon currently available information and is subject to significant judgment and a variety of assumptions and uncertainties. In the event of an unfavorable outcome in one or more of these matters, the ultimate liability may be in excess of amounts currently accrued. However, based on information currently known, management believes that the ultimate outcome is not likely to be in excess of the amount accrued. As of December 31, 2017, the Company recorded $853,780 related to this loss contingency.

	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	$ 239,356,655	$ 66,584,880	$ -	$ -	$ 305,941,535
Federal Home Loan Bank of Boston stock, at cost	240,300	-	-	-	240,300
Investment in HIG	4,174,733	-	-	-	4,174,733
Investment in HEIC	22,924,015	-	-	(22,924,015)	-
Investment in HSIC	8,211,329	-	-	-	8,211,329
Investment in IHIC	3,613,694	-	-	(3,613,694)	-
Total investments	278,520,726	66,584,880	-	(26,537,709)	318,567,897
Cash and cash equivalents	9,816,573	1,509,635	3,783,356	-	15,109,564
Reinsurance recoverables on unpaid losses	-	9,338,427	-	-	9,338,427
Reinsurance recoverables on paid losses	1,566,590	630,356	-	-	2,196,946
Premiums receivable	9,364,735	13,675,701	25,000	-	23,065,436
Prepaid reinsurance premiums	920,264	2,647,270	-	-	3,567,534
Due from affiliates	3,514,023	6,788	-	(661,257)	2,859,554
Accrued investment income	1,241,896	-	-	-	1,241,896
Deferred policy acquisition costs	431,803	1,979,783	-	-	2,411,586
Property and equipment, net	14,242,646	-	-	-	14,242,646
Federal income tax receivable	-	78,744	-	-	78,744
Other assets	3,173,820	474,185	4	-	3,648,009
Total assets	$ 322,793,076	$ 96,925,769	$ 3,808,360	$ (27,198,966)	$ 396,328,239
LIABILITIES AND EQUITY					
Liabilities:					
Unpaid losses and loss adjustment expenses	$ 90,926,255	$ 38,217,092	$ -	$ -	$ 129,143,347
Unearned premiums	16,000,689	16,459,977	95,295	-	32,555,961
Reinsurance balances payable	639,193	318,530	-	-	957,723
Term loan	6,510,934	-	-	-	6,510,934
Accrued policyholder dividends	3,529,688	-	-	-	3,529,688
Advance premiums	3,635,889	4,221,339	73,215	-	7,930,443
Due to affiliates	167,560	652,699	17,431	(661,257)	176,433
Accrued expenses and other liabilities	9,660,547	895,288	8,725	-	10,564,560
Total liabilities	131,070,755	60,764,925	194,666	(661,257)	191,369,089
Equity:					
Members' contributions	10,961,905	-	-	-	10,961,905
Common stock, $10,000 stated value, 10,000 shares authorized and 2,000 shares issued and outstanding	-	20,000,000	-	(20,000,000)	-
Common stock, $10,000 stated value, 10,000 shares authorized and 50 shares issued and outstanding	-	-	500,000	(500,000)	-
Contributed surplus	-	29,000,000	3,350,000	(32,350,000)	-
Accumulated other comprehensive income	10,121,456	326,973	-	(326,973)	10,121,456
Retained earnings (deficit)	170,638,960	(13,166,129)	(236,306)	13,402,435	170,638,960
Total equity before non-controlling interest	191,722,321	36,160,844	3,613,694	(39,774,538)	191,722,321
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	-	-	-	260,856	260,856
Retained deficit	-	-	-	(4,274,027)	(4,274,027)
Total non-controlling interest	-	-	-	13,236,829	13,236,829
Total liabilities and equity	$ 322,793,076	$ 96,925,769	$ 3,808,360	$ (27,198,966)	$ 396,328,239

HOUSING AUTHORITY RISK RETENTION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2016

	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	$ 233,545,151	$ 60,414,386	$ -	$ -	$ 293,959,537
Federal Home Loan Bank of Boston stock, at cost	240,300	-	-	-	240,300
Investment in HIG	4,744,836	-	-	-	4,744,836
Investment in HEIC	22,384,050	-	-	(22,384,050)	-
Investment in HSIC	7,854,348	-	-	-	7,854,348
Investment in IHIC	1,631,399	-	-	(1,631,399)	-
Total investments	270,400,084	60,414,386	-	(24,015,449)	306,799,021
Cash and cash equivalents	3,631,889	3,349,186	1,654,420	-	8,635,495
Reinsurance recoverables on unpaid losses	667,862	4,385,865	-	-	5,053,727
Reinsurance recoverables on paid losses	1,477,605	1,459,698	-	-	2,937,303
Premiums receivable	7,931,853	14,085,838	-	-	22,017,691
Prepaid reinsurance premiums	829,102	4,131,374	-	-	4,960,476
Due from affiliates	2,792,985	-	-	(552,846)	2,240,139
Accrued investment income	1,267,977	-	-	-	1,267,977
Deferred policy acquisition costs	423,127	2,496,191	-	-	2,919,318
Investments receivable	-	2,400,000	-	-	2,400,000
Property and equipment, net	20,287,606	-	-	-	20,287,606
Other assets	3,913,832	523,963	-	-	4,437,795
Total assets	$ 313,623,922	$ 93,246,501	$ 1,654,420	$ (24,568,295)	$ 383,956,548
LIABILITIES AND EQUITY					
Liabilities:					
Unpaid losses and loss adjustment expenses	$ 95,547,604	$ 32,036,844	$ -	$ -	$ 127,584,448
Unearned premiums	14,305,286	19,039,416	15,587	-	33,360,289
Reinsurance balances payable	527,465	874,576	-	-	1,402,041
Term loan	7,011,156	-	-		7,011,156
Accrued policyholder dividends	1,066,943	-	-	-	1,066,943
Advance premiums	3,627,004	4,201,357	-	-	7,828,361
Due to affiliates	-	552,153	7,434	(552,846)	6,741
Accrued expenses and other liabilities	8,355,878	1,210,185	-	-	9,566,063
Federal income taxes payable	-	1,846	-	-	1,846
Total liabilities	130,441,336	57,916,377	23,021	(552,846)	187,827,888
Equity:					
Members' contributions	10,952,114	-	-	-	10,952,114
Common stock, $10,000 stated value, 10,000 shares authorized and 2,000 shares issued and outstanding	-	20,000,000	-	(20,000,000)	-
Common stock, $10,000 stated value, 10,000 shares authorized and 50 shares issued and outstanding	-	-	500,000	(500,000)	-
Contributed surplus	-	29,000,000	1,250,000	(30,250,000)	-
Accumulated other comprehensive income	5,765,173	243,195	-	(243,195)	5,765,173
Retained earnings (deficit)	166,465,299	(13,913,071)	(118,601)	14,031,672	166,465,299
Total equity before non-controlling interest	183,182,586	35,330,124	1,631,399	(36,961,523)	183,182,586
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	-	-	-	250,363	250,363
Retained deficit	-	-	-	(4,554,289)	(4,554,289)
Total non-controlling interest	-	-	-	12,946,074	12,946,074
Total liabilities and equity	$ 313,623,922	$ 93,246,501	$ 1,654,420	$ (24,568,295)	$ 383,956,548

	Housing Authority Risk Retention Group, Inc.	Housing Enterprise Insurance Company, Inc.	Innovative Housing Insurance Company, Inc.	Eliminations	Consolidated
Revenues					
Premiums earned	$ 35,968,651	$ 34,996,512	$ 26,378	$ -	$ 70,991,541
Ceded premiums earned	(2,760,993)	(8,530,788)	-	-	(11,291,781)
Net earned premiums	33,207,658	26,465,724	26,378		59,699,760
Investment income, net	6,469,415	1,565,470	440	-	8,035,325
Unrealized loss on investments in affiliates	(231,191)	-	-	(402,782)	(633,973)
Net realized investment gains	1,093,637	8,409	-	-	1,102,046
Other income	-	35,918	-	-	35,918
Total revenues	40,539,519	28,075,521	26,818	(402,782)	68,239,076
Expenses					
Losses and loss adjustment expenses	13,854,045	17,316,593	-	-	31,170,638
Salaries and other compensation	7,796,712	3,519,657	74,579	-	11,390,948
Contractual services and professional fees	1,941,538	-	-	-	1,941,538
General and administrative expenses	8,443,812	3,098,736	69,944	-	11,612,492
Policy acquisition costs	193,356	3,415,814	-	-	3,609,170
Total expenses	32,229,463	27,350,800	144,523	-	59,724,786
Net income (loss) before policyholder dividends	8,310,056	724,721	(117,705)	(402,782)	8,514,290
Policyholder dividends	3,469,538	-	-	-	3,469,538
Net income (loss) before federal income tax benefit	4,840,518	724,721	(117,705)	(402,782)	5,044,752
Federal income tax benefit	-	(76,028)	-	-	(76,028)
Net income (loss)	4,840,518	800,749	(117,705)	(402,782)	5,120,780
Less net income (loss) attributable to non-controlling interest in HEIC	-	-	-	280,265	280,265
Net income (loss) attributable to the Company	4,840,518	800,749	(117,705)	(683,047)	4,840,515
Other comprehensive income					
Unrealized holding gains on available for sale securities, net of tax expense of $18,300 related to HEIC	5,412,034	35,521	-	(23,089)	5,424,466
Reclassification adjustments for realized gains included in net income, net of tax expense of $2,859 related to HEIC	(1,093,637)	(5,550)	-	3,608	(1,095,579)
Other comprehensive income	4,318,397	29,971	-	(19,481)	4,328,887
Less other comprehensive income attributable to non-controlling interest in HEIC	-	-	-	10,490	10,490
Other comprehensive income attributable to the Company	4,318,397	29,971	-	(29,971)	4,318,397
Comprehensive income (loss) attributable to the Company	$ 9,158,915	$ 830,720	$ (117,705)	$ (713,018)	$ 9,158,912

HOUSING AUTHORITY RISK RETENTION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF COMPREHENSIVE LOSS
Year Ended December 31, 2016

	Housing Authority Risk Retention Group, Inc.	Housing Enterprise Insurance Company, Inc.	Innovative Housing Insurance Company, Inc.	Eliminations	Consolidated
Revenues					
Premiums earned	$ 33,494,421	$ 33,799,543	$ 9,413	$ -	$ 67,303,377
Ceded premiums earned	(2,249,459)	(9,012,881)	-	-	(11,262,340)
Net earned premiums	31,244,962	24,786,662	9,413	-	56,041,037
Investment income, net	6,397,823	1,322,784	177	-	7,720,784
Unrealized loss on investments in affiliates	(6,265,252)	-	-	1,004,668	(5,260,584)
Net realized investment gains	720,429	109,361	-	-	829,790
Total revenues	32,097,962	26,218,807	9,590	1,004,668	59,331,027
Expenses					
Losses and loss adjustment expenses	35,342,576	16,017,489	-	-	51,360,065
Salaries and other compensation	6,268,956	3,005,998	80,197	-	9,355,151
Contractual services and professional fees	1,188,831	-	-	-	1,188,831
General and administrative expenses	4,516,418	2,945,488	39,157	-	7,501,063
Policy acquisition costs	978,924	3,262,404	-	-	4,241,328
Total expenses	48,295,705	25,231,379	119,354	-	73,646,438
Net (loss) income before policyholder dividends	(16,197,743)	987,428	(109,764)	1,004,668	(14,315,411)
Policyholder dividends	708,234	-	-	-	708,234
Net (loss) income before federal income tax expense	(16,905,977)	987,428	(109,764)	1,004,668	(15,023,645)
Federal income tax expense	-	2,359,581	3,005	-	2,362,586
Net loss	(16,905,977)	(1,372,153)	(112,769)	1,004,668	(17,386,231)
Less net loss attributable to non-controlling interest in HEIC	-	-	-	(480,255)	(480,255)
Net loss attributable to the Company	(16,905,977)	(1,372,153)	(112,769)	1,484,923	(16,905,976)
Other comprehensive income (loss)					
Unrealized holding gains (losses) on available for sale securities, net of tax benefit of $117,853 related to HEIC	2,676,521	(228,769)	-	148,700	2,596,452
Reclassification adjustments for realized gains included in net loss, net of tax expense of $37,183 related to HEIC	(720,429)	(72,178)	-	46,916	(745,691)
Other comprehensive income (loss)	1,956,092	(300,947)	-	195,616	1,850,761
Less other comprehensive loss attributable to non-controlling interest in HEIC	-	-	-	(105,331)	(105,331)
Other comprehensive income (loss) attributable to the Company	1,956,092	(300,947)	-	300,947	1,956,092
Comprehensive loss attributable to the Company	$ (14,949,885)	$ (1,673,100)	$ (112,769)	$ 1,785,870	$ (14,949,884)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY

FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

Report on the Financial Statements

We have audited the accompanying financial statements of Housing Authority Property Insurance, A Mutual Company, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of comprehensive income (loss), changes in members' equity and cash flows for the years 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 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 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 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.

(Continued)

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, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the claims development information for periods prior to 2017 and average payout of incurred claims information in Note 6 on pages 21-22 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
April 13, 2018

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
BALANCE SHEETS
December 31, 2017 and 2016

	2017	2016
ASSETS		
Investments		
Available-for-sale, at fair value	$ 131,624,127	$ 120,857,873
Federal Home Loan Bank of Boston stock, at cost	158,900	158,900
Investment in HEIC	13,236,826	12,946,076
Investment in HIG	4,174,733	4,744,836
Investment in HSIC	8,211,329	7,854,348
Total investments	157,405,915	146,562,033
Cash and cash equivalents	8,072,360	6,779,398
Premiums receivable	25,826,179	23,606,382
Reinsurance recoverables on unpaid losses	9,165,940	8,529,412
Reinsurance recoverables on paid losses	3,442,801	3,999,638
Prepaid reinsurance premiums	3,031,690	5,742,495
Deferred policy acquisition costs	1,988,084	1,813,924
Other assets	665,509	768,555
Due from affiliates	5,018	10,588
Total assets	$ 209,603,496	$ 197,812,425
LIABILITIES AND MEMBERS' EQUITY		
Unpaid losses and loss adjustment expenses	$ 44,615,116	$ 35,563,733
Unearned premiums	25,875,413	23,677,790
Reinsurance premiums payable	456,281	2,051,961
Reinsurance payable on paid losses and loss adjustment expenses	71,110	-
Accrued expenses and other liabilities	2,228,936	1,933,409
Accrued policyholder dividends	2,237	6,678
Due to affiliates	1,964,777	1,078,500
Advance premiums	11,426,030	11,288,926
Total liabilities	86,639,900	75,600,997
Members’ equity		
Members’ contributions	10,106,515	10,075,797
Accumulated other comprehensive income	4,787,509	3,306,707
Unassigned surplus	108,069,572	108,828,924
Total members’ equity	122,963,596	122,211,428
Total liabilities and members’ equity	$ 209,603,496	$ 197,812,425

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

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years Ended December 31, 2017 and 2016

	2017	2016
Revenues		
Premiums earned	$ 61,068,430	$ 58,011,013
Ceded premiums earned	(13,716,908)	(14,931,125)
Net premiums earned	47,351,522	43,079,888
Investment income, net	3,207,346	3,057,887
Unrealized loss on investments in affiliates	(353,710)	(5,740,838)
Net realized investment gains	844,645	47,029
Other income	82,259	-
Total revenues	51,132,062	40,443,966
Expenses		
Losses and loss adjustment expenses	31,952,684	28,617,221
Salaries and other compensation	6,305,560	4,898,374
General and administrative expenses	11,828,113	9,581,800
Contracted services and professional fees	1,622,327	895,531
Total expenses	51,708,684	43,992,926
Net loss	(576,622)	(3,548,960)
Other comprehensive income		
Unrealized holding gains	2,303,704	696,252
Reclassification for realized gains on sales included in net loss	(844,645)	(47,029)
Other comprehensive income	1,459,059	649,223
Comprehensive income (loss)	$ 882,437	$ (2,899,737)

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

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
Years Ended December 31, 2017 and 2016

	Members' Contributions	Accumulated Other Comprehensive Income	Unassigned Surplus	Total
Balance as of January 1, 2016	$ 10,032,267	$ 2,657,484	$ 112,543,669	$ 125,233,420
Net loss	-	-	(3,548,960)	(3,548,960)
Other comprehensive income	-	649,223	-	649,223
Equity dividends	-	-	(124,455)	(124,455)
Members' contributions, net	2,200	-	-	2,200
Members' recapitalization dividends	41,330	-	(41,330)	-
Balance as of December 31, 2016	10,075,797	3,306,707	108,828,924	122,211,428
Net loss	-	-	(576,622)	(576,622)
Other comprehensive income	-	1,459,059	-	1,459,059
Reclassification adjustment - equity method investment	-	21,743	(21,743)	-
Equity dividends	-	-	(157,537)	(157,537)
Members' contributions, net	27,268	-	-	27,268
Members' recapitalization dividends	3,450	-	(3,450)	-
Balance as of December 31, 2017	$ 10,106,515	$ 4,787,509	$ 108,069,572	$ 122,963,596

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

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Net loss	$ (576,622)	$ (3,548,960)
Adjustments to reconcile net loss to net cash provided by operating activities		
Net realized investment gains	(844,645)	(47,029)
Unrealized loss on investments in affiliates	353,710	5,740,837
Amortization and accretion on investments, net	78,981	204,367
Changes in assets and liabilities		
Premiums receivable	(2,219,797)	1,189,463
Reinsurance recoverables on unpaid losses	(636,528)	(4,547,097)
Reinsurance recoverables on paid losses	556,837	186,044
Prepaid reinsurance premiums	2,710,805	814,909
Deferred policy acquisition costs	(174,160)	47,462
Other assets	103,046	(3,685)
Due from affiliates	5,570	(10,588)
Unpaid losses and loss adjustment expenses	9,051,383	9,029,853
Unearned premiums	2,197,623	(396,835)
Reinsurance premiums payable	(1,595,680)	(67,990)
Reinsurance payable on paid losses and loss adjustment expenses	71,110	-
Accrued expenses and other liabilities	295,527	(239,656)
Accrued policyholder dividends	(4,441)	(948,322)
Due to affiliates	886,277	685,831
Advance premiums	137,104	(418,537)
Cash provided by operating activities	10,396,100	7,670,067
Cash flows from investing activities		
Purchases of available for sale securities	(66,508,533)	(47,317,685)
Purchase of Federal Home Loan Bank of Boston stock	-	(158,900)
Proceeds from securities sold	47,382,502	32,113,301
Maturities and prepayments of securities	10,553,162	12,210,505
Contributed capital to Housing Investment Group, Inc.	-	(4,000,000)
Contributed surplus to Housing Specialty Insurance Company, Inc.	(400,000)	-
Cash used in investing activities	(8,972,869)	(7,152,779)
Cash flows from financing activities		
Equity dividends	(157,537)	(124,455)
Members' contributions	27,268	2,200
Cash used in financing activities	(130,269)	(122,255)
Net change in cash and cash equivalents	1,292,962	395,033
Cash and cash equivalents, beginning of year	6,779,398	6,384,365
Cash and cash equivalents, end of year	$ 8,072,360	$ 6,779,398

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, 2017 and 2016. 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, 2017 and 2016, 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, Inc. (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, 2017 and 2016.

