Audited Financial Statements

(As of the Years Ended December 31, 2018 and 2017

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

Housing Authority Property Insurance, A Mutual Company (HAPI)

Housing Enterprise Insurance Company, Inc. (HEIC)

Housing Specialty Insurance Company (HSIC)

Innovative Housing Insurance Company, Inc. (IHIC)

Housing Investment Group, Inc. and Subsidiaries (HIG)

Housing Telecommunications, Inc. (HTI)

Housing Authority Insurance, Inc. (HAI)

Public and Affordable Housing Research Corporation (PAHRC)

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HOUSING AUTHORITY
RISK RETENTION GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

Crowe LLP
Independent Member Crowe Global

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, 2018 and 2017, and the related consolidated statements of comprehensive income, 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, 2018 and 2017, 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 (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 the incurred and paid claims development information and the historical claims duration information on pages 23-27 be presented to supplement the basic consolidated financial statements. Such information, although not a 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 LLP

Crowe LLP

Simsbury, Connecticut
May 6, 2019

	2018	2017
ASSETS		
Investments:		
Available for sale, at fair value	$ 305,546,476	$ 305,941,535
Investment in HSIC	11,263,183	8,211,329
Investment in HIG	5,915,374	4,174,733
Federal Home Loan Bank of Boston stock, at cost	575,700	240,300
Total investments	323,300,733	318,567,897
Cash and cash equivalents	12,990,572	15,109,564
Reinsurance recoverables on unpaid losses	7,507,928	9,338,427
Reinsurance recoverables on paid losses	3,539,849	2,196,946
Premiums receivable	26,573,156	23,065,436
Prepaid reinsurance premiums	5,215,811	3,567,534
Due from affiliates	2,206,436	2,859,554
Accrued investment income	1,269,696	1,241,896
Deferred policy acquisition costs	3,283,884	2,411,586
Deferred tax asset	1,049,903	-
Property and equipment, net	13,674,174	14,242,646
Federal income tax receivable	88,744	78,744
Other assets	5,014,051	3,648,009
Total assets	$ 405,714,937	$ 396,328,239
LIABILITIES AND EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 129,821,714	$ 129,143,347
Unearned premiums	37,670,406	32,555,961
Reinsurance balances payable	1,869,038	957,723
Term loan	5,655,713	6,510,934
Accrued policyholder dividends	2,621,688	3,529,688
Advance premiums	8,207,298	7,930,443
Due to affiliates	301,223	176,433
Accrued expenses and other liabilities	10,323,348	10,564,560
Total liabilities	196,470,428	191,369,089
Equity:		
Members' contributions	10,990,937	10,961,905
Accumulated other comprehensive income	3,283,023	10,121,456
Retained earnings	180,563,316	170,638,960
Total equity before non-controlling interest	194,837,276	191,722,321
Non-controlling interest	14,407,233	13,236,829
Total equity	209,244,509	204,959,150
Total liabilities and equity	$ 405,714,937	$ 396,328,239

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

	2018	2017
Revenues		
Premiums earned	$ 73,188,151	$ 70,991,541
Ceded premiums earned	(12,894,959)	(11,291,781)
Net earned premiums	60,293,192	59,699,760
Investment income, net	9,010,380	8,035,325
Unrealized gain (loss) on investments in affiliates	1,814,561	(633,973)
Net realized investment gains	197,250	1,102,046
Other income	25,139	35,918
Total revenues	71,340,522	68,239,076
Expenses		
Losses and loss adjustment expenses	36,014,381	31,170,638
Salaries and other compensation	9,175,948	11,390,948
Contractual services and professional fees	1,314,597	1,941,538
General and administrative expenses	6,777,608	11,612,492
Policy acquisition costs	4,239,695	3,609,170
Total expenses	57,522,229	59,724,786
Net income before policyholder dividends	13,818,293	8,514,290
Policyholder dividends	2,487,500	3,469,538
Net income before federal income tax benefit	11,330,793	5,044,752
Federal income tax benefit	(794,527)	(76,028)
Net income	12,125,320	5,120,780
Less net income attributable to non-controlling interest	1,511,539	280,265
Net income attributable to the Company	10,613,781	4,840,515
Other comprehensive (loss) income		
Unrealized holding (losses) gains on available for sale securities, net of tax (benefit) expense of ($277,889) and $18,300 in 2018 and 2017, respectively	(6,904,760)	5,424,466
Reclassification adjustments for realized gains included in net income, net of tax (benefit) expense of ($22,512) and $2,859 in 2018 and 2017, respectively	(274,808)	(1,095,579)
Other comprehensive (loss) income	(7,179,568)	4,328,887
Less other comprehensive (loss) income attributable to non-controlling interest	(341,135)	10,490
Other comprehensive (loss) income attributable to the Company	(6,838,433)	4,318,397
Comprehensive income attributable to the Company	$ 3,775,348	$ 9,158,912

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, 2018 and 2017

	Members' Contributions	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity Before Non-controlling Interest	Non-controlling Interest	Total Equity
Balance as of January 1, 2017	$ 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
Net income	-	-	10,613,781	10,613,781	1,511,539	12,125,320
Other comprehensive loss	-	(6,838,433)	-	(6,838,433)	(341,135)	(7,179,568)
Equity dividends	-	-	(660,893)	(660,893)	-	(660,893)
Members' contributions, net	500	-	-	500	-	500
Members' recapitalization dividends	28,532	-	(28,532)	-	-	-
Balance as of December 31, 2018	$ 10,990,937	$ 3,283,023	$ 180,563,316	$ 194,837,276	$ 14,407,233	$ 209,244,509