During 2016, the Company contributed capital of $4,000,000 to HIG. No contributions were made during 2017. There were no dividends declared or paid in 2017 or 2016.

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. No additional contributions were made during 2017 or 2016. As of December 31, 2017 and 2016, 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. The Company contributed additional surplus of $400,000 during 2017. No additional contributions were made during 2016. The Company owns 50% of HSIC as of December 31, 2017 and 2016.

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, 2017 and for the year then ended, is as follows:

	Total Assets	Total Liabilities	Total Equity	Net (Loss) Income
Housing Investment Group, Inc.	$ 43,853,890	$ 35,504,426	$ 8,349,464	$ (1,140,210)
Housing Enterprise Insurance Company, Inc.	$ 96,925,769	$ 60,764,925	$ 36,160,844	$ 800,749
Housing Specialty Insurance Company, Inc.	$ 18,595,649	$ 2,172,992	$ 16,422,657	$ (127,735)

Summarized financial information from the audited financial statements of these affiliates as of December 31, 2016 and for the year then ended, is as follows:

	Total Assets	Total Liabilities	Total Equity	Net (Loss) Income
Housing Investment Group, Inc.	$ 44,077,519	$ 34,587,845	$ 9,489,674	$ (10,690,297)
Housing Enterprise Insurance Company, Inc.	$ 93,246,501	$ 57,916,377	$ 35,330,124	$ (1,372,153)
Housing Specialty Insurance Company, Inc.	$ 17,000,209	$ 1,291,512	$ 15,708,697	$ 169,134

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Home Loan Bank of Boston Stock: The Company, which is a member of the Federal Home Loan Bank, is required to maintain an investment in capital stock of the Federal Home Loan Bank of Boston (FHLBB). Based on redemption provisions of the FHLBB, the stock has no quoted market value and is carried at cost in the amount of $158,900. At its discretion, the FHLBB may declare dividends on the stock. The Company reviews for impairment based on the ultimate recoverability of the cost basis in the FHLBB stock. As of December 31, 2017 and 2016, no impairment has been recognized.

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) 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 (loss).

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, 2017 and 2016.

Comprehensive Income (Loss): The Company accounts for comprehensive income (loss) in accordance with FASB ASC 220, *Reporting Comprehensive Income.* Comprehensive income (loss) 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 (loss). 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.

(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 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. For the years ended December 31, 2017 and 2016, the Company recorded premium taxes of $952,457 and $1,558,290, and agency commissions of $2,975,163 and $2,821,536, respectively, and is reported within general and administrative expenses on the statements of comprehensive income (loss).

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.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

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, 2017 and 2016.

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, 2017 and 2016, as management believes all amounts are fully collectable.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017 and 2016. 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, 2017 and 2016, the Company did not record any penalties or interest associated with unrecognized tax benefits. All tax years from 2015 forward are open and subject to examination by the Internal Revenue Service.

Recently Adopted Accounting Standards: Effective for fiscal years beginning after December 15, 2016, the FASB issued guidance that requires insurance entities that issue short-duration contracts to provide detailed disclosures relative to the reserve for losses and loss adjustment expenses in annual reporting periods. The guidance also requires disclosures regarding significant changes in the methodologies and assumptions used to calculate the reserve for losses and loss adjustment expenses, including reasons for and the effects of such changes. The Company has adopted the guidance with the issuance of its December 31, 2017 financial statements. Adoption of the guidance did not have a material effect on the Company's results of operations or financial position as it affects disclosures only.

In February 2018, the FASB issued ASU 2018-02, *"Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"*. This update permits a reclassification from accumulated other comprehensive income to unassigned surplus of the stranded tax effects resulting from the application of the new federal corporate income tax rate. FASB ASU 2018-02 is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The Company has adopted this update with the issuance of is December 31, 2017 financial statements. The adoption of this standard did not have a material impact on the Company's financial statements. The amount of the reclassification for the Company was $21,743, as shown in the statements of changes in shareholders' equity.

Subsequent Events: Subsequent events have been evaluated through April 13, 2018, which is the date the 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, 2017, are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury and government agencies	$ 52,832,444	$ 724,528	$ (560,453)	$ 52,996,519
State and political subdivisions	3,585,235	115,428	(38,237)	3,662,426
Corporate bonds	27,359,640	503,074	(158,119)	27,704,595
Collateralized debt obligations	9,215,660	4,362	(48,597)	9,171,425
Residential mortgage-backed securities	17,666,166	187,105	(188,440)	17,664,831
Commercial mortgage-backed securities	5,730,386	20,553	(61,793)	5,689,146
Total debt securities	116,389,531	1,555,050	(1,055,639)	116,888,942
Mutual funds	10,744,631	3,990,554	-	14,735,185
Total	$ 127,134,162	$ 5,545,604	$ (1,055,639)	$ 131,624,127

Investments classified as available for sale and carried at fair value, as of December 31, 2016, are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury and government agencies	$ 27,108,045	$ 661,840	$ (214,003)	$ 27,555,882
State and political subdivisions	3,621,207	105,647	(29,111)	3,697,743
Corporate bonds	44,909,371	1,026,920	(332,449)	45,603,842
Collateralized debt obligations	7,675,278	14,030	(20,114)	7,669,194
Residential mortgage-backed securities	18,019,699	282,561	(182,962)	18,119,298
Commercial mortgage-backed securities	6,061,463	71,850	(40,257)	6,093,056
Total debt securities	107,395,063	2,162,848	(818,896)	108,739,015
Mutual funds	10,400,566	1,718,292	-	12,118,858
Total	$ 117,795,629	$ 3,881,140	$ (818,896)	$ 120,857,873

As of December 31, 2017 and 2016, the Company held $158,900 of FHLBB stock, which is carried at cost as further, described in Note 2.

NOTE 3 - INVESTMENTS (Continued)

The cost and fair value of debt securities are shown by contractual maturity as of December 31, 2017. 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	$ 4,686,803	$ 4,689,920
After one year through five years	26,356,575	26,295,029
After five years through ten years	45,644,791	45,690,654
After ten years	7,089,150	7,687,937
Collateralized debt obligations	9,215,660	9,171,425
Residential mortgage-backed securities	17,666,166	17,664,831
Commercial mortgage-backed securities	5,730,386	5,689,146
Total	$ 116,389,531	$ 116,888,942

Proceeds from sales of securities amounted to $47,382,502 and $32,113,301 in 2017 and 2016, respectively. Gross gains of $1,003,206 and $236,493 and gross losses of $158,561 and $189,464 were realized on those sales during 2017 and 2016, respectively.

The Company holds 229 securities that are in an unrealized loss position as of December 31, 2017, of which 92 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, 2017:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury and government agencies	$ 45,042,773	$ (496,620)	$ 1,248,394	$ (63,833)
State and political subdivisions	679,645	(4,487)	641,250	(33,750)
Corporate bonds	7,484,414	(62,044)	3,641,705	(96,075)
Collateralized debt obligations	6,934,945	(36,122)	1,482,207	(12,475)
Residential mortgage-backed securities	4,652,399	(36,946)	6,173,094	(151,494)
Commercial mortgage-backed securities	2,279,162	(17,229)	1,375,978	(44,564)
Total	$ 67,073,338	$ (653,448)	$ 14,562,628	$ (402,191)

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The Company held 212 securities that were in an unrealized loss position as of December 31, 2016, of which 108 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, 2016:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury and government agencies	$ 11,379,814	$ (194,962)	$ 2,922,922	$ (19,041)
State and political subdivisions	-	-	651,000	(29,111)
Corporate bonds	9,324,119	(224,195)	7,708,389	(108,254)
Collateralized debt obligations	2,001,392	(18,350)	971,088	(1,764)
Residential mortgage-backed securities	3,322,800	(59,416)	6,368,084	(123,546)
Commercial mortgage-backed securities	-	-	2,308,842	(40,257)
Total	$ 26,028,125	$ (496,923)	$ 20,930,325	$ (321,973)

The Company had debt securities with amortized costs of $5,909,952 and $5,674,111 as of December 31, 2017 and 2016, respectively, deposited with state insurance departments and regulatory authorities and are restricted, as required by certain state statutes. These amounts are included in investments available-for-sale, at fair value on the balance sheets.

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, 2017 and 2016 are as follows:

	Available-for-Sale Securities	HEIC	HSIC	Total
Balance, January 1, 2016	$ 2,354,736	$ 355,869	$ (53,121)	$ 2,657,484
Other comprehensive income (loss) before reclassifications	754,537	(105,331)	47,046	696,252
Amounts reclassified from accumulated other comprehensive income [(a)]	(47,029)	-	-	(47,029)
Net current-period other comprehensive income (loss)	707,508	(105,331)	47,046	649,223
Balance, December 31, 2016	3,062,244	250,538	(6,075)	3,306,707
Other comprehensive income before reclassifications	2,272,366	10,490	20,848	2,303,704
Amounts reclassified from accumulated other comprehensive income [(a)]	(844,645)	-	-	(844,645)
Net current-period other comprehensive income	1,427,721	10,490	20,848	1,459,059
Reclassification adjustment - equity method investment	-	18,832	2,911	21,743
Balance, December 31, 2017	$ 4,489,965	$ 279,860	$ 17,684	$ 4,787,509

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

At December 31, 2017, the Company's affiliates, HEIC and HSIC, early adopted ASU 2018-02 and reclassified tax expenses of $53,807 and $5,822, respectively, out of accumulated other comprehensive income and into retained earnings that was recorded to income tax expense at December 22, 2017 due to the re-measurement of deferred taxes to 21% on available for sale securities and pension and other post-retirement benefits. The Company reclassified $18,832 and $2,911 related to their ownership percentages in HEIC and HSIC, respectively, related to the adoption of ASU 2018-02.

(Continued)

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, 2017, as follows:

	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 52,996,519	$ -
State and political subdivisions	-	3,662,426	-
Corporate bonds	-	27,704,595	-
Collateralized debt obligations	-	9,171,425	-
Residential mortgage-backed securities	-	17,664,831	-
Commercial mortgage-backed securities	-	5,689,146	-
Mutual funds	14,735,185	-	-
Repurchase agreement	-	900,000	-
Money market funds	244,857	-	-
Total	$ 14,980,042	$ 117,788,942	$ -

(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, 2016, as follows:

	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 27,555,882	$ -
State and political subdivisions	-	3,697,743	-
Corporate bonds	-	45,603,842	-
Collateralized debt obligations	-	7,669,194	-
Residential mortgage-backed securities	-	18,119,298	-
Commercial mortgage-backed securities	-	6,093,056	-
Mutual fund	12,118,858	-	-
Repurchase agreement	-	400,000	-
Money market funds	883,288	-	-
Total	$ 13,002,146	$ 109,139,015	$ -

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, 2016	$ 251,350
Transfers in	358,900
Transfers out	(2,014,770)
Purchases	1,414,587
Amortization	59
Total unrealized gains	(10,126)
Ending balance as of December 31, 2016	$ -

During 2016, certain securities were transferred from Level 3 to Level 2 due to observable market data becoming available for these securities. There were no significant transfers between levels in 2017.

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.

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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.

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

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, 2017 and 2016, 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 a direct basis. For 2017 and 2016, 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 $300,000,000 and $750,000,000 per occurrence for property in 2017 and 2016, respectively. The property limits of $300,000,000 and $750,000,000 per occurrence in 2017 and 2016, respectively, is a shared aggregate limit with HEIC.

In 2017, the Company secured additional reinsurance coverage for retained property catastrophic event losses in excess of a $10,000,000 shared aggregate retention limit with HEIC up to $22,000,000. In 2016, the Company secured reinsurance coverage for property losses within the Company’s retention, in excess of $10,000,000, per 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.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

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 2017 and 2016, the Company assumed $496,060 and $530,398, respectively, of premiums from HSIC related to this contract. For the year ended December 31, 2017, the Company assumed losses of $325,000 from HSIC under this contract. As of December 31, 2017, there was $71,110 due to HSIC included in reinsurance payable on paid losses and loss adjustment expenses on the balance sheets. There were no assumed losses recorded for the year ended December 31, 2016, as losses had not exceeded HSIC's retention.

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.

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 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 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, 2017 and 2016, are summarized as follows:

	Premiums Written		Premiums Earned	
	2017	2016	2017	2016
Direct premiums	$ 61,721,653	$ 56,042,819	$ 59,496,923	$ 56,429,845
Assumed premiums	1,544,400	1,571,359	1,571,507	1,581,168
Ceded premiums	(11,006,103)	(14,116,216)	(13,716,908)	(14,931,125)
Net premiums	$ 52,259,950	$ 43,497,962	$ 47,351,522	$ 43,079,888

A reconciliation of changes in unpaid losses and loss adjustment expenses for the years ended December 31, 2017 and 2016, are summarized as follows:

	2017	2016
Balance at beginning of year	$ 35,563,733	$ 26,533,880
Less: reinsurance recoverables	(8,529,412)	(3,982,315)
Net balance at beginning of the year	27,034,321	22,551,565
Incurred related to		
Current year	36,571,000	31,770,000
Prior years	(4,618,316)	(3,152,779)
Total incurred	31,952,684	28,617,221
Paid related to		
Current year	(11,361,000)	(14,397,000)
Prior years	(12,176,829)	(9,737,465)
Total paid	(23,537,829)	(24,134,465)
Net balance at end of year	35,449,176	27,034,321
Plus: reinsurance recoverables	9,165,940	8,529,412
Balance at end of year	$ 44,615,116	$ 35,563,733

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by $4,618,316 and $3,152,779, in 2017 and 2016, respectively, due to favorable development relating to accident years 2016 and 2015, respectively.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

The Company recorded net reinsurance recovery activity of $7,286,894 and $7,501,542 in 2017 and 2016, respectively, which are reflected as a decrease in losses and loss adjustment expenses incurred in the statements of comprehensive income (loss).

The tables that follow present the Company's incurred and paid claims development by accident year for the last ten years (or losses based on the inception of the coverage). Management believes that the most meaningful presentation of claims development is presenting all relevant historical information for all periods presented. The following tables show incurred and paid claims development, by accident year. Incurred claims and allocated claim adjustment expenses for the year ended December 31, 2017 is audited. All prior years are considered required supplementary information and, therefore, are unaudited.

The Company incorporates a variety of actuarial methods and judgments in its reserving process. Two key inputs in the various actuarial methods employed by the Company are initial expected loss ratios and expected loss reporting patterns. These key inputs impact the potential variability in the estimate of the reserve for losses and loss adjustment expenses and are applicable to each of the Company's business segments. The Company's loss and loss adjustment reserves consider and reflect, in part, deviations resulting from differences between expected loss and actual loss reporting as well as judgments relating to the weights applied to the reserve levels indicated by the actuarial methods. Expected loss reporting patterns are based upon internal and external historical data and assumptions regarding claims reporting trends over a period of time that extends beyond the Company's own operating history. Reserves are not discounted for the purposes of calculating the liability for unpaid claims.

The Company counts an insurance claim when either an indemnity or allocated adjustment expense amount has been paid, or at any period end, the Company recorded a case reserve.

The following is information about incurred and paid claims development net of reinsurance, as well as cumulative claim frequency and the total of IBNR liabilities as of December 31, 2017. The information about incurred and paid claims development for the years ended December 31, 2008 to 2016 is presented as supplementary information and is unaudited.