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

	2018	2017
Cash flows from operating activities		
Net income	$ 12,125,320	$ 5,120,780
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,377,721	1,445,534
Net realized investments gains	(197,250)	(1,102,046)
Amortization and accretion on investments, net	(447,938)	280,168
Unrealized loss on investment in HIG	(1,740,641)	570,103
Unrealized (gain) loss on investment in HSIC	(73,920)	63,868
Deferred federal income taxes	(794,527)	(15,438)
Disposals of property and equipment	24,028	6,758,161
Changes in assets and liabilities		
Reinsurance recoverables on unpaid losses	1,830,499	(4,284,700)
Reinsurance recoverables on paid losses	(1,342,903)	740,357
Premiums receivable	(3,507,720)	(1,047,745)
Prepaid reinsurance premiums	(1,648,277)	1,392,942
Due from affiliates	653,118	(619,415)
Accrued investment income	(27,800)	26,081
Deferred policy acquisition costs	(872,298)	507,732
Federal income tax receivable	(10,000)	(78,744)
Other assets	(1,366,042)	789,786
Unpaid losses and loss adjustment expenses	678,367	1,558,899
Unearned premiums	5,114,445	(804,328)
Reinsurance balances payable	911,315	(444,318)
Accrued policyholder dividends	(908,000)	2,462,745
Advance premiums	276,855	102,082
Due to affiliates	124,790	169,692
Accrued expenses and other liabilities	(241,212)	998,497
Federal income taxes payable	-	(1,846)
Cash provided by operating activities	9,937,930	14,588,847
Cash flows from investing activities		
Purchases of available for sale securities	(153,770,912)	(125,217,579)
Purchase of Federal Home Loan Bank of Boston stock	(335,400)	-
Proceeds from securities sold	113,722,708	89,484,802
Proceeds from prepayments and maturities of securities	33,675,573	31,296,133
Capital contributions to HSIC	(3,000,000)	(400,000)
Purchases of property and equipment	(833,277)	(2,158,735)
Cash used in investing activities	(10,541,308)	(6,995,379)
Cash flows from financing activities		
Proceeds from term loan	6,350,000	-
Payments on term loan	(7,205,221)	(500,222)
Equity dividends	(660,893)	(628,221)
Members' contributions	500	9,044
Cash used in financing activities	(1,515,614)	(1,119,399)
Change in cash and cash equivalents	(2,118,992)	6,474,069
Cash and cash equivalents, beginning of year	15,109,564	8,635,495
Cash and cash equivalents, end of year	$ 12,990,572	$ 15,109,564
Supplemental disclosure		
Cash paid for interest	$ 174,257	$ 206,332
Cash paid for taxes	$ 10,000	$ 20,000

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, 2018 and 2017.

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 in HEIC. The Company and HAPI also each paid in $2,000,000 in additional contributed surplus. As of December 31, 2018 and 2017, 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 2018 and 2017.

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 2018 and 2017, HARRG contributed an additional $1,400,000 and $2,100,000, respectively, in 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 and in the consolidated statements of changes in equity.

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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, 2018 and 2017. 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, 2018 and 2017, 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, 2018 and 2017. The investment in HIG is carried on the equity method of accounting. No contributions were made during 2018 or 2017. There were no dividends declared or paid by HIG during 2018 or 2017.

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 2018 and 2017, the Company contributed $3,000,000 and $400,000 of additional capital to HSIC, respectively. The Company owns 50% of HSIC as of December 31, 2018 and 2017.

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 gain (loss) on investments in affiliates within the consolidated statements of comprehensive income.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summarized financial information from the audited financial statements of these affiliates as of December 31, 2018 and for the year then ended, is as follows:

	Total Assets	Total Liabilities	Total Equity	Net Income
Housing Investment Group, Inc.	$ 52,736,454	$ 40,905,706	$ 11,830,748	$ 3,481,284
Housing Specialty Insurance Company, Inc.	$ 25,027,660	$ 2,501,294	$ 22,526,366	$ 147,841

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	$ (127,735)

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, 2018 and 2017, 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, 2018 and 2017.

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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 2018 and 2017.

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, 2018 and 2017, as management believes all amounts are fully collectable.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income: The Company accounts for comprehensive income 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. 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, 2018 and 2017. 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, 2018 and 2017, 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During March 2018, the FASB issued ASU 2018-05, "*Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*" (ASU 2018-05). ASU 2018-05 codified 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. Due to a lack of information, specifically as it relates to IRS provided discounting factors as modified for the corporate bond yield, the Company was unable to provide a reasonable estimate for the additional tax basis discounting that would be required as a result of the enactment of the Act; however, a provisional amount was recorded using the current discount rates, which amounted to $332,274 as of December 31, 2017. Accordingly, the Company elected to apply the provisions of ASU 2018-05 in their consolidated financial statements and forgo estimating any additional impact to current and deferred taxes.

During December 2018, the IRS issued Revenue Procedure 2019-06 (RP 2019-06). RP 2019-06 provides the insurance industry with unpaid loss reserve discount factors, as amended by the Act, for use in computing the loss reserve discounts retroactively and prospectively, as well as an election to amortize the impact of the retroactive re-measurement over eight years within taxable income. The regulations are subject to final approval from the Department of the Treasury; however, the Company applied provisions of RP 2019-06 in the December 31, 2018 consolidated financial statements. As a result of retroactively applying the changes to loss discount factors within the tax provision, the Company will incur an additional $996,127 of taxable income; however, the Company will amortize this impact over eight years through net income. The additional loss reserve discount has been recorded as a deferred tax asset with an offsetting deferred tax liability (referred to as the "TCJA Transition Adjustment" representing the portion of the retroactive remeasurement of the tax discount to be amortized to net income.

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 May 6, 2019, which is the date the consolidated financial statements were available to be issued.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Upcoming Accounting Pronouncement: In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Topic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities". ASU 2016-01 amends the guidance on the classification and measurement of financial instruments. Amendments in ASU 2016-01 include requiring certain equity investments to be measured at fair value with changes in fair value recognized in net income, and simplifying the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. The amendments of ASU 2016-01 are effective for fiscal years beginning after December 15, 2018.

Upon adoption, a certain amount of unrealized gains and losses of the Company's equity investment portfolio will be reclassified from accumulated other comprehensive income to retained earnings (no overall impact to total equity). Subsequent to adoption, changes in unrealized gains and losses of the Company's equity investment portfolio will impact its results of operations due to recognition in the consolidated statements of comprehensive income.