Commercial Property

($ in thousands)

	Incurred Claims and Allocated Claim Adjustment Expenses, net of reinsurance										As of December 31, 2017	
	For the Years Ended December 31, (Unaudited)											
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	IBNR Reserves	Number of Reported Claims
2008	$ 24,907	$ 22,614	$ 18,975	$ 17,556	$ 17,445	$ 17,429	$ 17,400	$ 17,350	$ 17,337	$ 17,320	$ -	519
2009		37,148	21,249	18,872	18,772	18,315	18,258	18,098	18,033	18,029	40	508
2010			27,678	20,734	19,413	18,683	18,631	18,607	18,465	18,448	-	556
2011				25,910	22,533	20,433	20,006	19,714	19,702	19,625	47	570
2012					28,386	22,816	21,009	20,437	20,295	20,473	81	541
2013						25,599	23,691	21,874	22,209	22,235	72	525
2014							23,583	22,691	21,984	21,678	175	644
2015								25,602	23,390	22,931	155	591
2016									31,361	27,669	(562)	612
2017										35,989	5,669	545
									Total	$ 224,397		

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, net of reinsurance

	For the Years Ended December 31, (Unaudited)									
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
2008	$ 10,412	$ 16,709	$ 17,086	$ 17,187	$ 17,187	$ 17,272	$ 17,297	$ 17,297	$ 17,297	$ 17,320
2009		8,993	15,733	16,464	17,194	17,242	17,438	17,486	17,536	17,551
2010			9,233	16,354	17,479	17,604	18,172	18,280	18,428	18,448
2011				9,078	16,431	17,641	18,285	18,664	19,297	19,379
2012					10,549	16,220	18,071	18,586	18,865	19,392
2013						11,737	19,140	20,868	21,208	21,620
2014							11,138	18,822	20,228	20,856
2015								12,382	19,205	21,120
2016									14,077	22,498
2017										10,876
									Total	189,060
									Liabilities for claims and claim adjustment expenses	$ 35,337

The reconciliation of the net incurred and paid claims development tables to the liability for unpaid loss and loss adjustment expense in the balance sheet, expressed in thousands, as of December 31, 2017 is as follows:

Net outstanding liabilities for unpaid losses and allocated loss adjustment expenses:	
Commercial property	$ 35,337
Other short duration lines not presented in triangles	112
Net outstanding liabilities for unpaid losses and allocated loss adjustment expenses	35,449
Reinsurance recoverable on unpaid losses and loss adjustment expenses	
Commercial property	9,166
Reinsurance recoverable on unpaid losses and loss adjustment expenses:	9,166
Total gross liability for unpaid losses and loss adjustment expenses	$ 44,615

The following is required supplementary information about average historical claims duration as of December 31, 2017.

	Average Annual Percentage Payout of Incurred Claims by Age (Unaudited)									
Years	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year	8th Year	9th Year	10th Year
Commerical property	49.7%	34.0%	6.3%	2.2%	1.4%	1.6%	0.4%	0.1%	0.0%	0.1%

NOTE 7 - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company has a common paymaster and facilities 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 $13,272,195 and $7,702,121 for the years ended December 31, 2017 and 2016, respectively. The amounts due to HARRG under this agreement, which are included in due to affiliates, amounted to $1,945,424 and $1,010,347 as of December 31, 2017 and 2016, respectively.

(Continued)

NOTE 7 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)

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 ($51,007) and $180,866 for the years ended December 31, 2017 and 2016, respectively. The amount due from (to) HIS, which is included in due from (to) affiliates, amounted to $5,018 and ($68,153) as of December 31, 2017 and 2016, 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, 2017 and 2016, commission expense under this agreement amounted to $2,975,163 and $2,821,536, respectively, and the Company has recorded deferred commission expense of $1,266,648 and $1,155,529, 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 $1,939,145 and $2,408,658 for the years ended December 31, 2017 and 2016, respectively.

During 2017 and 2016, the Company disbursed $125,000, respectively, 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 $113,737 and $121,867 for fees paid to HTI for the years ended December 31, 2017 and 2016, respectively. The Company has amounts due to HTI of $12,565 and $0 as of December 31, 2017 and 2016, respectively, which are included in due to affiliates on the balance sheets. Additionally, the Company has amounts due from HTI of $0 and $551 as of December 31, 2017 and 2016, respectively, which are included in due from affiliates on the balance sheets.

As of December 31, 2017 and 2016, there was $0 and $10,037, respectively, due from Housing System Solutions, Inc. (HSS), an affiliate of HIG, included within due from affiliates on the balance sheets.

As of December 31, 2017 and 2016, there was $6,788 and $0, respectively, due to HEIC included within due to affiliates on the balance sheets.

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 $319,969 and $336,860 and 401(k) expenses of $208,584 and $31,596, for the years ended December 31, 2017 and 2016, respectively. In addition, the Company recorded an expense for incentive compensation of $881,600 and $137,598, for the years ended December 31, 2017 and 2016, respectively, which is included within salaries and other compensation on the statements of comprehensive income (loss).

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 ($44,578) and $10,694 for the years ended December 31, 2017 and 2016, respectively. Effective with the expiration of the SERP contracts, during 2016, HARRG paid out all the accumulated benefits to those participants covered by the SERP.

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 years ended December 31, 2017 and 2016, 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, 2017 and 2016, the Company did not expense any additional dividends.

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.

(Continued)

NOTE 10 - MEMBERS' EQUITY (Continued)

During 2017 and 2016, there were member PHAs that are no longer policyholders; however, they have not formally 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 and for implementation services as part of the HSS program. Equity dividends amounted to $157,537 and $124,455 in 2017 and 2016, 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 (loss) income amounted to $(397,075) and $2,239,344 for the years ended December 31, 2017 and 2016, respectively. The amounts of statutory surplus amounted to $118,501,871 and $117,368,930 as of December 31, 2017 and 2016, 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, 2017 and 2016.

(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, 2017 and 2016, the Company has not accrued for or been assessed by any state insurance department.

As of December 31, 2017 and 2016, 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, 2017 and 2016. 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.

As of December 31, 2017 and 2016, 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, 2017 and 2016.

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, 2017 and 2016.

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.

As of December 31, 2017, the Company has recorded its share of a loss contingency relating to legal proceedings arising in the ordinary course of business. The Company and its affiliates currently estimate that the aggregate range of reasonably possible loss in excess of the amount accrued is zero to $2,000,000. It does not represent the Company's maximum possible loss exposure. This estimate is based upon currently available information and is subject to significant judgment and a variety of assumptions and uncertainties. In the event of an unfavorable outcome in one or more of these matters, the ultimate liability may be in excess of amounts currently accrued. However, based on information currently known, management believes that the ultimate outcome is not likely to be in excess of the amount accrued. As of December 31, 2017, the Company recorded $721,540 within due to affiliates on the balance sheet as the Company's allocated share of the reimbursement to HARRG for this loss contingency.

HOUSING ENTERPRISE INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS
December 31, 2017 and 2016

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Housing Enterprise Insurance Company, Inc., which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the years 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 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 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 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.

(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, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the claims development information for periods prior to 2017 and average payout of incurred claims information in Note 6 on pages 19-21 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
April 13, 2018

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
BALANCE SHEETS
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 1,509,635	$ 3,349,186
Investments available for sale, at fair value	66,584,880	60,414,386
Premiums receivable	13,675,701	14,085,838
Reinsurance recoverable on unpaid losses	9,338,427	4,385,865
Reinsurance recoverable on paid losses	630,356	1,459,698
Prepaid reinsurance	2,647,270	4,131,374
Deferred policy acquisition costs	1,979,783	2,496,191
Due from affiliate	6,788	-
Investments receivable	-	2,400,000
Federal income tax receivable	78,744	-
Accrued interest and other assets	474,185	523,963
Total assets	$ 96,925,769	$ 93,246,501
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 38,217,092	$ 32,036,844
Unearned premiums	16,459,977	19,039,416
Reinsurance payable	318,530	874,576
Due to affiliates	652,699	552,153
Accounts payable and other liabilities	895,288	1,210,185
Advance premiums	4,221,339	4,201,357
Federal income taxes payable	-	1,846
Total liabilities	60,764,925	57,916,377
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	326,973	243,195
Retained deficit	(13,166,129)	(13,913,071)
Total shareholders' equity	36,160,844	35,330,124
Total liabilities and shareholders' equity	$ 96,925,769	$ 93,246,501

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

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2017 and 2016

	2017	2016
Revenues		
Premiums earned	$ 34,996,512	$ 33,799,543
Ceded premiums earned	(8,530,788)	(9,012,881)
Net premiums earned	26,465,724	24,786,662
Investment income, net	1,565,470	1,322,784
Other income	35,918	-
Realized gains, net	8,409	109,361
Total revenues	28,075,521	26,218,807
Losses and expenses		
Losses and loss adjustment expenses	17,316,593	16,017,489
Salaries and benefits	3,519,657	3,005,998
General and administrative expenses	3,098,736	2,945,488
Agency commissions	3,415,814	3,262,404
Total losses and expenses	27,350,800	25,231,379
Net income before federal income tax (benefit) expense	724,721	987,428
Federal income tax (benefit) expense	(76,028)	2,359,581
Net income (loss)	800,749	(1,372,153)
Other comprehensive income (loss), net of tax:		
Unrealized holding gains (losses) on available for sale securities, net of tax expense (benefit) of $18,300 and ($117,853) in 2017 and 2016, respectively	35,521	(228,769)
Reclassification adjustments for realized gains included in net income (loss), net of tax expense of $2,859 and $37,183 in 2017 and 2016, respectively	(5,550)	(72,178)
Other comprehensive income (loss)	29,971	(300,947)
Comprehensive income (loss)	$ 830,720	$ (1,673,100)

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

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2017 and 2016

	Common Stock			Accumulated Other		Total
	Shares	Amount	Contributed Surplus	Comprehensive Income	Retained Deficit	Shareholders' Equity
Balance as of January 1, 2016	2,000	$ 20,000,000	$ 29,000,000	$ 544,142	$ (12,540,918)	$ 37,003,224
Other comprehensive loss	-	-	-	(300,947)	-	(300,947)
Net loss	-	-	-	-	(1,372,153)	(1,372,153)
Balance as of December 31, 2016	2,000	20,000,000	29,000,000	243,195	(13,913,071)	35,330,124
Other comprehensive income	-	-	-	29,971	-	29,971
Reclassification adjustment - federal income tax rate change	-	-	-	53,807	(53,807)	-
Net income	-	-	-	-	800,749	800,749
Balance as of December 31, 2017	2,000	$ 20,000,000	$ 29,000,000	$ 326,973	$ (13,166,129)	$ 36,160,844

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

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Net income (loss)	$ 800,749	$ (1,372,153)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization and accretion on investments, net	278,301	299,607
Realized gains on investments	(8,409)	(109,361)
Deferred federal income taxes	(15,438)	2,344,258
Change in assets and liabilities:		
Premiums receivable	410,137	(2,012,129)
Reinsurance recoverable on unpaid losses	(4,952,562)	(3,229,551)
Reinsurance recoverable on paid losses	829,342	(1,259,151)
Prepaid reinsurance	1,484,104	336,876
Deferred policy acquisition costs	516,408	(244,300)
Due from affiliate	(6,788)	-
Federal income tax receivable	(78,744)	-
Accrued interest and other assets	49,778	(46,401)
Unpaid losses and loss adjustment expenses	6,180,248	6,572,553
Unearned premiums	(2,579,439)	2,421,028
Reinsurance payable	(556,046)	(254,122)
Due to affiliates	100,546	271,387
Accounts payable and other liabilities	(314,897)	262,949
Advance premiums	19,982	951,044
Federal income taxes payable	(1,846)	(11,677)
Net cash provided by operating activities	2,155,426	4,920,857
Cash flows from investing activities		
Purchases of investments	(21,704,113)	(23,526,448)
Proceeds from investments sold	9,264,856	9,130,727
Proceeds from prepayments and maturities of investments	8,444,280	7,499,766
Net cash used in investing activities	(3,994,977)	(6,895,955)
Net change in cash and cash equivalents	(1,839,551)	(1,975,098)
Cash and cash equivalents, beginning of year	3,349,186	5,324,284
Cash and cash equivalents, end of year	$ 1,509,635	$ 3,349,186
Cash paid for taxes	$ 20,000	$ 27,000

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, 2017 and 2016, 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 addition, HAPI and HARRG have contributed an additional $18,850,000 and $10,150,000, respectively, of additional surplus to HEIC. There were no contributions made to HEIC in 2017 or 2016.

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, 2017 and 2016. 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, 2017 and 2016, 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 income (loss).

The Company recorded no impairments of debt securities for the years ended December 31, 2017 and 2016.

Comprehensive Income (Loss): The Company reports comprehensive income (loss) in accordance with FASB ASC 220, "*Reporting Comprehensive Income*." Comprehensive income (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 income (loss) to arrive at comprehensive income (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, 2017 and 2016, 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, 2017 and 2016 the Company expensed $3,643,224 and $4,248,427, 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, 2017 and 2016. 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, 2017 and 2016, the Company did not record any penalties or interest associated with unrecognized tax benefits. All tax years from 2014 forward are open and subject to examination by the Internal Revenue Service.

On December 22, 2017, H.R. 1, commonly referred to as the Tax Cuts and Jobs Act ("the Act"), was signed into law. The Act reduces the corporate federal tax rate from 34% to 21% effective January 1, 2018. As a result, the Company was required to re-measure, through income tax (benefit) expense, deferred tax assets and liabilities using the enacted rate at which the Company expects them to be recovered or settled. The re-measurement of the Company's net deferred tax asset resulted in additional income tax expense of $2,237,621, which was fully offset by a change in valuation allowance.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. Given the longstanding practice of private companies electing to apply SABs, the FASB did not object to private companies applying the provisions of SAB 118. Due to a lack of information, specifically as it relates to IRS provided discounting factors as modified for the corporate bond yield, the Company is unable to provide a reasonable estimate for the additional tax basis discounting that may be required as a result of enactment of the Act; however, a provisional amount has been recorded using the current discount rates, which amounted to $332,274 and is recorded within deferred tax asset on the balance sheet. Accordingly, the Company has elected to apply the provisions of SAB 118 in their financial statements and forgo estimating any additional impact to current and deferred taxes. The effects of the Act, specifically as it relates to provisional tax basis loss reserve discounting will be adjusted in the first reporting period in which a reasonable estimate can be determined, which will coincide with the IRS's release of the applicable discounting components.

Additionally, the Act repealed the Corporate Alternative Minimum Tax in tax years beginning after December 31, 2017. As a result of these provisions, 50% of the AMT credits not used in each of the subsequent three years, starting with 2018, will be refunded to the taxpayer. Credits not used by the end of 2021 will be fully refunded. Given the ability of the Company to have all AMT credits fully refunded by 2021, during 2017 management adopted an accounting policy which treats all AMT credits as current income tax receivables.

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, 2017 and 2016.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

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 April 13, 2018, which is the date the financial statements were available to be issued.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Standards: Effective for fiscal years beginning after December 15, 2016, the FASB issued guidance that requires insurance entities that issue short-duration contracts to provide detailed disclosures relative to the reserve for losses and loss adjustment expenses in annual reporting periods. The guidance also requires disclosures regarding significant changes in the methodologies and assumptions used to calculate the reserve for losses and loss adjustment expenses, including reasons for and the effects of such changes. The Company has adopted the guidance with the issuance of its December 31, 2017 financial statement. Adoption of the guidance did not have a material effect on the Company's results of operations or financial position as it affects disclosures only.

In February 2018, the FASB issued ASU 2018-02, *"Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"*. This update permits a reclassification from accumulated other comprehensive income to retained deficit of the stranded tax effects resulting from the application of the new federal corporate income tax rate. FASB ASU 2018-02 is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The Company has adopted this update with the issuance of is December 31, 2017 financial statements. The adoption of this standard resulted in a reclassification of $53,807 from accumulated other comprehensive income to retained deficit within the statement of changes in stockholders' equity.

NOTE 3 - INVESTMENTS

Investments classified as available for sale and carried at fair value as of December 31, 2017, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury and government agencies	$ 14,455,070	$ 168,992	$ (159,231)	$ 14,464,831
State and political subdivisions	5,589,659	75,809	(15,714)	5,649,754
Corporate bonds	26,905,592	592,332	(211,629)	27,286,295
Collateralized debt obligations	3,255,725	263	(28,424)	3,227,564
Residential mortgage-backed securities	13,126,589	109,775	(111,671)	13,124,693
Commercial mortgage-backed securities	2,838,355	22,076	(28,688)	2,831,743
Total	$ 66,170,990	$ 969,247	$ (555,357)	$ 66,584,880

NOTE 3 - INVESTMENTS (Continued)

Investments classified as available for sale and carried at fair value as of December 31, 2016, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury and government agencies	$ 12,187,256	$ 137,417	$ (133,182)	$ 12,191,491
State and political subdivisions	6,204,331	101,337	(73,713)	6,231,955
Corporate bonds	28,125,605	565,459	(297,613)	28,393,451
Collateralized debt obligations	2,689,265	1,217	(12,148)	2,678,334
Residential mortgage-backed securities	9,157,319	142,315	(78,014)	9,221,620
Commercial mortgage-backed securities	1,682,132	28,730	(13,327)	1,697,535
Total	$ 60,045,908	$ 976,475	$ (607,997)	$ 60,414,386

The cost and fair value of debt securities are shown by contractual maturity as of December 31, 2017. 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	$ 2,861,133	$ 2,871,611
After one year through five years	23,929,324	23,926,140
After five years through ten years	16,903,169	16,937,471
After ten years	3,256,695	3,665,658
Collateralized debt obligations	3,255,725	3,227,564
Residential mortgage-backed securities	13,126,589	13,124,693
Commercial mortgage-backed securities	2,838,355	2,831,743
Total	$ 66,170,990	$ 66,584,880

Proceeds from sales of securities amounted to $9,264,856 and $9,130,727 in 2017 and 2016, respectively. Gross realized gains amounted to $47,655 and $109,632 on the sale of securities in 2017 and 2016, respectively. Gross realized losses amounted to $39,246 and $271 in 2017 and 2016, respectively.

NOTE 3 - INVESTMENTS (Continued)

The Company holds 210 securities that are in an unrealized loss position as of December 31, 2017, of which 86 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, 2017:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury and government agencies	$ 8,953,302	$ (67,941)	$ 3,705,812	$ (91,290)
State and political subdivisions	816,632	(9,903)	268,211	(5,811)
Corporate bonds	7,398,014	(41,753)	5,342,164	(169,876)
Collateralized debt obligations	1,899,231	(16,374)	1,228,076	(12,050)
Residential mortgage-backed securities	5,990,782	(50,394)	2,689,044	(61,277)
Commercial mortgage-backed securities	1,505,619	(14,470)	237,388	(14,218)
Total	$ 26,563,580	$ (200,835)	$ 13,470,695	$ (354,522)

The Company holds 175 securities that are in an unrealized loss position as of December 31, 2016 of which 79 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, 2016:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury and government agencies	$ 3,443,663	$ (100,910)	$ 4,480,184	$ (32,272)
State and political subdivisions	2,912,814	(73,231)	118,882	(482)
Corporate bonds	7,349,169	(248,331)	3,601,220	(49,282)
Collateralized debt obligations	1,428,783	(11,451)	171,111	(697)
Residential mortgage-backed securities	2,332,906	(24,758)	2,481,699	(53,256)
Commercial mortgage-backed securities	-	-	544,067	(13,327)
Total	$ 17,467,335	$ (458,681)	$ 11,397,163	$ (149,316)

As of December 31, 2017 and 2016, bonds with an amortized cost of $4,962,967 and $4,878,093, respectively, were deposited with state insurance departments and regulatory authorities, as required by statute. These amounts are included in investments on the balance sheets.

(Continued)

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, 2017 and 2016 is as follows:

	Unrealized Gain (Loss) on Available-for Sale Investments
Balance at January 1, 2016	$ 544,142
Other comprehensive loss, net before reclassifications	(228,769)
Amounts reclassified from accumulated other comprehensive income (a)	(72,178)
Net current-period other comprehensive loss	(300,947)
Balance at December 31, 2016	243,195
Other comprehensive income, net before reclassifications	35,521
Amounts reclassified from accumulated other comprehensive income (a)	(5,550)
Net current-period other comprehensive income	29,971
Reclassification adjustment - federal income tax rate change	53,807
Balance at December 31, 2017	$ 326,973

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

At December 31, 2017, the Company early adopted ASU 2018-02 and reclassified $53,807 of tax expense out of accumulated other comprehensive income and into retained deficit that was recorded to income tax expense at December 22, 2017 due to the re-measurement of deferred taxes to 21% on available for sale securities.

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.

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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

The asset or liability's fair value measurement level, within the fair value hierarchy, is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Company's valuation techniques used to measure the fair value of money market funds were derived from quoted prices in active markets for identical assets (level 1). The valuation techniques used to measure the fair value of all other financial instruments, all of which have counterparties with high credit ratings, were valued based on quoted market prices for either identical or similar instruments or model driven valuations using significant inputs derived from or corroborated by observable market data.

The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2017:

	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 14,464,831	$ -
State and political subdivisions	-	5,649,754	-
Corporate bonds	-	27,286,295	-
Collateralized debt obligations	-	3,227,564	-
Residential mortgage-backed securities	-	13,124,693	-
Commercial mortgage-backed securities	-	2,831,743	-
Money market funds	776,819	-	-
Total	$ 776,819	$ 66,584,880	$ -

The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2016:

	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 12,191,491	$ -
State and political subdivisions	-	6,231,955	-
Corporate bonds	-	28,393,451	-
Collateralized debt obligations	-	2,678,334	-
Residential mortgage-backed securities	-	9,221,620	-
Commercial mortgage-backed securities	-	1,697,535	-
Money market funds	547,900	-	-
Total	$ 547,900	$ 60,414,386	$ -

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

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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, 2017 and 2016, there were no significant transfers in or out of levels 1, 2 or 3.

NOTE 6 - INSURANCE ACTIVITY

The Company writes both property and casualty coverages on a direct basis. In 2017 and 2016, 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 $300,000,000 and $750,000,000 per occurrence for property in 2017 and 2016, respectively. Additionally, the Company secured reinsurance for amounts in excess of their retained limit up to $5,000,000 per occurrence for casualty as of July 1, 2017 and 2016, respectively. The property limit of $300,000,000 and $750,000,000 per occurrence in 2017 and 2016, respectively, is a shared aggregate limit with HAPI.

In 2017, the Company secured additional reinsurance coverage for retained property catastrophic event losses in excess of a $10,000,000 shared aggregate retention limit with HAPI up to $22,000,000. As of December 31, 2017, the Company recorded a reinsurance recoverable in the amount of $1,733,857, related to this coverage, which is recorded in reinsurance recoverable on unpaid losses within the balance sheets. In 2016, the Company secured reinsurance coverage for property losses within the Company's retention, in excess of $10,000,000, per catastrophic event. There was no reinsurance recoverable recorded related to this coverage.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

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 2017 and 2016, the Company assumed $31,058 and $548 of premiums, respectively, from HSIC related to this contract. There were no ceded losses recorded for the years ended December 31, 2017 and 2016 under 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.

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 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 for 2017 and 2016, 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.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

The Company recorded net reinsurance recovery activity of $10,986,625 and $8,334,412 in 2017 and 2016, respectively, which is reflected as a decrease in losses and loss adjustment expenses incurred in the statements of comprehensive income (loss).

Direct, assumed and ceded premium written and earned by the Company for the years ended December 31, 2017 and 2016, are summarized as follows:

	Premiums Written		Premiums Earned	
	2017	2016	2017	2016
Direct premiums	$ 32,386,015	$ 36,220,023	$ 34,974,988	$ 33,798,957
Assumed premiums	31,058	548	21,524	586
Ceded premiums	(7,046,684)	(8,676,005)	(8,530,788)	(9,012,881)
Total	$ 25,370,389	$ 27,544,566	$ 26,465,724	$ 24,786,662

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, 2017 and 2016, is summarized as follows:

	2017	2016
Balance at beginning of year	$ 32,036,844	$ 25,464,291
Less: reinsurance recoverables	(4,385,865)	(1,156,314)
Net balance at beginning of year	27,650,979	24,307,977
Incurred related to:		
Current year	23,973,000	17,678,000
Prior years	(6,656,407)	(1,660,511)
Total incurred	17,316,593	16,017,489
Paid related to:		
Current year	(8,413,000)	(5,573,000)
Prior years	(7,675,907)	(7,101,487)
Total paid	(16,088,907)	(12,674,487)
Net balance at end of year	28,878,665	27,650,979
Add: reinsurance recoverables	9,338,427	4,385,865
Balance at end of year	$ 38,217,092	$ 32,036,844

As a result, of changes in loss development, the provision for losses and loss adjustment expenses decreased by $6,656,407 and $1,660,511 in 2017 and 2016, respectively. The decrease in 2017 is related to favorable loss development on property and casualty claims related to the 2014 through 2016 accident years. The decrease in 2016 is related to favorable development on property and casualty claims related to the 2011 through 2015 accident years.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

The tables that follow present the Company's incurred and paid claims development by accident year for the last ten years (or losses based on the inception of the coverage). Management believes that the most meaningful presentation of claims development is presenting all relevant historical information for all periods presented. The following tables show incurred and paid claims development, by accident year. Incurred claims and allocated claim adjustment expenses for the year ended December 31, 2017 is audited. All prior years are considered required supplementary information and, therefore, are unaudited.

The Company incorporates a variety of actuarial methods and judgments in its reserving process. Two key inputs in the various actuarial methods employed by the Company are initial expected loss ratios and expected loss reporting patterns. These key inputs impact the potential variability in the estimate of the reserve for losses and loss adjustment expenses and are applicable to each of the Company's business segments. The Company's loss and loss adjustment reserves consider and reflect, in part, deviations resulting from differences between expected loss and actual loss reporting as well as judgments relating to the weights applied to the reserve levels indicated by the actuarial methods. Expected loss reporting patterns are based upon internal and external historical data and assumptions regarding claims reporting trends over a period of time that extends beyond the Company's own operating history. Reserves are not discounted for the purposes of calculating the liability for unpaid claims.

The Company counts an insurance claim when either an indemnity or allocated adjustment expense amount has been paid, or at any period end, the Company recorded a case reserve.

The following is information about incurred and paid claims development net of reinsurance, as well as cumulative claim frequency and the total of IBNR liabilities as of December 31, 2017. The information about incurred and paid claims development for the years ended December 31, 2008 to 2016 is presented as supplementary information and is unaudited.

Commercial Property
($ in thousands)

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										As of December 31, 2017	
	For the Years Ended December 31, (Unaudited)											Cumulative Number of
Accident											IBNR	Reported
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Reserves	Claims
2008	$ 2,149	$ 1,965	$ 1,645	$ 1,603	$ 1,598	$ 1,491	$ 1,491	$ 1,491	$ 1,491	$ 1,491	$ -	73
2009		2,938	1,995	1,753	1,698	1,766	1,711	1,711	1,711	1,711	-	93
2010			4,981	4,145	4,061	4,054	3,941	3,943	3,941	3,941	-	91
2011				9,322	8,860	8,213	8,227	8,010	7,994	7,994	-	140
2012					9,603	8,354	8,187	8,140	8,140	8,140	-	132
2013						9,585	7,615	7,431	7,403	7,418	-	150
2014							5,640	5,606	5,098	5,060	-	130
2015								6,715	7,217	6,678	44	143
2016									10,288	9,178	(49)	192
2017										16,510	2,923	213
									Total	$ 68,121		

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance									
	For the Years Ended December 31,									
Accident	(Unaudited)									
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
2008	$ 1,010	$ 1,398	$ 1,456	$ 1,458	$ 1,491	$ 1,491	$ 1,491	$ 1,491	$ 1,491	$ 1,491
2009		613	1,583	1,698	1,698	1,698	1,711	1,711	1,711	1,711
2010			1,932	3,688	3,940	3,940	3,941	3,941	3,941	3,941
2011				5,498	7,818	7,976	7,977	7,983	7,994	7,994
2012					5,375	7,657	8,126	8,140	8,140	8,140
2013						5,276	7,343	7,403	7,403	7,418
2014							2,879	4,875	5,081	5,060
2015								4,079	5,889	6,601
2016									5,760	8,389
2017										8,092
									Total	58,837
									Net liabilities for claims and claim adjustment expenses	$ 9,284

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

General Liability

($ in thousands)

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										As of December 31, 2017	
	For the Years Ended December 31, (Unaudited)											Cumulative Number of Reported Claims
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	IBNR Reserves	
2008	$ 1,331	$ 1,325	$ 1,135	$ 1,186	$ 1,236	$ 1,070	$ 1,068	$ 1,062	$ 1,062	$ 1,062	$ 1	120
2009		1,458	1,514	1,767	1,350	1,163	1,093	919	919	919	-	123
2010			3,103	2,120	2,243	1,914	1,755	1,504	1,548	1,543	26	120
2011				2,373	4,368	3,406	3,741	3,457	2,964	3,066	54	219
2012					5,179	6,339	6,446	5,910	5,579	4,742	85	198
2013						6,507	8,394	8,662	7,817	7,778	320	222
2014							7,354	5,432	5,124	4,238	520	191
2015								6,996	6,247	5,079	1,613	198
2016									8,452	6,300	2,313	186
2017										7,463	4,059	222
									Total	$ 42,190		

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance									
	For the Years Ended December 31, (Unaudited)									
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
2008	$ 45	$ 139	$ 374	$ 630	$ 856	$ 983	$ 1,002	$ 1,052	$ 1,053	$ 1,053
2009		75	324	582	745	880	896	919	919	919
2010			142	619	931	1,139	1,324	1,478	1,484	1,510
2011				327	897	1,433	2,255	2,709	2,753	2,797
2012					187	1,273	2,167	3,089	4,147	4,252
2013						351	1,499	3,153	4,806	6,221
2014							165	663	1,473	2,691
2015								187	1,129	2,048
2016									183	795
2017										322
									Total	22,608
	All outstanding liabilities for unpaid claims and allocated claim adjustment expenses before 2008, net of reinsurance									13
	Net liabilities for claims and claim adjustment expenses									$ 19,595

The reconciliation of the net incurred and paid claims development tables to the liability for unpaid loss and loss adjustment expense in the balance sheet, expressed in thousands, as of December 31, 2017 is as follows:

Net outstanding liabilities for unpaid losses and loss adjustment expenses:	
Commercial property	$ 9,284
General liability	19,595
Net outstanding liabilities for unpaid losses and loss adjustment expenses	28,879
Reinsurance recoverable on unpaid losses and loss adjustment expenses:	
Commercial property	9,338
Reinsurance recoverable on unpaid losses and loss adjustment expenses	9,338
Total unpaid losses and loss adjustment expenses	$ 38,217

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

The following is supplementary information about average historical claims duration as of December 31, 2017:

	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)									
Years	1	2	3	4	5	6	7	8	9	10
Commercial Property	58.8%	34.2%	5.0%	0.0%	0.4%	0.2%	0.0%	0.0%	0.0%	0.0%
General Liability	5.6%	18.1%	20.7%	21.7%	17.2%	5.5%	1.5%	2.2%	0.0%	0.0%

NOTE 7 - AFFILIATES AND RELATED PARTY TRANSACTIONS

The Company has a common paymaster and facilities 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 $5,964,299 and $4,387,995 for the years ended December 31, 2017 and 2016, respectively. The amounts due to HARRG under this agreement, which are included in due to affiliates, amounted to $643,826 and $545,412 as of December 31, 2017 and 2016, 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, 2017 and 2016, commissions expensed under this agreement amounted to $657,788 and $613,203, respectively, which is included within agency commissions on the statements of comprehensive income (loss).

The Company has amounts due to HIS of $8,873 and $6,741 as of December 31, 2017 and 2016, respectively, which are included in due to affiliates.

The Company has amounts due from HAPI of $6,788 as of December 31, 2017, which are included in due from affiliate. There were no amounts due from HAPI as of December 31, 2016.

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 $11,880 and $9,421 for fees paid to HTI for the years ended December 31, 2017 and 2016.

The Company pays a membership fee to Housing Authority Insurance, Inc. (HAI), an affiliated entity through common management, which provides certain services to HEIC's insureds. HEIC recognized expenses for these services of $277,521 and $248,273 for the years ended December 31, 2017 and 2016, respectively.

(Continued)

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 $172,111 and $195,477 and 401(k) expenses of $112,506 and $19,261 for the years ended December 31, 2017 and 2016, respectively. In addition, the Company recorded incentive compensation expense of $504,273 and $201,368, as of December 31, 2017 and 2016, 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 $(24,441) and $4,244 for the years ended December 31, 2017 and 2016, respectively. Effective with the expiration of the SERP contracts, during 2016, HARRG paid out all the accumulated benefits to those participants covered by the SERP.

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, HEIC 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 income amounted to $1,301,713 and $727,806 for the years ended December 31, 2017 and 2016, respectively. The amount of statutory surplus amounted to $33,638,715 and $32,392,255 as of December 31, 2017 and 2016, respectively. No dividends were declared or paid in fiscal year 2017 or 2016.

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, 2017 and 2016.

(Continued)

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:

	2017		2016	
	Amount	Percent	Amount	Percent
Federal income taxes computed at the statutory rate	$ 246,405	34.00%	$ 335,726	34.00%
Valuation allowance	(2,514,912)	(347.02%)	2,063,830	209.01%
Expense due to enactment of federal tax reform	2,237,621	308.76%	-	0.00%
Other	(45,142)	(6.23%)	(39,975)	(4.05%)
Total	$ (76,028)	(10.49%)	$ 2,359,581	238.96%

Federal income tax benefit consists of the following for the years ended December 31, 2017 and 2016:

	2017	2016
Current	$ (60,590)	$ 15,323
Deferred:		
Deferred tax expense exclusive of the effects of other components listed below	(15,438)	280,428
Expense due to enactment of federal tax reform	2,237,621	-
Decrease in valuation allowance due to enactment of federal tax reform	(2,237,621)	-
Increase in beginning of year balance of the valuation allowance for deferred tax assets	-	2,063,830
Total	$ (76,028)	$ 2,359,581

(Continued)

NOTE 12 - FEDERAL INCOME TAXES (Continued)

The tax effect of temporary differences, which result in deferred tax assets and liabilities as of December 31, 2017 and 2016, are as follows:

	2017	2016
Deferred tax assets:		
Discounted loss reserves	$ 332,274	$ 592,671
Unearned premiums	580,134	1,013,747
AMT credit	-	60,590
Accrued bonus	114,628	70,743
Accrued severance	8,174	-
Retiree medical expense	30,727	53,699
Net operating loss carry-forward	3,055,422	5,318,658
Gross deferred tax assets	4,121,359	7,110,108
Deferred tax liabilities:		
Deferred service fee income	(4,070)	(6,589)
Unrealized gains	(86,917)	(125,284)
Deferred policy acquisition costs	(415,754)	(848,705)
Gross deferred tax liabilities	(506,741)	(980,578)
Valuation allowance	(3,614,618)	(6,129,530)
Deferred tax asset, net	$ -	$ -

The Company has net operating loss carry-forwards as of December 31, 2017 and 2016 of $14,549,629 and $15,643,112, respectively, that will begin to expire in 2031. The Company has no capital loss carryovers available as of December 31, 2017. Additionally, the Company has $84,147 of AMT carryovers as of December 31, 2017. Due to the refundable nature of AMT credits, these amounts have been reclassified from deferred tax asset to federal income tax receivable.

As of December 31, 2017 and 2016, the Company recorded a full valuation allowance against the deferred tax asset of $3,614,618 and $6,129,530, respectively, as it believes it is more likely than not that the gross deferred tax asset will not be realized. Management based this decision on its projections 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, 2017 and 2016, the Company has not accrued for or been assessed by any state insurance department.

(Continued)

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

As of December 31, 2017 and 2016, 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, 2017 and 2016. 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.