NOTE 3 - INVESTMENTS

Investments, classified as available for sale, and carried at fair value as of December 31, 2018, are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. treasury and government agencies	$ 105,406,772	$ 2,313,073	$ (654,480)	$ 107,065,365
State and political subdivisions	7,139,105	242,065	(22,534)	7,358,636
Corporate bonds	99,023,830	599,998	(1,663,540)	97,960,288
Residential mortgage-backed securities	37,049,913	126,797	(887,025)	36,289,685
Commercial mortgage-backed securities	15,412,627	16,054	(218,189)	15,210,492
Collateralized debt obligations	18,289,482	3,145	(176,282)	18,116,345
Total debt securities	282,321,729	3,301,132	(3,622,050)	282,000,811
Mutual funds	20,167,315	3,378,350	-	23,545,665
Total	$ 302,489,044	$ 6,679,482	$ (3,622,050)	$ 305,546,476

(Continued)

NOTE 3 - INVESTMENTS (Continued)

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

The cost and fair value of debt securities are shown by contractual maturity as of December 31, 2018. 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	$ 11,026,305	$ 10,977,020
After one year through five years	83,306,160	82,639,741
After five years through ten years	99,717,257	100,143,918
After ten years	17,519,985	18,623,610
Residential mortgage-backed securities	37,049,913	36,289,685
Commercial mortgage-backed securities	15,412,627	15,210,492
Collateralized debt obligations	18,289,482	18,116,345
Total	$ 282,321,729	$ 282,000,811

Proceeds from sales of securities amounted to $113,722,708 and $89,484,802 during the years ended December 31, 2018 and 2017, respectively. Gross gains of $2,142,760 and $1,525,715 and gross losses of $1,945,510 and $423,669 were realized on those sales during 2018 and 2017, respectively.

NOTE 3 - INVESTMENTS (Continued)

The Company holds 619 securities that are in an unrealized loss position as of December 31, 2018, of which 398 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, 2018:

	Less than 12 Months		12 Months or Greater	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Debt securities:				
U.S. treasury and government agencies	$ 3,437,150	$ (43,992)	$ 26,445,981	$ (610,488)
State and political subdivisions	472,099	(3,748)	1,054,486	(18,786)
Corporate bonds	30,955,800	(635,910)	29,779,737	(1,027,630)
Residential mortgage-backed securities	9,165,092	(118,718)	19,317,512	(768,307)
Commercial mortgage-backed securities	2,664,182	(16,169)	7,145,755	(202,020)
Collateralized debt obligations	2,858,282	(13,225)	12,071,382	(163,057)
Total	$ 49,552,605	$ (831,762)	$ 95,814,853	$ (2,790,288)

The Company held 465 securities that were in an unrealized loss position as of December 31, 2017, of which 196 of these securities had 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 had 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)

As of December 31, 2018 and 2017, HEIC had bonds with an amortized cost of $4,984,542 and $4,962,967, 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, 2018 and 2017 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	IHIC Available-for-Sale Securities Attributable to the Company	Total
Balance at January 1, 2017	$ 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	(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
Other comprehensive (loss) income, net before reclassifications	(5,892,352)	(688,582)	9,964	13,969	(6,557,001)
Amounts reclassified from accumulated other comprehensive income	(304,448)	55,046	(32,030)	-	(281,432)
Net current-period other comprehensive (loss) income	(6,196,800)	(633,536)	(22,066)	13,969	(6,838,433)
Balance at December 31, 2018	$ 3,859,444	$ (586,190)	$ (4,200)	$ 13,969	$ 3,283,023

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.

(Continued)

NOTE 4 - ACCUMULATED OTHER COMPREHENSIVE INCOME (Continued)

The following table provides the reclassifications out of accumulated other comprehensive income for the years ended December 31, 2018 and 2017:

Details about accumulated other comprehensive income components	Amounts Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Consolidated Statement of Comprehensive Income
HARRG	2018	2017	
Realized gains on sales of investments	$ (304,448)	$ (1,093,637)	Net realized investment gains
Total reclassifications	$ (304,448)	$ (1,093,637)	Net income
HEIC - Attributable to the Company			
	2018	2017	
Realized (losses) gains on sales of investments	$ 69,679	$ (5,466)	Net realized investment gains
Federal income tax (benefit) expense	(14,633)	1,858	Federal income tax benefit
Total reclassifications	$ 55,046	$ (3,608)	Net income
HSIC - Attributable to the Company			
	2018	2017	
Realized (losses) gains on sales of investments	$ (40,544)	$ (24,443)	Unrealized loss on investments in affiliates
Federal income tax (benefit) expense	8,514	8,311	Unrealized loss on investments in affiliates
Total reclassifications	$ (32,030)	$ (16,132)	Net income

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.

The 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, 2018 and 2017.

The Company's valuation techniques used to measure the fair value of investments including money market funds, 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, 2018:

2018	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 107,065,365	$ -
State and political subdivisions	-	7,358,636	-
Corporate bonds	-	97,960,288	-
Residential mortgage-backed securities	-	36,289,685	-
Commercial mortgage-backed securities	-	15,210,492	-
Collateralized debt obligations	-	18,116,345	-
Money market funds	757,664	-	-
Repurchase agreements	-	1,200,000	-
Vanguard Institutional Index Fund	23,545,665	-	-
Total	$ 24,303,329	$ 283,200,811	$ -

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, 2018:

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	$ -

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.

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.

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.

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, 2018 and 2017 there were no transfers of level 3 investments.

(Continued)

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, 2018 and 2017, 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.
>
> *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, 2018 and 2017, 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, 2018 and 2017, HARRG obtained reinsurance coverage with various subscribing reinsurers, which provides for $10,000,000 of coverage in excess of $5,000,000.

Housing Enterprise Insurance Company, Inc.: HEIC writes both property and casualty coverages on a direct basis. In 2018 and 2017, the retained limits were $250,000 per loss occurrence for property coverage and $500,000 per loss occurrence for casualty coverage.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

HEIC secured reinsurance for amounts in excess of their retained limit up to $300,000,000 per occurrence for property in 2018 and 2017. 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, 2018 and 2017. The property limit of $300,000,000 per occurrence in 2018 and 2017, respectively, is a shared aggregate limit with HAPI.

In 2018 and 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.