As of December 31, 2017, the Company has recorded its share of a loss contingency relating to legal proceedings arising in the ordinary course of business. The Company and its affiliates currently estimate that the aggregate range of reasonably possible loss in excess of the amount accrued is zero to $2,000,000. It does not represent the Company's maximum possible loss exposure. This estimate is based upon currently available information and is subject to significant judgment and a variety of assumptions and uncertainties. In the event of an unfavorable outcome in one or more of these matters, the ultimate liability may be in excess of amounts currently accrued. However, based on information currently known, management believes that the ultimate outcome is not likely to be in excess of the amount accrued. As of December 31, 2017, the Company recorded $134,240 within due to affiliates on the balance sheets as the Company's allocated share of the reimbursement to HARRG for this loss contingency.

HOUSING SPECIALTY INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS
December 31, 2017 and 2016

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Housing Specialty Insurance Company, Inc. which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of comprehensive (loss) income, changes in shareholders' equity and cash flows for the years 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 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 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 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.

(Continued)

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, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the claims development information for periods prior to 2017 and average payout of incurred claims information in Note 6 on pages 17 - 19 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Crowe Horwath LLP
Crowe Horwath LLP

Simsbury, Connecticut
April 13, 2018

HOUSING SPECIALTY INSURANCE COMPANY, INC.
BALANCE SHEETS
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 1,385,138	$ 658,271
Investments available for sale, at fair value	16,252,181	15,727,613
Due from affiliates	-	5,765
Premiums receivable	327,643	309,884
Reinsurance recoverables on unpaid losses	253,890	-
Reinsurance recoverables on paid losses	71,110	-
Prepaid reinsurance	151,931	156,308
Deferred policy acquisition costs	54,853	49,830
Accrued interest and other assets	98,903	92,540
Total assets	$ 18,595,649	$ 17,000,211
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 1,135,169	$ 599,310
Unearned premiums	548,571	496,529
Reinsurance payable	91,281	104,621
Due to affiliates	319,595	67,675
Accounts payable and other liabilities	78,376	23,379
Total liabilities	2,172,992	1,291,514
Shareholders’ equity:		
Common stock, $10,000 stated value, 10,000 shares authorized and 200 shares issued and outstanding	2,000,000	2,000,000
Contributed surplus	14,800,000	14,000,000
Accumulated other comprehensive income (loss)	35,368	(12,149)
Retained deficit	(412,711)	(279,154)
Total shareholders’ equity	16,422,657	15,708,697
Total liabilities and shareholders’ equity	$ 18,595,649	$ 17,000,211

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

HOUSING SPECIALTY INSURANCE COMPANY, INC.
STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
Years ended December 31, 2017 and 2016

	2017	2016
Revenues		
Premiums earned	$ 1,853,942	$ 1,699,405
Ceded premiums earned	(547,164)	(561,276)
Net premiums earned	1,306,778	1,138,129
Investment income, net	384,982	338,592
Realized gain, net	48,884	67,655
Total revenues	1,740,644	1,544,376
Losses and expenses		
Losses and loss adjustment expenses	609,651	563,065
Salaries and benefits	453,019	425,462
General and administrative expenses	635,354	218,842
Agency commissions	185,576	167,873
Total losses and expenses	1,883,600	1,375,242
Net (loss) income before federal income tax benefit	(142,956)	169,134
Federal income tax benefit	(15,221)	-
Net (loss) income	(127,735)	169,134
Other comprehensive income, net of tax		
Unrealized holding gains on available for sale securities, net of tax expense of $38,100 and $0 in 2017 and 2016, respectively	73,958	138,743
Reclassification adjustments for realized gains included in net (loss) income, net of tax expense of $16,621 and $23,003 in 2017 and 2016, respectively	(32,263)	(44,652)
Other comprehensive income	41,695	94,091
Comprehensive (loss) income	$ (86,040)	$ 263,225

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

HOUSING SPECIALTY INSURANCE COMPANY, INC.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2017 and 2016

	Common Stock		Contributed	Accumulated Other Comprehensive	Retained	Total Shareholders'
	Shares	Amount	Surplus	(Loss) Income	Deficit	Equity
Balance as of January 1, 2016	200	$ 2,000,000	$ 14,000,000	$ (106,240)	$ (448,288)	$ 15,445,472
Other comprehensive income	-	-	-	94,091	-	94,091
Net income	-	-	-	-	169,134	169,134
Balance as of December 31, 2016	200	2,000,000	14,000,000	(12,149)	(279,154)	15,708,697
Other comprehensive income	-	-	-	41,695	-	41,695
Reclassification adjustment - federal income tax rate change	-	-	-	5,822	(5,822)	-
Contributed surplus	-	-	800,000	-	-	800,000
Net loss	-	-	-	-	(127,735)	(127,735)
Balance as of December 31, 2017	200	$ 2,000,000	$ 14,800,000	$ 35,368	$ (412,711)	$ 16,422,657

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

HOUSING SPECIALTY INSURANCE COMPANY, INC.
STATEMENTS OF CASH FLOWS
Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Net (loss) income	$ (127,735)	$ 169,134
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Amortization and accretion on investments, net	(5,690)	22,882
Realized gains on investments	(48,884)	(67,655)
Deferred federal income taxes	(15,221)	-
Change in assets and liabilities:		
Due from affiliate	5,765	(5,763)
Premiums receivable	(17,759)	(3,580)
Reinsurance recoverables on unpaid losses	(253,890)	-
Reinsurance recoverables on paid losses	(71,110)	-
Prepaid reinsurance	4,377	30,330
Deferred policy acquisition costs	(5,023)	1,271
Accrued interest and other assets	(6,363)	(6,455)
Unpaid losses and loss adjustment expenses	535,859	253,590
Unearned premiums	52,042	(13,744)
Reinsurance payable	(13,340)	(8,115)
Due to affiliates	251,920	(2,115)
Accounts payable and other liabilities	54,997	(24,229)
Net cash provided by operating activities	339,945	345,551
Cash flows from investing activities		
Purchases of investments	(7,402,375)	(14,085,151)
Proceeds from investments sold	5,295,684	12,304,526
Proceeds from prepayments and maturities of investments	1,693,613	1,111,577
Net cash used in investing activities	(413,078)	(669,048)
Cash flows from financing activities		
Proceeds from contributed surplus	800,000	-
Net cash provided by financing activities	800,000	-
Net change in cash and cash equivalents	726,867	(323,497)
Cash and cash equivalents, beginning of year	658,271	981,768
Cash and cash equivalents, end of year	$ 1,385,138	$ 658,271

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 offers 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, Inc. (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, 2017 and 2016, HARRG and HAPI owned 100 shares of common stock in the amount of $1,000,000 each. During 2017, HARRG and HAPI contributed surplus in the amount of $800,000 to HSIC. There were no contributions made to HSIC in 2016.

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, 2017 and 2016. 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, 2017 and 2016, 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 (loss). 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.

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.

(Continued)

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 (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. 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, 2017 and 2016.

Comprehensive (Loss) Income: The Company reports comprehensive (loss) income in accordance with FASB ASC 220, "*Reporting Comprehensive Income".* Comprehensive (loss) income 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) income to arrive at comprehensive (loss) income. The cumulative amount of these changes is reported in the balance sheets within accumulated other comprehensive income (loss).

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.

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, 2017 and 2016, as management believes all amounts are fully collectable.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Deferred Policy Acquisition Costs: Policy acquisition costs, which consist of primarily of 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 balance sheets. For the years ended December 31, 2017 and 2016, the Company expensed $185,576 and $120,265, 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 remeasurement of the Company's net deferred tax asset resulted in additional income tax expense of $5,822 which was offset by a reduction in the Company's valuation allowance of $5,822.

The Company did not record any unrecognized tax benefits as of December 31, 2017 and 2016. 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, 2017 and 2016, the Company did not record any penalties or interest associated with unrecognized tax benefits. The tax years from 2015 forward are open and subject to examination by the Internal Revenue Service.

On December 22, 2017, H.R. 1, commonly referred to as the Tax Cuts and Jobs Act ("the Act"), was signed into law. The Act reduces the corporate federal tax rate from 34% to 21% effective January 1, 2018. As a result, the Company was required to re-measure, through income tax benefit, deferred tax assets and liabilities using the enacted rate at which the Company expects them to be recovered or settled. The re-measurement of the Company's net deferred tax asset resulted in additional income tax expense of $5,822, which was fully offset by a change in valuation allowance.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. Given the longstanding practice of private companies electing to apply SABs, the FASB did not object to private companies applying the provisions of SAB 118. Due to a lack of information, specifically as it relates to IRS provided discounting factors as modified for the corporate bond yield, the Company is unable to provide a reasonable estimate for the additional tax basis discounting that may be required as a result of enactment of the Act; however, a provisional amount has been recorded using the current discount rates, which amounted to $4,927 and is recorded within deferred tax asset on the balance sheet. Accordingly, the Company has elected to apply the provisions of SAB 118 in their financial statements and forgo estimating any additional impact to current and deferred taxes. The effects of the Act, specifically as it relates to provisional tax basis loss reserve discounting will be adjusted in the first reporting period in which a reasonable estimate can be determined, which will coincide with the IRS's release of the applicable discounting components.

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, 2017 and 2016.

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 April 13, 2018, which is the date the financial statements were available to be issued.

Recently Adopted Accounting Standards: Effective for fiscal years beginning after December 15, 2016, the FASB issued guidance that requires insurance entities that issue short-duration contracts to provide detailed disclosures relative to the reserve for losses and loss adjustment expenses in annual reporting periods. The guidance also requires disclosures regarding significant changes in the methodologies and assumptions used to calculate the reserve for losses and loss adjustment expenses, including reasons for and the effects of such changes. The Company has adopted the guidance with the issuance of its December 31, 2017 financial statements. Adoption of the guidance did not have a material effect on the Company's results of operations or financial position as it affects disclosures only.

In February 2018, the FASB issued ASU 2018-02, *"Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"*. This update permits a reclassification from accumulated other comprehensive income to retained deficit of the stranded tax effects resulting from the application of the new federal corporate income tax rate. FASB ASU 2018-02 is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The Company has adopted this update with the issuance of the December 31, 2017 financial statements. The adoption of this standard resulted in a reclassification of $53,807 from accumulated other comprehensive income (loss) to retained deficit within the statement of changes in stockholders' equity.

(Continued)

NOTE 3 - INVESTMENTS

Investments classified as available for sale and carried at fair value as of December 31, 2017, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury and government agencies	$ 9,684,101	$ 33,284	$ (88,931)	$ 9,628,454
State and political subdivisions	674,586	24,129	(791)	697,924
Corporate bonds	4,104,458	93,515	(12,028)	4,185,945
Collateralized debt obligations	1,488,436	173	(2,609)	1,486,000
Commercial mortgage-backed securities	255,831	2	(1,975)	253,858
Total	$ 16,207,412	$ 151,103	$ (106,334)	$ 16,252,181

Investments classified as available for sale and carried at fair value as of December 31, 2016, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury and government agencies	$ 6,451,498	$ 9,692	$ (79,715)	$ 6,381,475
State and political subdivisions	832,752	19,462	-	852,214
Corporate bonds	5,732,729	72,968	(40,280)	5,765,417
Collateralized debt obligations	2,244,197	3,131	(1,046)	2,246,282
Commercial mortgage-backed securities	478,586	4,054	(415)	482,225
Total	$ 15,739,762	$ 109,307	$ (121,456)	$ 15,727,613

The cost and fair value of debt securities are shown by contractual maturity as of December 31, 2017. 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	$ 1,138,058	$ 1,136,838
After one year through five years	4,725,369	4,728,947
After five years through ten years	7,629,137	7,640,970
After ten years	970,581	1,005,568
Collateralized debt obligations	1,488,436	1,486,000
Commercial mortgage-backed securities	255,831	253,858
Total	$ 16,207,412	$ 16,252,181

Proceeds from sales of securities amounted to $5,295,684 and $12,304,526 in 2017 and 2016, respectively. Gross realized gains amounted to $74,469 and $177,961 on the sale of securities in 2017 and 2016, respectively. Gross realized losses amounted to $25,585 and $110,306 in 2017 and 2016, respectively.

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The Company holds 47 securities that are in an unrealized loss position as of December 31, 2017, of which 21 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, 2017:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury and government agencies	$ 7,151,359	$ (76,463)	$ 287,277	$ (12,468)
State and political subdivisions	136,370	(791)	-	-
Corporate bonds	1,508,900	(5,983)	499,310	(6,045)
Collateralized debt obligations	1,115,211	(2,121)	270,625	(488)
Commercial mortgage-backed securities	120,219	(1,273)	56,306	(702)
Total	$ 10,032,059	$ (86,631)	$ 1,113,518	$ (19,703)

The Company holds 38 securities that are in an unrealized loss position as of December 31, 2016, of which 23 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, 2016:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury and government agencies	$ 4,355,066	$ (69,280)	$ 342,320	$ (10,435)
Corporate bonds	795,106	(13,805)	1,492,505	(26,475)
Collateralized debt obligations	199,141	(831)	364,394	(215)
Commercial mortgage-backed securities	-	-	163,691	(415)
Total	$ 5,349,313	$ (83,916)	$ 2,362,910	$ (37,540)

(Continued)

NOTE 4 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

A summary of the net changes in after-tax accumulated other comprehensive income (loss) attributable to the Company and significant amounts reclassified out of accumulated other comprehensive income (loss) for the years ended December 31, 2017 and 2016 is as follows:

	Accumulated Other Comprehensive (Loss) Income
Balance at January 1, 2016	$ (106,240)
Other comprehensive income, net before reclassifications	138,743
Amounts reclassified from accumulated other comprehensive loss (a)	(44,652)
Net current-period other comprehensive income	94,091
Balance at December 31, 2016	(12,149)
Other comprehensive income, net before reclassifications	73,958
Amounts reclassified from accumulated other comprehensive income (a)	(32,263)
Net current-period other comprehensive income	41,695
Reclassification adjustment - federal income tax rate change	5,822
Balance at December 31, 2017	$ 35,368

(a) See statements of comprehensive (loss) income for details about these reclassifications, including tax effects.

At December 31, 2017, the company early adopted ASU 2018-02 and reclassified $5,822 of tax expense out of accumulated other comprehensive income and into retained deficit that was recorded to income tax expense at December 22, 2017 due to the re-measurement of deferred taxes to 21% on available for sale securities and Pension and Other Post Retirement Benefits.

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.

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; (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, 2017:

	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 9,628,454	$ -
State and political subdivisions	-	697,924	-
Corporate bonds	-	4,185,945	-
Collateralized debt obligations	-	1,486,000	-
Commercial mortgage-backed securities	-	253,858	-
Repurchase agreements	-	100,000	-
Money market funds	48,888	-	-
Total	$ 48,888	$ 16,352,181	$ -

The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2016:

	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 6,381,475	$ -
State and political subdivisions	-	852,214	-
Corporate bonds	-	5,765,417	-
Collateralized debt obligations	-	2,246,282	-
Commercial mortgage-backed securities	-	482,225	-
Repurchase agreements	-	100,000	-
Money market funds	183,721	-	-
Total	$ 183,721	$ 15,827,613	$ -

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.

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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 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.

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

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 measurements 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, 2017 and 2016, there were no significant transfers in or out of levels 1, 2 or 3.

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, 2017 and 2016, all insured risks 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 2017, the Company ceded $496,060 and $31,058 of premiums to HAPI and HEIC, respectively, related to this contract. During 2016, the Company ceded $530,398 and $547 of premiums to HAPI and HEIC, respectively, related to this contract.

For the year ended December 31, 2017, the Company ceded losses of $325,000 to HAPI under this contract with $71,110 recorded as reinsurance recoverable on paid losses on the balance sheet. There were no ceded losses recorded for the year ended December 31, 2016 as losses had not exceeded the Company’s retention.

NOTE 6 - INSURANCE ACTIVITY (Continued)

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.

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 for 2017 and 2016, 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.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

Direct and ceded premiums written and earned by the Company for the years ended December 31, 2017 and 2016, are summarized as follows:

	Premiums Written		Premiums Earned	
	2017	2016	2017	2016
Direct premiums	$ 1,905,984	$ 1,685,661	$ 1,853,942	$ 1,699,405
Ceded premiums	(542,787)	(530,946)	(547,164)	(561,276)
	$ 1,363,197	$ 1,154,715	$ 1,306,778	$ 1,138,129

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, 2017 and 2016 is summarized as follows:

	2017	2016
Balance at beginning of year	$ 599,310	$ 346,000
Less: reinsurance recoverables	-	-
Net balance at beginning of year	599,310	346,000
Incurred related to:		
Current year	775,000	646,000
Prior years	(165,349)	(82,935)
Total incurred	609,651	563,065
Paid related to:		
Current year	(279,000)	(129,000)
Prior years	(48,682)	(180,755)
Total paid	(327,682)	(309,755)
Net balance at end of year	881,279	599,310
Plus: reinsurance recoverables	253,890	-
Balance at end of year	$ 1,135,169	$ 599,310

As a result, of changes in loss development, the provision for losses and loss adjustment expenses decreased by approximately $165,349 and $82,935 in 2017 and 2016 due to favorable loss development on property claims.

The tables that follow present the Company's incurred and paid claims development by accident year for the last ten years (or losses based on the inception of the coverage). Management believes that the most meaningful presentation of claims development is presenting all relevant historical information for all periods presented. The following tables show incurred and paid claims development, by accident year. Incurred claims and allocated claim adjustment expenses for the year ended December 31, 2017 is audited. All prior years are considered required supplementary information and, therefore, are unaudited.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

The Company incorporates a variety of actuarial methods and judgments in its reserving process. Two key inputs in the various actuarial methods employed by the Company are initial expected loss ratios and expected loss reporting patterns. These key inputs impact the potential variability in the estimate of the reserve for losses and loss adjustment expenses and are applicable to each of the Company's business segments. The Company's loss and loss adjustment reserves consider and reflect, in part, deviations resulting from differences between expected loss and actual loss reporting as well as judgments relating to the weights applied to the reserve levels indicated by the actuarial methods. Expected loss reporting patterns are based upon internal and external historical data and assumptions regarding claims reporting trends over a period of time that extends beyond the Company's own operating history. Reserves are not discounted for the purposes of calculating the liability for unpaid claims.

The Company counts an insurance claim when either an indemnity or allocated adjustment expense amount has been paid, or at any period end, the Company recorded a case reserve.

The following is information about incurred and paid claims development net of reinsurance, as well as cumulative claim frequency and the total of IBNR liabilities as of December 31, 2017. The information about incurred and paid claims development for the years ended December 31, 2013 to 2016 is presented as supplementary information and is unaudited.

For any coverages where ten years information has not been presented, the disclosures are presented from the program inception.

Commercial Property
($ in thousands)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance						As of December 31, 2017	
	For the Years Ended December 31, (Unaudited)						Cumulative Number of Reported Claims
Accident Year	2013	2014	2015	2016	2017	IBNR Reserves	
2013	$ -	$ -	$ -	$ -	$ -	$ -	-
2014		-	-	-	-	-	-
2015			414	310	293	-	8
2016				661	360	-	11
2017					928	181	15
				Total	$ 1,581		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance					
	For the Years Ended December 31, (Unaudited)				
Accident Year	2013	2014	2015	2016	2017
2013	$ -	$ -	$ -	$ -	$ -
2014		-	-	-	-
2015			62	243	268
2016				129	266
2017					166
				Total	700
Net liabilities for claims and claim adjustment expenses					$ 881

(Continued)

NOTE 6 - **INSURANCE ACTIVITY** (Continued)

The reconciliation of the net incurred and paid claims development tables to the liability for unpaid loss and loss adjustment expense in the balance sheet, expressed in thousands, as of December 31, 2017 is as follows:

Net outstanding liabilities for unpaid losses and loss adjustment expenses:	
Commercial property	$ 881
Net outstanding liabilities for unpaid losses and loss adjustment expenses	881
Reinsurance recoverable on unpaid losses and loss adjustment expense:	
Commercial property	254
Reinsurance recoverable on unpaid losses and loss adjustment expenses	254
Total gross liability for unpaid losses and loss adjustment expenses	$ 1,135

The following is required supplementary information about average historical claims duration as of December 31, 2017.

	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)									
Years	1	2	3	4	5	6	7	8	9	10
Commercial Property	25.0%	49.9%	8.4%	*	*	*	*	*	*	*

* - Company only has three years of loss data available.

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 $986,713 and $604,362 for the years ended December 31, 2017 and 2016, respectively. The amounts due to HARRG under this agreement, which are included in due to affiliates, amounted to $144,878 and $67,675 as of December 31, 2017 and 2016, respectively.

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 $48,259 and $44,960 for the years ended December 31, 2017 and 2016, 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 $2,782 and $3,033 for the years ended December 31, 2017 and 2016, respectively.

As of December 31, 2017, there was $174,717 due to Housing Insurance Services, Inc. (HIS). As of December 31, 2016, there was $5,763 due from HIS.

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 $20,813 and $24,813 and 401(k) expenses of $13,746 and $58,285, for the years ended December 31, 2017 and 2016, respectively. In addition, the Company recorded an expense for incentive compensation of $89,330 and $23,379, for the years ended December 31, 2017 and 2016, respectively, which is included within salaries and other compensation on the statements of comprehensive (loss) income.

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 benefit (expense) allocated to HARRG related to the SERP amounted to $2,400 and $(197) for the years ended December 31, 2017 and 2016, respectively. Effective with the expiration of the SERP contracts, during 2016, HARRG paid out all the accumulated benefits to those participants covered by the SERP.

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) income amounted to $(147,978) and $173,514 for the years ended December 31, 2017 and 2016, respectively. The amount of statutory surplus amounted to $16,319,493 and $15,667,378 as of December 31, 2017 and 2016, respectively. No dividends were declared or paid in fiscal years 2017 and 2016.

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, 2017 and 2016.

(Continued)

NOTE 12 - FEDERAL INCOME TAXES

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

	2017		2016	
	Amount	Percent	Amount	Percent
Federal income taxes computed at the statutory rate	$ (46,273)	34.00%	$ 57,506	34.00%
Valuation allowance	(9,818)	7.21%	(57,165)	(33.80%)
Tax exempt interest	(9,957)	7.32%	-	0.00%
State taxes	(2,332)	1.71%	-	0.00%
Expense due to enactment			-	0.00%
of federal tax reform	52,246	(38.39%)		
Other	913	(0.67%)	(341)	(0.20%)
Total	$ (15,221)	11.18%	$ -	0.00%

Federal income tax (benefit) expense consists of the following for the years ended December 31, 2017 and 2016:

	2017	2016
Current	$ -	$ -
Deferred:		
Deferred tax benefit exclusive of the effects of other components listed below	(15,221)	-
Expense due to enactment of federal tax reform	52,246	-
Decrease in valuation allowance due to enactment of federal tax reform	(52,246)	-
Total	$ (15,221)	$ -

(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, 2017 and 2016:

	2017	2016
Deferred tax assets:		
Organizational costs	$ 696	$ 1,230
Retiree medical	1,917	3,751
Discounted loss reserves	4,927	8,692
Unearned premiums	16,659	23,135
Treasury Inflated Protected Securities	-	2,099
Accrued bonus	14,841	7,949
Unrealized gains (losses) on investments	-	4,131
Accrued contingency reserve	10,571	-
Accrued severance	1,056	-
Net operating loss carry-forward	54,649	64,301
Gross deferred tax assets	105,316	115,288
Deferred tax liabilities:		
Unrealized gains on investments	(9,401)	-
Deferred policy acquisition costs	(11,519)	(16,942)
Gross deferred tax liabilities	(20,920)	(16,942)
Valuation allowance	(84,396)	(98,346)
Deferred tax asset, net	$ -	$ -

The Company has net operating loss carry-forwards as of December 31, 2017 of $260,233 that will begin to expire in 2034. The Company has no capital loss carry-forwards available. The Company has no AMT Credits available.

As of December 31, 2017 and 2016, the Company recorded a full valuation allowance against the deferred tax asset of $84,396 and $98,346, respectively; as management believes it is more likely than not that, the gross deferred tax asset will not be realized. Management based this decision on its projections of future taxable income.

NOTE 13 - LOSS CONTINGENCY

As of December 31, 2017, the Company has recorded its share of a loss contingency relating to legal proceedings arising in the ordinary course of business. The Company and its affiliates currently estimate that the aggregate range of reasonably possible loss in excess of the amount accrued is zero to $2,000,000. It does not represent the Company’s maximum possible loss exposure. This estimate is based upon currently available information and is subject to significant judgment and a variety of assumptions and uncertainties. In the event of an unfavorable outcome in one or more of these matters, the ultimate liability may be in excess of amounts currently accrued. However, based on information currently known, management believes that the ultimate outcome is not likely to be in excess of the amount accrued. As of December 31, 2017, the Company recorded $50,340 within due to affiliates as the Company’s allocated share of the reimbursement to HARRG for this loss contingency.

HOUSING AUTHORITY INSURANCE, INC.

FINANCIAL STATEMENTS
December 31, 2017 and 2016

Crowe Horwath LLP
Independent Member Crowe Horwath International

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., which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years 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 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 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 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.

(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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
April 13, 2018

HOUSING AUTHORITY INSURANCE, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash	$ 1,771,009	$ 1,241,646
Refundable advance	666,671	533,431
Due from affiliates	13,661	124,486
Prepaid expenses	21,567	34,542
Total assets	$ 2,472,908	$ 1,934,105
LIABILITIES AND NET ASSETS		
Accounts payable	$ 167,367	$ 95,368
Grant payable to affiliate	-	37,018
Due to affiliates	132,590	201,858
Deferred grant revenue	741,298	715,732
Total liabilities	1,041,255	1,049,976
Unrestricted net assets	1,431,653	884,129
Total liabilities and net assets	$ 2,472,908	$ 1,934,105

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

	2017	2016
Unrestricted revenues:		
Membership fees	$ 3,500,000	$ 4,000,000
Grant revenue	224,435	487,584
Other revenue	76,977	508,001
Total unrestricted revenues	3,801,412	4,995,585
Expenses:		
Salaries and benefits	954,627	1,089,919
General and administrative expenses	842,132	1,330,810
Grants and donations	1,163,661	1,795,898
Event support	49,966	3,452
Member benefits	243,502	355,663
Total expenses	3,253,888	4,575,742
Change in unrestricted net assets	547,524	419,843
Unrestricted net assets, beginning of year	884,129	464,286
Unrestricted net assets, end of year	$ 1,431,653	$ 884,129

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

HOUSING AUTHORITY INSURANCE, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in unrestricted net assets	$ 547,524	$ 419,843
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Changes in assets and liabilities:		
Refundable advance	(133,240)	203,423
Due from affiliates	110,825	29,632
Prepaid expenses	12,975	15,605
Accounts payable	71,999	(12,000)
Grant payable to affiliate	(37,018)	37,018
Due to affiliates	(69,268)	(253,773)
Deferred grant revenue	25,566	(237,585)
Net cash provided by operating activities	529,363	202,163
Net change in cash	529,363	202,163
Cash, beginning of year	1,241,646	1,039,483
Cash, end of year	$ 1,771,009	$ 1,241,646

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 carries out research, feasibility studies and funding for projects that 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.

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, 2017 and 2016.

(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, 2017 and 2016.

As of December 31, 2017, 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 one cash account as of December 31, 2017 and 2016. 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 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, 2017 and 2016, the Company did not record an allowance for doubtful accounts.

Subsequent Events: Subsequent events have been evaluated through April 13, 2018, which is the date the financial statements were available to be issued.

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, 2017 and 2016. 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 2015 forward are open and subject to examination by the Internal Revenue Service.

(Continued)

NOTE 3 - INCOME TAXES (Continued)

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, 2017 and 2016, the Company did not record any penalties or interest associated with unrecognized tax benefits.

NOTE 4 - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company earned membership fees of $1,185,100 and $1,298,109 from HARRG, $2,028,250 and $2,408,658 from HAPI, $234,150 and $248,273 from HEIC and $52,500 and $44,960 from HSIC for the years ended December 31, 2017 and 2016, respectively.

The Company has a common paymaster agreement and facilities 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 $1,788,611 and $2,076,717 for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, $132,590 and $201,641, 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, 2017 and 2016, the Company recorded grant revenue in the amount of $224,435 and $487,584, respectively, 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 2017 and 2016, the Company recorded grant expenditures in the amount of $608,782 and $920,858, respectively, 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 of public and affordable housing throughout the United States. Amounts not spent with regards to the above grant are deferred until future periods. As of December 31, 2017, the Company was owed $44,200 from PAHRC related to grant activities, these amounts are included in refundable advance on the statements of financial position. As of December 31, 2016, the Company owed $37,018 to PAHRC, related to grant activities, which was included in grant payable to affiliate on the statements of financial position.

As of December 31, 2016, the Company owed Housing System Solutions, Inc., an affiliated company through common management $217 for expenses paid on behalf of the Company included within due to affiliates on the statements of financial position.

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, 2017 and 2016, $13,661 and $124,486, respectively, was due from AHAB for professional services provided to AHAB and is shown as due from affiliates on the statements of financial position.

(Continued)

NOTE 4 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)

During 2017 and 2016, the Company recorded grant expenditures in the amount of $368,014 and $520,501, respectively, 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 are deferred until future periods. As of December 31, 2017 and 2016, AHAB had unspent grant funds of $622,472 and $490,486, respectively, which is recorded as a refundable advance within the statements 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 years ended December 31, 2017 and 2016, the Company recorded profit sharing plan expenses of $48,211 and $83,088, respectively, and 401(k) expenses of $29,767 and $11,228, respectively. In addition, the Company recorded incentive compensation expense of $147,231 and $76,928 for the years ended December 31, 2017 and 2016, 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 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 $(10,295) and $(112,721) for the years ended December 31, 2017 and 2016, respectively. Effective with the expiration of the SERP contracts, during 2016, HARRG paid out all of the accumulated benefits to those participants covered by the SERP.

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 $42,946 and $199,082 of funds spent for the years ended December 31, 2017 and 2016, respectively, within the statements of activities and changes in net assets. There were no unspent grant funds as of December 31, 2017. As of December 31, 2016, UI had unspent grant funds $42,945, which is recorded as a refundable advance within the statements of financial position. The performance period relating to the grant awarded to UI was slated to end on July 31, 2016. HAI permitted an extension through April 30, 2017 rather than requiring UI to return any unused funds.

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 years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Program expenses	$ 1,488,711	$ 2,665,436
Administrative expenses	1,765,177	1,910,306
	$ 3,253,888	$ 4,575,742

HOUSING TELECOMMUNICATIONS, INC.

FINANCIAL STATEMENTS
December 31, 2017 and 2016

Crowe Horwath LLP
Independent Member Crowe Horwath International

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., which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years 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 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.

(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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
April 13, 2018

HOUSING TELECOMMUNICATIONS, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash	$ 1,626,369	$ 1,771,474
Accounts receivable	30,255	1,089
Prepaid expenses	74,584	82,308
Due from affiliates	78,338	-
Total assets	$ 1,809,546	$ 1,854,871
LIABILITIES AND NET ASSETS		
Accounts payable	$ 239,014	$ 55,823
Due to affiliates	-	194,675
Unearned subscription fees	563,410	605,265
Total liabilities	802,424	855,763
Unrestricted net assets	1,007,122	999,108
Total liabilities and net assets	$ 1,809,546	$ 1,854,871

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

HOUSING TELECOMMUNICATIONS, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted revenues:		
Subscription fees	$ 997,055	$ 879,776
Risk management service fees	100,000	100,000
Sponsorship fees	200,000	200,000
Pay per view fees	527,803	431,227
Contributions and other income	-	41,900
Total unrestricted revenues	1,824,858	1,652,903
Expenses:		
Salaries and benefits	1,069,655	638,532
General and administrative expenses	329,444	229,875
Program costs	417,745	362,419
Total expenses	1,816,844	1,230,826
Change in unrestricted net assets	8,014	422,077
Unrestricted net assets, beginning of year	999,108	577,031
Unrestricted net assets, end of year	$ 1,007,122	$ 999,108

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

HOUSING TELECOMMUNICATIONS, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in unrestricted net assets	$ 8,014	$ 422,077
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	(29,166)	26,086
Prepaid expenses	7,724	71,908
Due from affiliates	(78,338)	55,696
Accounts payable	183,191	38,763
Due to affiliates	(194,675)	81,946
Deferred income	-	(49,500)
Unearned subscription fees	(41,855)	(65,027)
Net cash (used in) provided by operating activities	(145,105)	581,949
Net change in cash	(145,105)	581,949
Cash, beginning of year	1,771,474	1,189,525
Cash, end of year	$ 1,626,369	$ 1,771,474

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

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, Inc. (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).

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.

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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017 and 2016.

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, 2017 and 2016.

As of December 31, 2017, 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 portion of revenue not recognized is deferred and reported as unearned subscription fees 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.

Cash: Cash is comprised of two cash accounts as of December 31, 2017 and 2016. 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, 2017 and 2016, no allowance for doubtful accounts was established, as management believes all balances are fully collectible.

Subsequent Events: Subsequent events have been evaluated through April 13, 2018, which is the date the financial statements were available to be issued.

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, 2017 and 2016. 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 2014 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, 2017 and 2016, 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 and facilities 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 $1,242,966 and $998,141 for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, $78,338 and $(194,024), respectively, was due from (due to) HARRG under this agreement and is reflected within due to affiliates on the statements of financial position.

The Company recorded $100,000 of risk management service fees from the Related Companies for both the years ended December 31, 2017 and 2016, respectively.

The Related Companies provide a sponsorship fee to the Company, which is intended to support membership training and education. The Company recorded $200,000 of sponsorship fee income for both the years ended December 31, 2017 and 2016.

As of December 31, 2016, the Company had amounts due to Housing Systems Solutions, Inc., (HSS), a related party through common management, of $100 and due to HAPI of $551, for operating costs paid on the Company's behalf.

On the statements of financial position, within due from affiliates, are receivables from HARRG in the amount $49,586 and from HAPI in the amount of $12,565, related to equity dividends declared by HARRG and HAPI that have been applied to the PHAs' current subscription fees for the year ended December 31, 2017.

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, 2017 and 2016, the Company recorded profit sharing plan expenses of $46,859 and $39,453, respectively, and 401(k) expenses of $27,224 and $5,962, respectively. In addition, the Company recorded incentive compensation expenses of $165,258 and $42,715 for the years ended December 31, 2017 and 2016, 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 expense allocated to the Company related to the SERP amounted to $(5,196) and $4,412, respectively, for the years ended December 31, 2017 and 2016, respectively. Effective with the expiration of the SERP contracts, during 2016, HARRG paid out all the accumulated benefits to those participants covered by the SERP.