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 losses in excess of $250,000 each loss, each policy. Additionally, HEIC provides coverage which limits HSIC's liability for losses arising out of any one loss occurrence to $750,000, exclusive of loss adjustment expenses. Loss adjustment expenses are shared on a pro-rata basis and are in addition to the per occurrence limits. During 2018 and 2017, HEIC assumed $35,775 and $31,058 of premiums, respectively, from HSIC related to this contract. There were no ceded losses recorded for the years ended December 31, 2018 and 2017 under this contract.

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 $100,000,000. 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.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

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 B++ 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.

Premiums written, assumed and ceded for the years ended December 31, 2018 and 2017, are summarized as follows:

	Premiums Written		Premiums Earned	
	2018	2017	2018	2017
Direct premiums	$ 76,543,348	$ 68,421,340	$ 71,441,805	$ 69,262,499
Premiums assumed	1,759,248	1,765,873	1,746,346	1,729,042
Premiums ceded	(14,543,236)	(9,898,839)	(12,894,959)	(11,291,781)
Net premiums	$ 63,759,360	$ 60,288,374	$ 60,293,192	$ 59,699,760

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

A reconciliation of changes in unpaid losses and loss adjustment expenses are summarized as follows as of and for the years ended December 31, 2018 and 2017:

	2018	2017
Balance at beginning of year	$ 129,143,347	$ 127,584,448
Less: reinsurance recoverables	(9,338,427)	(5,053,727)
Net balance at beginning of year	119,804,920	122,530,721
Incurred related to		
Current year	56,407,000	56,280,000
Prior years	(20,392,619)	(25,109,362)
Total incurred	36,014,381	31,170,638
Paid related to		
Current year	(10,750,000)	(9,349,000)
Prior years	(22,755,515)	(24,547,439)
Total paid	(33,505,515)	(33,896,439)
Net balance at end of year	122,313,786	119,804,920
Plus: reinsurance recoverables	7,507,928	9,338,427
Balance at end of year	$ 129,821,714	$ 129,143,347

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by $20,392,619 and $25,109,362 in 2018 and 2017, respectively. The development during 2018 relates to favorable development on HARRG's retained liability book of business for accident years 2015-2017 and favorable development on HEIC's property and casualty claims related to accident years 2014-2017. The development during 2017 relates to favorable development on HARRG's retained liability book of business for accident years 2016 and 2015 and favorable development on HEIC's property and casualty claims related to accident years 2014-2016.

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, 2018 are audited. All prior years are considered required supplementary information and, therefore, are unaudited.

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, 2018. The information about incurred and paid claims development for the years ended December 31, 2009 to 2017 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, 2018	
	For the Years Ended December 31, (Unaudited)											Cumulative Number of Reported Claims
Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	IBNR Reserves	
2009	$ 22,219	$ 20,407	$ 16,639	$ 13,146	$ 10,936	$ 9,315	$ 8,567	$ 7,953	$ 7,798	$ 8,724	$ -	781
2010		22,312	19,818	17,730	15,053	12,723	11,968	12,510	12,186	12,184	78	962
2011			20,229	17,021	14,424	11,715	10,180	9,465	9,148	8,602	318	903
2012				21,628	17,024	13,161	10,648	9,868	9,277	9,176	471	836
2013					18,432	17,118	15,596	14,727	14,351	13,646	781	970
2014						21,794	19,143	20,506	18,335	16,310	1,605	1,319
2015							21,219	23,501	20,606	18,574	1,884	1,286
2016								26,524	20,344	17,923	7,787	928
2017									23,017	20,976	11,618	907
2018										23,123	19,071	789
									Total	$ 149,238		

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance									
	For the Years Ended December 31, (Unaudited)									
Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	$ 394	$ 1,483	$ 3,567	$ 5,157	$ 6,775	$ 7,239	$ 7,462	$ 7,574	$ 7,581	$ 8,723
2010		467	1,485	3,657	5,126	8,427	10,080	11,438	11,671	11,984
2011			302	1,174	3,483	5,788	7,400	7,763	8,039	8,115
2012				311	4,169	5,968	7,311	7,919	8,299	8,409
2013					302	1,222	6,056	8,899	10,575	11,464
2014						434	1,979	5,624	9,706	12,034
2015							479	5,090	7,220	10,833
2016								350	1,636	3,537
2017									414	1,722
2018										299
									Total	77,120
	Net liabilities for claims and claim adjustment expenses									$ 72,118

(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, 2018

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	IBNR Reserves	Cumulative Number of Reported Claims
2009	$ 12,778	$ 6,672	$ 3,190	$ 1,369	$ 1,067	$ 1,149	$ 1,138	$ 1,094	$ 1,067	$ 1,067	$ -	56
2010		13,913	8,904	10,622	8,399	7,971	7,967	7,687	7,963	8,113	-	91
2011			8,334	5,073	2,273	2,193	2,193	2,105	2,076	2,054	43	94
2012				7,357	7,010	4,512	3,925	3,702	3,522	3,540	22	94
2013					6,765	6,206	4,844	4,297	3,325	3,027	32	88
2014						7,291	5,308	3,503	2,210	2,018	125	105
2015							6,456	5,808	5,238	4,136	519	125
2016								6,467	5,271	3,805	895	87
2017									5,527	4,876	2,954	101
2018										6,339	4,389	93
									Total	$ 38,975		

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

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	$ 92	$ 611	$ 769	$ 929	$ 972	$ 1,032	$ 1,061	$ 1,067	$ 1,067	$ 1,066
2010		152	2,014	6,284	6,826	7,034	7,416	7,563	7,750	8,113
2011			114	616	1,015	1,349	1,819	1,850	1,903	1,903
2012				147	1,605	2,973	3,095	3,362	3,477	3,493
2013					107	863	1,933	2,854	2,990	2,995
2014					`	140	790	1,440	1,719	1,828
2015							260	1,235	2,712	2,950
2016								145	1,423	2,160
2017									68	580
2018										312
									Total	25,400
All outstanding liabilities for unpaid claims and allocated claim adjustment expenses before 2009, net of reinsurance										65
Net liabilities for claims and claim adjustment expenses										$ 13,640

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, 2018

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	IBNR Reserves	Cumulative Number of Reported Claims
2009	$ 5,007	$ 2,937	$ 2,566	$ 2,276	$ 2,002	$ 1,964	$ 1,964	$ 1,959	$ 1,959	$ 1,959	$ -	386
2010		4,003	3,284	2,449	2,630	2,351	2,278	2,196	2,196	2,196	-	473
2011			3,925	2,168	2,023	1,875	1,718	1,694	1,666	1,656	4	507
2012				2,026	1,902	2,225	2,775	2,836	2,786	2,630	-	435
2013					2,121	2,229	1,904	2,256	2,508	2,343	16	400
2014						3,459	2,638	3,055	3,487	3,901	207	501
2015							1,562	2,522	2,299	1,745	146	492
2016								3,727	3,701	3,473	735	482
2017									3,763	3,322	1,347	503
2018										4,590	3,233	424
									Total	$ 27,815		

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

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	$ 406	$ 805	$ 1,584	$ 1,722	$ 1,960	$ 1,960	$ 1,959	$ 1,959	$ 1,959	$ 1,959
2010		527	1,235	1,791	2,175	2,191	2,191	2,196	2,196	2,196
2011			510	977	1,380	1,603	1,613	1,616	1,617	1,622
2012				386	846	1,004	1,960	2,689	2,777	2,630
2013					296	685	1,636	1,703	2,050	2,271
2014						466	1,456	2,032	2,915	3,164
2015							434	1,056	1,423	1,545
2016								511	1,377	1,810
2017									455	1,351
2018										578
									Total	19,126
Net liabilities for claims and claim adjustment expenses										$ 8,689

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

HEIC - Commercial Property
($ in thousands)

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										As of December 31, 2018	
	For the Years Ended December 31, (Unaudited)											Cumulative Number of
Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	IBNR Reserves	Reported Claims
2009	$ 2,938	$ 1,995	$ 1,753	$ 1,698	$ 1,766	$ 1,711	$ 1,711	$ 1,711	$ 1,711	$ 1,711	$ -	93
2010		5,852	4,145	4,061	4,054	3,941	3,943	3,941	3,941	3,941	-	91
2011			9,264	8,860	8,213	8,227	8,010	7,994	7,994	7,994	-	140
2012				9,603	8,354	8,187	8,140	8,140	8,140	8,140	-	132
2013					9,585	7,615	7,431	7,403	7,418	7,418	-	150
2014						5,640	5,606	5,098	5,060	5,060	-	130
2015							6,715	7,217	6,678	6,674	32	143
2016								10,288	9,177	8,981	48	193
2017									16,512	14,051	(413)	218
2018										15,885	3,718	208
									Total	$ 79,855		

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance									
	For the Years Ended December 31, (Unaudited)									
Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	$ 613	$ 1,583	$ 1,698	$ 1,698	$ 1,698	$ 1,711	$ 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	3,941
2011			5,498	7,818	7,976	7,977	7,983	7,994	7,994	7,994
2012				5,375	7,657	8,126	8,140	8,140	8,140	8,140
2013					5,276	7,343	7,403	7,403	7,418	7,418
2014						2,879	4,875	5,081	5,060	5,060
2015							4,079	5,889	6,601	6,425
2016								5,760	8,389	8,516
2017									8,092	13,510
2018										6,727
									Total	69,442
							Net liabilities for claims and claim adjustment expenses			$ 10,413

HEIC - General Liability
($ in thousands)

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										As of December 31, 2018	
	For the Years Ended December 31, (Unaudited)											Cumulative Number of
Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	IBNR Reserves	Reported Claims
2009	$ 1,458	$ 1,514	$ 1,767	$ 1,350	$ 1,163	$ 1,093	$ 919	$ 919	$ 919	$ 919	$ -	123
2010		3,103	2,120	2,243	1,914	1,755	1,504	1,548	1,543	1,513	-	120
2011			2,373	4,368	3,406	3,741	3,457	2,964	3,066	3,043	38	219
2012				5,179	6,339	6,446	5,910	5,579	4,742	4,952	150	199
2013					6,507	8,394	8,662	7,817	7,778	7,835	63	222
2014						7,354	5,432	5,124	4,238	3,489	275	190
2015							6,996	6,247	5,079	3,714	620	198
2016								8,452	6,297	5,573	1,593	189
2017									7,462	5,688	2,428	205
2018										6,470	4,410	175
									Total	$ 43,196		

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance									
	For the Years Ended December 31, (Unaudited)									
Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	$ 75	$ 324	$ 582	$ 745	$ 880	$ 896	$ 919	$ 919	$ 919	$ 919
2010		142	619	931	1,139	1,324	1,478	1,484	1,510	1,513
2011			327	897	1,433	2,255	2,709	2,753	2,797	2,884
2012				187	1,273	2,167	3,089	4,147	4,252	4,329
2013					351	1,499	3,153	4,806	6,221	7,552
2014						165	663	1,473	2,691	3,053
2015							187	1,129	2,048	2,410
2016								183	795	1,658
2017									322	1,285
2018										139
									Total	25,742
							Net liabilities for claims and claim adjustment expenses			$ 17,454

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, 2018 is as follows (in thousands):

Net outstanding liabilities for unpaid losses and loss adjustment expenses:	
HARRG - General liability - occurrence	$ 72,118
HARRG - General liability - claims made	13,640
HARRG - Auto	8,689
HEIC - Commercial property	10,413
HEIC - General liability	17,454
Net outstanding liabilities for unpaid losses and loss adjustment expenses	122,314
Reinsurance recoverable on unpaid losses and loss adjustment expenses:	
HARRG - General liability - occurrence	-
HARRG - General liability - claims made	-
HARRG - Auto	388
HEIC - Commercial property	6,584
HEIC - General liability	536
Reinsurance recoverable on unpaid losses and loss adjustment expenses	7,508
Total gross liability for unpaid losses and loss adjustment expenses	$ 129,822

The following is required supplementary information about average historical claims duration as of December 31, 2018.