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, 2017 and 2016, are as follows:

	2017	2016
Program expenses	$ 1,051,958	$ 699,066
Administrative expenses	764,886	531,760
Total	$ 1,816,844	$ 1,230,826

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Housing Investment Group, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years 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 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 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 entity'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 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 consolidated 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 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, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets, statements of operations and cash flows are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies 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 financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits 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 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
April 13, 2018

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2017 and 2016

	2017	2016
ASSETS		
Current assets		
Cash	$ 24,625,296	$ 24,701,367
Agency and commission accounts receivables	18,781,088	19,082,124
Due from related parties	278,818	74,392
Income taxes receivable	1,555	57,051
Other assets	155,328	142,446
Total current assets	43,842,085	44,057,380
Software and equipment (net of accumulated amortization and impairments of $2,804,738 and $2,796,404 in 2017 and 2016, respectively)	11,805	20,139
Total assets	$ 43,853,890	$ 44,077,519
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Commission payable and accounts current	$ 30,789,092	$ 29,494,487
Deferred commissions and other revenues	3,397,417	3,087,534
Accounts payable and accrued expenses	726,237	1,265,587
Due to related parties	591,680	740,237
Total current liabilities	35,504,426	34,587,845
Stockholders' equity		
Common stock, Class A, no par value, $5,000 per share stated value, 2 shares authorized, issued and outstanding in 2017 and 2016	10,000	10,000
Common stock, Class B, no par value, various stated values, 300,000 shares authorized in 2017 and 2016, 198,700 and 198,700 shares issued and outstanding in 2017 and 2016, respectively	39,400,000	39,400,000
Additional paid-in capital	482,234	482,234
Retained deficit	(31,542,770)	(30,402,560)
Total stockholders' equity	8,349,464	9,489,674
Total liabilities and stockholders' equity	$ 43,853,890	$ 44,077,519

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

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2017 and 2016

	2017	2016
Net revenues		
Commission income	$ 5,548,432	$ 4,958,487
Insurance management services	32,394	286,045
Program fees	255,000	-
Other income	151,737	129,482
Total revenues	5,987,563	5,374,014
Costs and expenses		
Salaries and benefits	3,966,700	3,314,951
General and administrative	3,084,982	2,095,423
Software research and development	-	4,362,602
Impairment of software asset	-	2,984,088
Cost of product revenue	-	1,783,044
Sales expense	-	382,885
Amortization	8,334	1,096,206
Total costs and expenses	7,060,016	16,019,199
Loss before provision for income taxes	(1,072,453)	(10,645,185)
Income tax expense	67,757	45,112
Net loss	$ (1,140,210)	$ (10,690,297)

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

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2017 and 2016

	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, 2016	2	$ 10,000	190,700	$ 31,400,000	$ 482,234	$ (19,712,263)	$ 12,179,971
Net loss	-	-	-	-	-	(10,690,297)	(10,690,297)
Proceeds from issuance of stock	-	-	8,000	8,000,000	-	-	8,000,000
Balance as of December 31, 2016	2	10,000	198,700	39,400,000	482,234	(30,402,560)	9,489,674
Net loss	-	-	-	-	-	(1,140,210)	(1,140,210)
Balance as of December 31, 2017	2	$ 10,000	198,700	$ 39,400,000	$ 482,234	$ (31,542,770)	$ 8,349,464

(1) 182,000 shares issued and outstanding at $100 per share stated value as of December 31, 2017 and 2016, 500 shares issued and outstanding at $10,000 per share stated value as of December 31, 2017 and 2016, 16,200 shares issued and outstanding at $1,000 per share stated value as of December 31, 2017 and 2016

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

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Net loss	$ (1,140,210)	$ (10,690,297)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	8,334	1,096,205
Impairment of software asset	-	2,984,088
Changes in assets and liabilities		
Agency and commissions accounts receivables	301,036	(1,581,596)
Due from related parties	(204,426)	242,485
Income taxes receivable	55,496	105,293
Other assets	(12,882)	62,196
Commission payable and accounts current	1,294,605	301,893
Deferred commissions and other revenues	309,883	82,463
Accounts payable and accrued expenses	(539,350)	403,871
Due to related parties	(148,557)	95,181
Net cash used in operating activities	(76,071)	(6,898,218)
Cash flows from investing activities		
Purchased software	-	(25,000)
Net cash used in investing activities	-	(25,000)
Cash flows from financing activities		
Proceeds from issuance of shares	-	8,000,000
Net cash provided by financing activities	-	8,000,000
Net change in cash	(76,071)	1,076,782
Cash, beginning of year	24,701,367	23,624,585
Cash, end of year	$ 24,625,296	$ 24,701,367
Supplemental disclosure		
Income taxes paid during the year	$ (12,261)	$ (60,181)

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 2016, the Company sold equally, additional shares of Class B shares in the amount of $4,000,000 to each HARRG and HAPI. The Company did not sell any additional Class B shares in 2017. 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).

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 member Public Housing Authorities (PHAs) and other unrelated organizations. During 2016, HIG contributed capital of $8,000,000 in exchange for an additional 8,000 of common stock of HSS. HIG did not contribute any additional capital to HSS in 2017. In December 2016, the Board of Directors of the Company voted to cease actively marketing and selling its enterprise software solutions and to wind down all operations of HSS. The Company will continue to operate until it has transferred all customers to new vendors and has satisfied all obligations.

HAGL was incorporated in July 2015 under the laws of the State of Vermont. HAGL engages 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.

There were no dividends paid or declared during 2017 or 2016 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).

(Continued)

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 HIS, HSS and HAGL as of December 31, 2017 and 2016. 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.

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. HAGL program fees are recorded upon finalization and approval of the anticipated project investment.

HAGL association benefit fees are earned ratably over the benefit period to which they relate. The portion of unearned association benefit fees is deferred and reported within deferred commissions and other revenue within the consolidated balance sheets.

HSS derived revenue from the sale of packaged software products, software subscriptions, hosted services and multiple element arrangements that included 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 was fixed or determinable and collectability was probable. Determining whether and when these criteria had been satisfied involved 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 received 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 expensed software development costs, including research and development costs incurred until technological feasibility had been established. Post technological feasibility costs were capitalized until the product was available for general release to customers. As of December 31, 2017 and 2016, all software development costs previously capitalized had been written off, amounting to $2,984,088, as HSS has ceased actively marketing and selling its enterprise software solutions.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017 and 2016, the Company did not record an allowance for doubtful accounts against its accounts receivable.

Customer Service and Technical Support: HSS included 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. As discussed in Note 1, in December 2016 the Board of Directors voted to cease actively marketing and selling its enterprise software solutions as a result it was determined that all of the software product's unamortized capitalized costs were written off, resulting in an impairment of $2,984,088.

During 2016, HSS purchased a housing inspection software solution for $25,000. The software will be amortized over a three year period. As of December 31, 2017 and 2016, accumulated amortization amounted to $13,194 and $4,861, respectively.

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, 2017 and 2016. The Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017 and 2016, 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.

On December 22, 2017, H.R. 1, commonly referred to as the Tax Cuts and Jobs Act ("the Act"), was signed into law. The Act reduces the corporate federal tax rate from 34% to 21% effective January 1, 2018. As a result, the Company was required to re-measure, through income tax expense, deferred tax assets and liabilities using the enacted rate at which the Company expects them to be recovered or settled. The re-measurement of the Company's net deferred tax asset resulted in additional income tax expense of $4,288,065, which was fully offset by a change in valuation allowance.

Additionally, the Act repealed the Corporate Alternative Minimum Tax in tax years beginning after December 31, 2017. As a result of these provisions, 50% of the AMT credits not used in each of the subsequent three years, starting with 2018, will be refunded to the taxpayer. Credits not used by the end of 2021 will be fully refunded. Given the ability of the Company to have all AMT credits fully refunded by 2021, during 2017 management adopted an accounting policy which treats all AMT credits as current income tax receivables.

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 April 13, 2018, which is the date the consolidated financial statements were available to be issued.

(Continued)

NOTE 3 - INCOME TAXES

The provision for income tax expense consists of the following for the years ended December 31, 2017 and 2016:

	2017	2016
Current federal and state tax	$ 67,757	$ 45,112
Deferred federal and state tax:		
Deferred tax expense exclusive of the effects of other components listed below	-	-
Expense due to exactment of federal tax reform	4,288,065	-
Decrease in valuation allowance due to enactment of federal tax reform	(4,288,065)	-
Total	$ 67,757	$ 45,112

The tax effect of temporary differences, which result in deferred tax assets, as of December 31, 2017 and 2016, are as follows:

	2017	2016
Deferred Tax Assets:		
Net operating loss	$ 6,758,514	$ 9,898,568
Charitable carry forward	18	-
Accrued severance	9,577	-
State taxes	732,356	592,897
Accrued retirement benefits	53,265	88,000
Accrued bonus	97,486	114,853
Research and development	642,256	463,271
Accrued contingency reserve	10,571	-
Contingency reserve	-	14,459
AMT	-	14,078
Restructuring accrual	7,980	41,518
Depreciation	184,141	1,015,722
Gross deferred tax asset	8,496,164	12,243,366
Valuation allowance	(8,496,164)	(12,243,366)
Net deferred tax asset	$ -	$ -

(Continued)

NOTE 3 - INCOME TAXES (Continued)

The 2017 and 2016 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:

	2017		2016	
	Amount	Percent	Amount	Percent
Federal tax at statutory rate	$ (364,634)	34.00%	$ (3,619,363)	34.00%
State taxes	35,941	(3.35%)	(162,067)	1.52%
Valuation allowance	(3,747,202)	349.40%	3,817,312	(35.86%)
Split dollar life	(10,803)	1.01%	(13,179)	0.12%
Meals and entertainment	1,297	(0.12%)	4,514	(0.04%)
Expense due to enactment of federal tax reform	4,288,065	(399.84%)	-	0.00%
Other	(134,907)	12.58%	17,895	(0.17%)
Income tax expense	$ 67,757	(6.32%)	$ 45,112	(0.43%)

The Company has a net operating loss carry-forward as of December 31, 2017 of $32,183,398 that will begin to expire in 2033. The Company has $14,078 of AMT credits available and no capital loss carryovers available. Due to the refundable nature of AMT credits, these amounts have been reclassified from deferred tax asset to federal income tax receivable. The Company has $642,256 of research and development credit carry-forwards that will begin to expire in 2032. The Company has $84 of charitable contribution carry forwards that will begin to expire in 2037.

As of December 31, 2017 and 2016, the Company recorded a valuation allowance against the deferred tax asset of $8,496,164 and $12,243,366, respectively, as the Company believes it is more likely than not that all of the deferred tax asset will not be realized based on management's projections of taxable income. 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

The Company has a common paymaster agreement and facilities 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:

	2017	2016
HIS	$ 3,983,884	$ 3,733,887
HIG	547,671	610,952
HSS	955,107	2,939,337
Total	$ 5,486,662	$ 7,284,176

(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, 2017 and 2016, the Company had the following amounts receivable from and payable to affiliated entities:

	2017		2016	
	Amounts Receivable	Amounts Payable	Amounts Receivable	Amounts Payable
HARRG	$ -	$ 584,348	$ -	$ 718,515
HAPI	2,314	7,332	68,153	10,037
HSIC	174,717	-	5,922	11,685
HTI	-	-	100	-
HAI	-	-	217	-
Total	$ 177,031	$ 591,680	$ 74,392	$ 740,237

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, 2017 and 2016, the Company recorded profit sharing expenses of $213,148 and $334,902, respectively and 401(k) expenses of $145,025 and $48,151, respectively. In addition, the Company recorded accrued incentive compensation expenses of $472,930 and $163,262, for the years ended December 31, 2017 and 2016, 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 $(30,583) and $24,050 for the years ended December 31, 2017 and 2016, respectively. Effective with the expiration of the SERP contracts, during 2016, HARRG paid out all of the accumulated benefits to those participants covered by the SERP.

NOTE 6 - 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 4).

NOTE 7 - SOFTWARE AND EQUIPMENT

The cost, accumulated amortization and net book value for the Company's equipment and software asset are as follows, as of December 31, 2017 and 2016:

	2017	2016
Software - purchased	$ 25,000	$ 25,000
Software - internally developed	2,791,543	2,791,543
	2,816,543	2,816,543
Less: accumulated amortization and impairments	(2,804,738)	(2,796,404)
	$ 11,805	$ 20,139

Amortization expense for the years ended December 31, 2017 and 2016 amounted to $8,334 and $1,096,206, 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 2017 and 2016 amounted to $32,394 and $286,045, respectively. These fees are calculated based upon a percentage of gross written premium for years ended December 31, 2017 and 2016. 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 2017 and 2016, commission income under this agreement amounted to $3,787,573 and $3,393,924, respectively, and the Company has recorded deferred commission income of $2,216,362 and $2,201,153, respectively, as of December 31, 2017 and 2016.

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, 2017 and 2016, commission income related to unaffiliated carriers amounted to $1,760,859 and $1,564,563, respectively, and the Company has deferred $1,012,548 and $886,381, respectively.

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2017

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Systems Solutions, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
ASSETS						
Current assets						
Cash	$ 256,003	$ 24,023,982	$ 153,668	$ 191,643	$ -	$ 24,625,296
Agency and commission accounts receivable	-	18,781,088	-	-	-	18,781,088
Due from related parties	4,693	177,031	101,787	-	(4,693)	278,818
Income taxes (payable) receivable	5,328	(595,899)	582,620	9,506	-	1,555
Other assets	4	5,816	5,273	144,235	-	155,328
Total current assets	266,028	42,392,018	843,348	345,384	(4,693)	43,842,085
Software and equipment (net of accumulated amortization and impairments of $2,804,738 in 2017)	-	-	11,805	-	-	11,805
Investment in HSS	623,139	-	-	-	(623,139)	-
Investment in HIS	7,437,365	-	-	-	(7,437,365)	-
Investment in HAG	159,445	-	-	-	(159,445)	-
Total assets	$ 8,485,977	$ 42,392,018	$ 855,153	$ 345,384	$ (8,224,642)	$ 43,853,890
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities						
Commission payable and accounts current	$ -	$ 30,789,092	$ -	$ -	$ -	$ 30,789,092
Deferred commissions and other revenue	-	3,228,910	-	168,507	-	3,397,417
Accounts payable and accrued expenses	10,502	470,982	232,014	12,739	-	726,237
Due to related parties	126,011	465,669	-	4,693	(4,693)	591,680
Total current liabilities	136,513	34,954,653	232,014	185,939	(4,693)	35,504,426
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, 198,700 shares issued and outstanding	39,400,000	-	-	-	-	39,400,000
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, 41,200 shares authorized, issued and outstanding	-	-	41,200,000	-	(41,200,000)	-
Additional paid-in capital	269,664	-	-	700,000	(487,430)	482,234
Retained (deficit) earnings	(31,330,200)	7,412,365	(40,576,861)	(540,555)	33,492,481	(31,542,770)
Total stockholders' equity	8,349,464	7,437,365	623,139	159,445	(8,219,949)	8,349,464
Total liabilities and stockholders' equity	$ 8,485,977	$ 42,392,018	$ 855,153	$ 345,384	$ (8,224,642)	$ 43,853,890

See independent auditor's report

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2016

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Systems Solutions, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
ASSETS						
Current assets						
Cash	$ 428,839	$ 21,085,720	$ 2,944,928	$ 241,880	$ -	$ 24,701,367
Agency and commission accounts receivable	-	19,082,124	-	-	-	19,082,124
Due from related parties	25,705	74,075	317	-	(25,705)	74,392
Income taxes (payable) receivable	(240,828)	(218,205)	516,084	-	-	57,051
Other assets	59	47,640	60,581	34,166	-	142,446
Total current assets	213,775	40,071,354	3,521,910	276,046	(25,705)	44,057,380
Software and equipment (net of accumulated amortization and impairments of $2,796,404 in 2016)	-	-	20,139	-	-	20,139
Investment in HSS	2,314,423	-	-	-	(2,314,423)	-
Investment in HIS	6,766,106	-	-	-	(6,766,106)	-
Investment in HAG	241,114	-	-	-	(241,114)	-
Total assets	$ 9,535,418	$ 40,071,354	$ 3,542,049	$ 276,046	$ (9,347,348)	$ 44,077,519
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities						
Commission payable and accounts current	$ -	$ 29,494,487	$ -	$ -	$ -	$ 29,494,487
Deferred commissions	-	3,087,534	-	-	-	3,087,534
Accounts payable and accrued expenses	12,832	290,796	952,732	9,227	-	1,265,587
Due to related parties	32,912	432,431	274,894	25,705	(25,705)	740,237
Total current liabilities	45,744	33,305,248	1,227,626	34,932	(25,705)	34,587,845
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, 198,700 shares issued and outstanding	39,400,000	-	-	-	-	39,400,000
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, 41,200 shares authorized, issued and outstanding	-	-	41,200,000	-	(41,200,000)	-
Additional paid-in capital	269,664	-	-	700,000	(487,430)	482,234
Retained (deficit) earnings	(30,189,990)	6,741,106	(38,885,577)	(458,886)	32,390,787	(30,402,560)
Total stockholders' equity	9,489,674	6,766,106	2,314,423	241,114	(9,321,643)	9,489,674
Total liabilities and stockholders' equity	$ 9,535,418	$ 40,071,354	$ 3,542,049	$ 276,046	$ (9,347,348)	$ 44,077,519

See independent auditor's report

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
December 31, 2017

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Systems Solutions, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
Net revenues						
Commission income	$ -	$ 5,548,432	$ -	$ -	$ -	$ 5,548,432
Insurance management services	-	32,394	-	-	-	32,394
Program fees	-	-	-	255,000	-	255,000
Other income	250,000	3,370	8,335	140,032	(250,000)	151,737
Loss on investment in subsidiaries	(1,101,694)	-	-	-	1,101,694	-
Total revenues	(851,694)	5,584,196	8,335	395,032	851,694	5,987,563
Costs and expenses						
Salaries and benefits	70,738	2,886,123	867,626	142,213	-	3,966,700
General and administrative	220,678	1,520,064	1,250,246	343,994	(250,000)	3,084,982
Amortization	-	-	8,334	-	-	8,334
Total costs and expenses	291,416	4,406,187	2,126,206	486,207	(250,000)	7,060,016
(Loss) income before income taxes	(1,143,110)	1,178,009	(2,117,871)	(91,175)	1,101,694	(1,072,453)
Income tax (benefit) expense	(2,900)	506,750	(426,587)	(9,506)	-	67,757
Net (loss) income	$ (1,140,210)	$ 671,259	$ (1,691,284)	$ (81,669)	$ 1,101,694	$ (1,140,210)