	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	2.8%	14.2%	21.0%	19.6%	16.3%	6.8%	4.5%	1.4%	1.3%	13.1%
HARRG - General Liability - Claims Made	4.7%	29.1%	31.0%	13.1%	7.8%	3.1%	1.9%	1.0%	2.2%	0.0%
HARRG - Auto	18.1%	25.3%	23.0%	15.3%	10.4%	2.6%	-1.3%	0.1%	0.0%	0.0%
HEIC - Commercial Property	57.3%	35.6%	4.7%	-0.4%	0.1%	0.2%	0.0%	0.0%	0.0%	0.0%
HEIC - General Liability	5.7%	20.2%	21.1%	20.4%	15.3%	6.5%	1.5%	1.5%	0.1%	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, 2018 and 2017:

	2018	2017
Land	$ 2,580,836	$ 2,580,836
Building	14,664,832	14,261,715
Furniture and fixtures	1,798,045	1,788,423
EDP equipment	5,942,277	5,616,489
	24,985,990	24,247,463
Less: accumulated depreciation	(11,713,835)	(10,430,864)
	13,272,155	13,816,599
Construction in progress	402,019	426,047
Total property and equipment	$ 13,674,174	$ 14,242,646

Depreciation expense for the years ended December 31, 2018 and 2017 was $1,377,721 and $1,445,534, respectively. Depreciation expense of $759,539 and $672,085 was allocated to affiliated entities per the management services agreement, as disclosed in Note 9 in 2018 and 2017, 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. The term loan contained certain financial and compliance covenants and the Company was in compliance with all of these covenants as of December 31, 2017. As of December 31, 2017, the term loan had an outstanding balance of $6,510,934. On May 4, 2018, the Company repaid the outstanding balance and was discharged of the term loan.

On April 26, 2018, the Company entered into a term loan with FHLBB in the amount of $6,350,000. The five year term loan bears interest at 2.78% annually and matures on May 1, 2023. As of December 31, 2018, the term loan had an outstanding balance of $5,655,713. FHLBB borrowings are collateralized by a U.S. Treasury security, the fair value of which must be maintained at certain specific levels relative to outstanding borrowings. As of December 31, 2018, the term loan is collateralized by the debt security of HARRG with a fair value of $7,157,422, which is managed and held in custody by FHLBB.

Interest expense related to the Wells Fargo Bank, N.A. and FHLBB term loans amounted to $167,688 and $205,665 for the years ended December 31, 2018 and 2017, respectively, and is included within general and administrative expenses on the consolidated statements of comprehensive income.

(Continued)

NOTE 8 - TERM LOAN (Continued)

The aggregate scheduled principal repayments on the long-term debt of HARRG are as follows as of December 31, 2018:

2019	$ 1,220,085
2020	1,254,376
2021	1,290,184
2022	1,327,031
2023	564,037
Total	$ 5,655,713

NOTE 9 - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company pays a membership fee to Housing Authority Insurance, Inc. (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 $1,013,750 and $1,512,596 for the years ended December 31, 2018 and 2017, respectively.

During 2017, 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. During 2018, HAI had unused grant funds of $370,649 that was reimbursed to the Company.

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 $87,317 and $69,011 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017, commission expense under this agreement amounted to $684,795 and $657,788, respectively, expensed within policy acquisition costs within the consolidated statements of comprehensive income.

The Company entered into an agreement with Housing Telecommunications, Inc. (HTI) to support the delivery of risk management training to members. The Company recognized expenses of $68,895 and $83,481 for fees paid to HTI for the years ended December 31, 2018 and 2017, respectively.

(Continued)

NOTE 9 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)

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 2018	Allocated Costs 2017
HAPI	$ 11,516,218	$ 13,272,195
HIS	3,718,084	3,983,884
HEIC	4,632,965	5,964,299
HAI	1,392,650	1,788,611
HTI	1,223,356	1,242,966
Housing Specialty Insurance Company, Inc. (HSIC)	755,557	986,713
HIG	461,671	547,671
Public and Affordable Housing Research Corporation (PAHRC)	353,303	474,224
Housing Systems Solutions, Inc. (HSS)	121,002	955,107
IHIC	55,527	127,570
Total	$ 24,230,333	$ 29,343,240

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, 2018 and 2017, the Company had the following amounts receivable from and payable to affiliated entities:

	2018		2017	
	Amounts Receivable	Amounts Payable	Amounts Receivable	Amounts Payable
HAPI	$ 1,150,054	$ 3,718	$ 1,952,212	$ -
HAI	55,935	-	132,590	-
HTI	59,439	23,121	-	65,773
HSIC	61,275	-	144,878	-
HIG	116,200	-	126,011	-
HIS	741,058	274,384	458,338	8,873
HSS	-	-	-	101,787
PAHRC	22,475	-	45,525	-
Total	$ 2,206,436	$ 301,223	$ 2,859,554	$ 176,433

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 are eligible to participate in the Plan. HARRG makes safe harbor matching 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. Contributions amounted to $766,767 and $936,937 for the years ended December 31, 2018 and 2017, 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 safe harbor matching 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 was the sponsor of a supplemental executive retirement plan (the SERP) covering certain key employees. The purpose of the SERP was 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. As of December 31, 2018 and 2017, the SERP's cash value associated with related life insurance amounted to $1,868,040 and $1,826,795, respectively. SERP expenses incurred amounted to $180,444 for the year ended December 31, 2017. During 2016, accumulated benefits were paid out to all participants covered.

The Company provides incentive compensation to its employees, on a discretionary basis. Accrued incentive compensation expense amounted to $1,462,765 and $1,604,495 as of December 31, 2018 and 2017, respectively, recorded in accrued expenses and other liabilities on the consolidated balance sheets. The Company expensed $1,164,016 and $1,646,344 of incentive compensation for the years ended December 31, 2018 and 2017, respectively.

HARRG also provided other post-retirement health care benefits for retired employees (the OPEB Plan) of the Company. Effective December 31, 2017, contributions and interest are discontinued and the plan is frozen. 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 accrued benefit obligation recorded amounted to $2,730,030 and $2,894,682 as of December 31, 2018 and 2017, respectively. Balances will be paid out as participants meet the plan requirements.

(Continued)

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 $2,500,000 and $3,000,000 for the years ended December 31, 2018 and 2017, respectively. For the years ended December 31, 2018 and 2017, $2,457,000 and $2,940,000 related to Class "A" members, respectively. During 2018 and 2017, dividends were declared to Class "B" members in the amount of $25,000 and $60,000, with $12,500 and $30,000 to be paid in cash and $12,500 and $30,000 to be recorded as members' recapitalization dividends within the consolidated statements of changes in equity, respectively. In total, policyholder dividends of $2,487,500 and $2,969,538 were expensed for the years ended December 31, 2018 and 2017, respectively, within the consolidated statements of comprehensive income. 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 for the years ended December 31, 2018 and 2017.

As part of its policyholder dividend program, HARRG also issues risk control dividends to eligible members. Risk control dividends of $500,000 were expensed during 2017. There were no risk control dividends expensed during 2018.

HARRG provides its members with equity dividends for the purchase of HAI Group products and services. Equity dividends amounted to $662,179 and $628,221 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017, there were member PHAs that are no longer policyholders; however, they have not formally withdrawn their membership in HARRG nor 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, 2018 and 2017.

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.

(Continued)

NOTE 11 - EQUITY AND SURPLUS (continued)

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 was $5,962,280 and $5,063,034 for the years ended December 31, 2018 and 2017, respectively. The amount of statutory surplus was $190,099,501 and $186,898,634 as of December 31, 2018 and 2017, 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 $2,655,342 and $1,301,713 for the years ended December 31, 2018 and 2017, respectively. The amount of statutory surplus amounted to $37,417,874 and $33,638,715 as of December 31, 2018 and 2017, respectively. No dividends were declared in fiscal years 2018 and 2017.

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, 2018 and 2017.

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 21% regular federal income tax rate for 2018 and 34% regular federal income tax rate for 2017 to pre-tax net income as follows:

	2018		2017	
Federal income taxes computed at the statutory rate	$ 746,709	21.00%	$ 206,385	34.00%
Valuation allowance	(1,524,383)	(42.87%)	(2,505,528)	(412.76%)
Expense due to enactment of federal tax reform	-	0.00%	2,268,319	373.68%
Other	(16,853)	(0.47%)	(45,204)	(7.45%)
Total	$ (794,527)	(22.34%)	$ (76,028)	(12.53%)

(Continued)

NOTE 13 - FEDERAL INCOME TAXES (Continued)

Federal income tax benefit consists of the following for the years ended December 31, 2018 and 2017:

	2018	2017
Current	$ -	$ (60,590)
Deferred:		
Deferred tax benefit exclusive of the effects of other components listed below	398,291	(15,438)
Expense due to enactment of federal tax reform	5	2,268,319
Decrease in beginning of year deferred tax asset valuation allowance	(1,192,823)	-
Decrease in valuation allowance due to enactment of federal tax reform	-	(2,268,319)
Total	$ (794,527)	$ (76,028)

The tax effect of temporary differences, which result in deferred tax assets and liabilities, as of December 31, 2018 and 2017, are as follows:

	2018	2017
Deferred tax assets		
Discounted loss reserves	$ 492,228	$ 332,274
Unearned premiums	726,821	587,211
Accrued bonus	-	116,248
Accrued severance	-	8,338
Retiree medical expense	27,893	30,753
Capital loss carry-forward	22,512	-
Unrealized losses	168,459	-
Net operating loss carry-forward	2,538,239	3,096,124
Gross deferred tax assets	3,976,152	4,170,948
Deferred tax liabilities		
Tax cuts and jobs act - discounted loss reserves	(183,039)	-
Deferred service fee income	(4,070)	(4,070)
Unrealized gains	-	(86,917)
Deferred policy acquisition costs	(599,317)	(415,754)
Gross deferred tax liabilities	(786,426)	(506,741)
Valuation allowance	(2,139,823)	(3,664,207)
Deferred tax asset, net	$ 1,049,903	$ -

(Continued)

NOTE 13 - FEDERAL INCOME TAXES (Continued)

HEIC has net operating loss carry-forward as of December 31, 2018 and 2017 of $11,935,565 and $14,549,629, respectively, which will begin to expire in 2031. HEIC has capital loss carryovers available of $107,198 as of December 31, 2018, which will begin to expire in 2023. Additionally, HEIC has $74,830 of AMT carryovers as of December 31, 2017. Due to the refundable nature of AMT credits, these amounts have been recorded within federal income tax receivable.

IHIC has net operating loss carry-forwards as of December 31, 2018 of $151,286, which will begin to expire in 2035. The Company has no capital loss or AMT credit carryovers available.

During 2018, as a result of HEIC's continued profitability, management determined that a partial release of its valuation allowance against its deferred tax asset was warranted. Based on its projections of future taxable income, HEIC decreased its valuation allowance by $1,192,823. As of December 31, 2018, HEIC's valuation allowance amounted to $2,099,804.

As of December 31, 2018 and 2017, IHIC recorded a full valuation allowance against the deferred tax asset of $40,019 and $49,589, respectively, as they believe it is more likely than not that the gross deferred tax asset will not be realized.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

As of December 31, 2018 and 2017, 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, 2018 and 2017.

As of December 31, 2018 and 2017, 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 balances as of December 31, 2018 and 2017.

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 with FASB ASC 405, *"Accounting by Insurance and Other Enterprises for Insurance-Related Assessments".* As of December 31, 2018 and 2017, HEIC has not accrued for or been assessed by any state insurance department.

As of December 31, 2018 and 2017, 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, 2018 and 2017.

(Continued)

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, 2018 and 2017, the Company recorded $853,780 related to this loss contingency.