See independent auditor's report

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
December 31, 2016

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Systems Solutions, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
Net revenues						
Commission income	$ -	$ 4,958,487	$ -	$ -	$ -	$ 4,958,487
Insurance management services	-	286,045	-	-	-	286,045
Other income	462,000	3,903	(59,871)	185,450	(462,000)	129,482
Loss on investment in subsidiaries	(10,937,338)	-	-	-	10,937,338	-
Total revenues	(10,475,338)	5,248,435	(59,871)	185,450	10,475,338	5,374,014
Costs and expenses						
Salaries and benefits	63,308	2,739,524	363,272	148,847	-	3,314,951
General and administrative	154,076	1,589,348	338,790	475,209	(462,000)	2,095,423
Software research and development	-	-	4,362,602	-	-	4,362,602
Impairment of software asset	-	-	2,984,088	-	-	2,984,088
Cost of product revenue	-	-	1,783,044	-	-	1,783,044
Sales expense	-	-	382,885	-	-	382,885
Depreciation	-	-	1,096,206	-	-	1,096,206
Total costs and expenses	217,384	4,328,872	11,310,887	624,056	(462,000)	16,019,199
(Loss) income before income taxes	(10,692,722)	919,563	(11,370,758)	(438,606)	10,937,338	(10,645,185)
Income tax (benefit) expense	(2,425)	195,254	(147,717)	-	-	45,112
Net (loss) income	$ (10,690,297)	$ 724,309	$ (11,223,041)	$ (438,606)	$ 10,937,338	$ (10,690,297)

See independent auditor’s report

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
December 31, 2017

	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	$ (1,140,210)	$ 671,259	$ (1,691,284)	$ (81,669)	$ 1,101,694	$ (1,140,210)
Adjustments to reconcile net (loss) income to						
net cash (used in) provided by operating activities:						
Depreciation and amortization	-	-	8,334	-	-	8,334
Loss on investment in subsidiaries	1,101,694	-	-	-	(1,101,694)	-
Changes in assets and liabilities						
Agency and commissions accounts receivables	-	301,036	-	-	-	301,036
Due from related parties	21,012	(102,956)	(101,470)	-	(21,012)	(204,426)
Income taxes receivable	(246,156)	377,694	(66,536)	(9,506)	-	55,496
Other assets	55	41,824	55,308	(110,069)	-	(12,882)
Commission payable and accounts current	-	1,294,605	-	-	-	1,294,605
Deferred commissions	-	141,376	-	168,507	-	309,883
Accounts payable and accrued expenses	(2,330)	180,186	(720,718)	3,512	-	(539,350)
Due to related parties	93,099	33,238	(274,894)	(21,012)	21,012	(148,557)
Net cash (used in) provided by operating activities	(172,836)	2,938,262	(2,791,260)	(50,237)	-	(76,071)
Net change in cash	(172,836)	2,938,262	(2,791,260)	(50,237)	-	(76,071)
Cash, beginning of year	428,839	21,085,720	2,944,928	241,880	-	24,701,367
Cash, end of year	$ 256,003	$ 24,023,982	$ 153,668	$ 191,643	$ -	$ 24,625,296

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HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
December 31, 2016

	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	$ (10,690,297)	$ 724,309	$ (11,223,041)	$ (438,606)	$ 10,937,338	$ (10,690,297)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:						
Depreciation and amortization	-	-	1,096,205	-	-	1,096,205
Impairment of software asset	-	-	2,984,088	-	-	2,984,088
Loss on investment in subsidiaries	10,937,338	-	-		(10,937,338)	-
Changes in assets and liabilities						
Agency and commissions accounts receivables	-	(1,581,596)	-	-	-	(1,581,596)
Due from related parties	(11,105)	207,588	46,002	-	-	242,485
Income taxes receivable	106,527	(1,601,501)	1,600,267	-	-	105,293
Other assets	1,058	108,227	(12,923)	(34,166)	-	62,196
Commission payable and accounts current	-	301,893	-	-	-	301,893
Deferred commissions	-	82,463	-	-	-	82,463
Accounts payable and accrued expenses	11,780	115,838	267,026	9,227	-	403,871
Due to related parties	(6,289)	183,900	(93,481)	11,051	-	95,181
Net cash provided by (used in) operating activities	349,012	(1,458,879)	(5,335,857)	(452,494)	-	(6,898,218)
Cash flows from investing activities						
Purchased software	-	-	(25,000)	-	-	(25,000)
Purchase of common stock in HSS	(8,000,000)	-	-	-	8,000,000	-
Net cash used in investing activities	(8,000,000)	-	(25,000)	-	8,000,000	(25,000)
Cash flows from financing activities						
Proceeds from issuance of shares	8,000,000	-	8,000,000	-	(8,000,000)	8,000,000
Net cash provided by financing activities	8,000,000	-	8,000,000	-	(8,000,000)	8,000,000
Net change in cash	349,012	(1,458,879)	2,639,143	(452,494)	-	1,076,782
Cash, beginning of year	79,827	22,544,599	305,785	694,374	-	23,624,585
Cash, end of year	$ 428,839	$ 21,085,720	$ 2,944,928	$ 241,880	$ -	$ 24,701,367

See independent auditor's report

PUBLIC AND AFFORDABLE HOUSING
RESEARCH COROPORATION

FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years 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 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 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 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.

(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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
April 13, 2018

PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash	$ 139,822	$ 146,479
Grant receivable from affiliate	-	37,018
Prepaid expenses	309	2,516
Total assets	$ 140,131	$ 186,013
LIABILITIES AND NET ASSETS		
Accounts payable	$ 40,906	$ 138,075
Unearned subscription revenue	1,888	-
Due to affiliate	45,525	47,938
Deferred grant revenue	44,200	-
Total liabilities	132,519	186,013
Unrestricted net assets	7,612	-
Total liabilities and net assets	$ 140,131	$ 186,013

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

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted revenue:		
Grant revenue	$ 608,782	$ 920,858
Other revenue	36,416	-
Total revenue	645,198	920,858
Expenses:		
Salaries and benefits	300,156	381,736
General and administrative expenses	337,430	539,122
Total expenses	637,586	920,858
Change in unrestricted net assets	7,612	-
Unrestricted net assets, beginning of year	-	-
Unrestricted net assets, end of year	$ 7,612	$ -

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

PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in unrestricted net assets	$ 7,612	$ -
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Changes in assets and liabilities:		
Grant receivable from affiliate	37,018	(37,018)
Prepaid expenses	2,207	5,444
Accounts payable	(97,169)	104,423
Unearned subscription revenue	1,888	-
Due to affiliate	(2,413)	(29,071)
Deferred grant revenue	44,200	(133,840)
Net cash used in operating activities	(6,657)	(90,062)
Net change in cash	(6,657)	(90,062)
Cash, beginning of year	146,479	236,541
Cash, end of year	$ 139,822	$ 146,479

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, Inc. (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: A majority 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 as of December 31, 2017 and 2016.

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, 2017 and 2016.

As of December 31, 2017, 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.

Other Revenue**:** Other revenue includes contributions, subscriptions, and sponsorships. The Company records contribution income when an unconditional promise to give cash and other assets is made. There are no donor stipulations associated with any of the contributions received in 2017. Subscription revenue is earned ratably over the subscription period, the portion of unexpired subscription revenue is deferred and reported as unearned subscription revenue on the balance sheets. Sponsorship revenue is earned once all obligations related to this sponsored event have been satisfied.

Cash: Cash is comprised of a single cash account as of December 31, 2017 and 2016. 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.

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.

Subsequent Events: Subsequent events have been evaluated through April 13, 2018, which is the date the financial statements were available to be issued.

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, 2017 and 2016. 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 2015 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, 2017 and 2016, the Company did not record any penalties or interest associated with unrecognized tax benefits.

(Continued)

NOTE 4 - CONTRIBUTION INCOME

During 2017, the Company received contributions from several donors, which are included in other revenue. These contributions were intended to support the Company's mission 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 contributions were not subject to any donor-imposed stipulations. The Company did not receive any contributions during 2016.

NOTE 5 - AFFILIATES AND RELATED PARTY TRANSACTIONS

The Company has a common paymaster and facilities 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 $474,224 and $602,445 for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, $45,525 and $47,938, 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, 2017 and 2016, the Company recorded grant revenue in the amount of $608,782 and $920,858, 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, 2017, the Company had deferred grant revenue of $44,200. These amounts are included within deferred grant revenue on the statements of financial position. As of December 31, 2016, HAI owed the Company $37,018 for grant funds not yet paid. These amounts are included within grant receivable from affiliate 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, 2017 and 2016, the Company recorded profit sharing plan expenses of $13,650 and $24,494, respectively, and 401(k) expenses of $12,420 and $2,884, respectively. In addition, the Company recorded incentive compensation expenses of $45,565 and $24,748, respectively, for the years ended December 31, 2017 and 2016, which is included within salaries and benefits within the statements of activities and changes in net assets.

(Continued)

NOTE 6 - EMPLOYEE BENEFITS (Continued)

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 PAHRC related to the SERP amounted to ($3,005) and ($70) for the years ended December 31, 2017 and 2016, respectively. Effective with the expiration of the SERP contracts, during 2016, HARRG paid out all of the accumulated benefits to those participants covered by the SERP.

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, 2017 and 2016, are as follows:

	2017	2016
Program expenses	$ 503,280	$ 611,595
Administrative expenses	134,306	309,263
	$ 637,586	$ 920,858

INNOVATIVE HOUSING INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS
December 31, 2017 and 2016

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Innovative Housing Insurance Company, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Innovative Housing Insurance Company, Inc., which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, changes in shareholder's equity and cash flows for the years 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 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 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 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.

(Continued)

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, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
April 13, 2018

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
BALANCE SHEETS
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 3,783,356	$ 1,654,420
Premiums receivable	25,000	-
Other assets	4	-
Total assets	$ 3,808,360	$ 1,654,420
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities:		
Unearned premiums	$ 95,295	$ 15,587
Advance premiums	73,215	-
Accounts payable and other liabilities	8,725	-
Due to affiliate	17,431	7,434
Total liabilities	194,666	23,021
Shareholder's equity:		
Common stock, $10,000 stated value, 10,000 shares authorized and 50 shares issued and outstanding	500,000	500,000
Contributed surplus	3,350,000	1,250,000
Retained deficit	(236,306)	(118,601)
Total shareholder's equity	3,613,694	1,631,399
Total liabilities and shareholder's equity	$ 3,808,360	$ 1,654,420

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

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
STATEMENTS OF OPERATIONS
Years Ended December 31, 2017 and 2016

	2017	2016
Revenues		
Premiums earned	$ 26,378	$ 9,413
Interest income	440	177
Total revenues	26,818	9,590
Expenses		
Salaries and benefits	74,579	80,197
General and administrative expenses	69,944	39,157
Total expenses	144,523	119,354
Net loss before federal income tax expense	(117,705)	(109,764)
Federal tax expense	-	3,005
Net loss	$ (117,705)	$ (112,769)

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

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
Years Ended December 31, 2017 and 2016

	Common Stock		Contributed	Retained	Total Shareholder's
	Shares	Amount	Surplus	Deficit	Equity
Balance as of January 1, 2016	50	$ 500,000	$ 500,000	$ (5,832)	$ 994,168
Contributed surplus	-	-	750,000	-	750,000
Net loss	-	-	-	(112,769)	(112,769)
Balance as of December 31, 2016	50	500,000	1,250,000	(118,601)	1,631,399
Contributed surplus	-	-	2,100,000	-	2,100,000
Net loss	-	-	-	(117,705)	(117,705)
Balance as of December 31, 2017	50	$ 500,000	$ 3,350,000	$ (236,306)	$ 3,613,694

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

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Net loss	$ (117,705)	$ (112,769)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Deferred federal income taxes	-	3,005
Change in assets and liabilities:		
Premiums receivable	(25,000)	-
Other assets	(4)	-
Unearned premiums	79,708	15,587
Advance premiums	73,215	-
Accounts payable and other liabilities	8,725	-
Due to affiliate	9,997	472
Net cash provided by (used in) operating activities	28,936	(93,705)
Cash flows from financing activities:		
Contributed surplus	2,100,000	750,000
Net cash provided by financing activities	2,100,000	750,000
Net change in cash and cash equivalents	2,128,936	656,295
Cash and cash equivalents, beginning of year	1,654,420	998,125
Cash and cash equivalents, end of year	$ 3,783,356	$ 1,654,420

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 August 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. During 2017 and 2016, HARRG paid in an additional $2,100,000 and $750,000, respectively, in contributed capital.

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 is comprised of cash on deposit with financial institutions. Cash equivalents consist of a money market account. 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.

Unpaid Losses and Loss Adjustment Expense Reserves: As of December 31, 2017 and 2016, management's best estimate of unpaid losses and loss adjustment expenses on its claims made written policies is zero. As of December 31, 2017 and 2016, the Company obtained a waiver from the Vermont Department of Financial Regulation (the Department) for the actuarial review and certification of reserves.

For losses that may occur the Company establishes a liability for unpaid losses and loss adjustment expenses which includes estimates for reported losses, plus supplemental reserves for adverse development on reported losses calculated based upon loss projections utilizing industry data. Management believes that its aggregate liability for unpaid losses and loss adjustment expenses at year-end represents its best estimate, based upon available data, of the amount necessary to cover the ultimate cost of losses; however, because of the limited population of risks insured, and the limited historical experience, it is not presently possible to determine whether actual loss experience will conform to the assumptions used in determining the estimated amounts for such liability at the balance sheet date. Accordingly, the ultimate liability could be significantly in excess of the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments will be 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.

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

(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, 2017 and 2016, as management believes all amounts are fully collectable.

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, 2017 and 2016. 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, 2017 and 2016, the Company did not record any penalties or interest associated with unrecognized tax benefits. Tax years from 2015 forward are open and subject to examination by the Internal Revenue Service.

On December 22, 2017, H.R. 1, commonly referred to as the Tax Cuts and Jobs Act ("the Act"), was signed into law. The Act reduces the corporate federal tax rate from 34% to 21% effective January 1, 2018. As a result, the Company was required to re-measure, through income tax benefit, deferred tax assets and liabilities using the enacted rate at which the Company expects them to be recovered or settled. The re-measurement of the Company's net deferred tax asset resulted in additional income tax expense of $30,698, which was fully offset by a change in valuation allowance.

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 April 13, 2018, which is the date the financial statements were available to be issued.

(Continued)

NOTE 3 - INSURANCE ACTIVITY

The Company provides contractual liability insurance coverage to Housing Alliance Group, LLC (HAGL), an affiliated company through common management, on a claims made basis. The Company indemnifies HAGL against losses arising out of the payment of contractual reimbursement benefits to any of HAGL's associates in accordance with the certificate of benefits issued to such associates. Policy limits are defined in each individual certificate of benefit issued.

Premiums written and earned for the years ended December 31, 2017 and 2016 are summarized as follows:

	Premiums Written		Premiums Earned	
	2017	2016	2017	2016
Direct premiums	$ 106,086	$ 25,000	$ 26,378	$ 9,413

NOTE 4 - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company has common paymaster and facilities agreements 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 $127,570 and $114,961 for the years ended December 31, 2017 and 2016, respectively.

NOTE 5 - 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 $3,241 and $6,243 and 401(k) expenses of $2,878 and $773 for the years ended December 31, 2017 and 2016, 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 IHIC related to the SERP amounted to $(290) and $142, for the years ended December 31, 2017 and 2016, respectively. Effective with the expiration of the SERP contracts, during 2016, HARRG paid out all the accumulated benefits to those participants covered by the SERP.

(Continued)

NOTE 6 - 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 is paid to HARRG (See Note 4).

NOTE 7 - SURPLUS

As a sponsored captive insurance company, IHIC is required by the Department to maintain minimum statutory surplus of $500,000.

NOTE 8 - FEDERAL INCOME TAXES

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

	2017		2016	
Federal income taxes computed at the statutory rate	$ (40,020)	34.00%	$ (37,320)	34.00%
Valuation allowance	9,384	(7.97%)	40,205	(36.63%)
Expense due to enactment of federal tax reform	30,698	(26.08%)	-	(0.00%)
Other	(62)	0.05%	120	(0.11%)
Total	$ -	(0.00%)	$ 3,005	(2.74%)

Federal income tax expense consists of the following for the years ended December 31, 2017 and 2016:

	2017	2016
Current	$ -	$ -
Deferred:		
Expense due to enactment of federal tax reform	30,698	-
Decrease in valuation allowance due to enactment of federal tax reform	(30,698)	-
Increase in beginning of year balance of the valuation allowance for deferred tax assets	-	3,005
Total	$ -	$ 3,005

(Continued)

NOTE 8 - FEDERAL INCOME TAXES (Continued)

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

	2017	2016
Deferred tax assets		
Net operating loss carry-forward	$ 40,702	$ 39,075
Unearned premiums	7,077	1,060
Accrued bonus	1,620	-
Accrued severance	164	-
Retiree medical expense	26	70
Gross deferred tax assets	49,589	40,205
Valuation allowance	(49,589)	(40,205)
Total deferred tax assets	$ -	$ -

The Company has net operating loss carry-forwards as of December 31, 2017 of $193,819, which will begin to expire in 2035. The Company has no capital loss or AMT Credit carryovers available.

As of December 31, 2017 and 2016, the Company recorded a valuation allowance against the deferred tax asset of $49,589 and $40,205, 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.