HOUSING AUTHORITY RISK RETENTION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2018

	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	$ 238,637,718	$ 64,879,881	$ 2,028,877	$ -	$ 305,546,476
Federal Home Loan Bank of Boston stock, at cost	575,700	-	-	-	575,700
Investment in HIG	5,915,374	-	-	-	5,915,374
Investment in HEIC	25,097,624	-	-	(25,097,624)	-
Investment in HSIC	11,263,183	-	-	-	11,263,183
Investment in IHIC	5,059,264	-	-	(5,059,264)	-
Total investments	286,548,863	64,879,881	2,028,877	(30,156,888)	323,300,733
Cash and cash equivalents	8,499,357	1,170,644	3,320,571	-	12,990,572
Reinsurance recoverables on unpaid losses	388,285	7,119,643	-	-	7,507,928
Reinsurance recoverables on paid losses	-	3,539,849	-	-	3,539,849
Premiums receivable	9,633,192	16,939,964	-	-	26,573,156
Prepaid reinsurance premiums	1,249,144	3,966,667	-	-	5,215,811
Due from affiliates	2,566,010	51,071	-	(410,645)	2,206,436
Accrued investment income	1,269,696	-	-	-	1,269,696
Deferred policy acquisition costs	429,996	2,853,888	-	-	3,283,884
Property and equipment, net	13,674,174	-	-	-	13,674,174
Deferred tax asset	-	1,049,903	-	-	1,049,903
Federal income tax receivable	-	88,744	-	-	88,744
Other assets	4,468,452	540,651	4,948	-	5,014,051
Total assets	$ 328,727,169	$ 102,200,905	$ 5,354,396	$ (30,567,533)	$ 405,714,937
LIABILITIES AND EQUITY					
Liabilities:					
Unpaid losses and loss adjustment expenses	$ 94,834,881	$ 34,986,833	$ -	$ -	$ 129,821,714
Unearned premiums	16,463,099	20,987,363	219,944	-	37,670,406
Reinsurance balances payable	956,649	912,389	-	-	1,869,038
Term loan	5,655,713	-	-	-	5,655,713
Accrued policyholder dividends	2,621,688	-	-	-	2,621,688
Advance premiums	3,837,401	4,305,262	64,635	-	8,207,298
Due to affiliates	299,944	401,423	10,501	(410,645)	301,223
Accrued expenses and other liabilities	9,220,518	1,102,778	52	-	10,323,348
Total liabilities	133,889,893	62,696,048	295,132	(410,645)	196,470,428
Equity:					
Members' contributions	10,990,937	-	-	-	10,990,937
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	4,750,000	(33,750,000)	-
Accumulated other comprehensive income (loss)	3,283,023	(647,698)	13,969	633,729	3,283,023
Retained earnings (deficit)	180,563,316	(8,847,445)	(204,705)	9,052,150	180,563,316
Total equity before non-controlling interest	194,837,276	39,504,857	5,059,264	(44,564,121)	194,837,276
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 loss	-	-	-	(80,279)	(80,279)
Retained deficit	-	-	-	(2,762,488)	(2,762,488)
Total non-controlling interest	-	-	-	14,407,233	14,407,233
Total liabilities and equity	$ 328,727,169	$ 102,200,905	$ 5,354,396	$ (30,567,533)	$ 405,714,937

HOUSING AUTHORITY RISK RETENTION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2017

	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:					
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 STATEMENT OF COMPREHENSIVE INCOME
Year Ended December 31, 2018

	Housing Authority Risk Retention Group, Inc.	Housing Enterprise Insurance Company, Inc.	Innovative Housing Insurance Company, Inc.	Eliminations	Consolidated
Revenues					
Premiums earned	$ 38,371,251	$ 34,751,234	$ 65,666	$ -	$ 73,188,151
Ceded premiums earned	(3,965,637)	(8,929,322)	-	-	(12,894,959)
Net earned premiums	34,405,614	25,821,912	65,666		60,293,192
Investment income, net	7,293,888	1,704,501	11,991	-	9,010,380
Unrealized gain on investments in affiliates	4,653,307	-	-	(2,838,746)	1,814,561
Net realized investment gains (losses)	304,448	(107,198)	-	-	197,250
Other income	-	25,139	-	-	25,139
Total revenues	46,657,257	27,444,354	77,657	(2,838,746)	71,340,522
Expenses					
Losses and loss adjustment expenses	20,742,740	15,271,641	-	-	36,014,381
Salaries and other compensation	6,990,247	2,186,408	(707)	-	9,175,948
Contractual services and professional fees	1,314,597	-	-	-	1,314,597
General and administrative expenses	3,455,145	3,271,987	50,476	-	6,777,608
Policy acquisition costs	1,053,247	3,186,448	-	-	4,239,695
Total expenses	33,555,976	23,916,484	49,769	-	57,522,229
Net income before policyholder dividends	13,101,281	3,527,870	27,888	(2,838,746)	13,818,293
Policyholder dividends	2,487,500	-	-	-	2,487,500
Net income before federal income tax benefit	10,613,781	3,527,870	27,888	(2,838,746)	11,330,793
Federal income tax benefit	-	(790,814)	(3,713)	-	(794,527)
Net income	10,613,781	4,318,684	31,601	(2,838,746)	12,125,320
Less net income attributable to non-controlling interest in HEIC	-	-	-	1,511,539	1,511,539
Net income attributable to the Company	10,613,781	4,318,684	31,601	(4,350,285)	10,613,781
Other comprehensive (loss) income					
Unrealized holding (losses) gains on available for sale securities, net of tax (benefit) expense of ($281,602) and $3,713 related to HEIC and IHIC, respectively	(6,533,985)	(1,059,357)	13,969	674,613	(6,904,760)
Reclassification adjustments for realized gains (losses) included in net income, net of tax benefit of $22,512 related to HEIC	(304,448)	84,686	-	(55,046)	(274,808)
Other comprehensive (loss) income	(6,838,433)	(974,671)	13,969	619,567	(7,179,568)
Less other comprehensive loss attributable to non-controlling interest in HEIC	-	-	-	(341,135)	(341,135)
Other comprehensive (loss) income attributable to the Company	(6,838,433)	(974,671)	13,969	960,702	(6,838,433)
Comprehensive income attributable to the Company	$ 3,775,348	$ 3,344,013	$ 45,570	$ (3,389,583)	$ 3,775,348

	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 (loss) income before policyholder dividends	8,310,056	724,721	(117,705)	(402,782)	8,514,290
Policyholder dividends	3,469,538	-	-	-	3,469,538
Net (loss) income before federal income tax expense	4,840,518	724,721	(117,705)	(402,782)	5,044,752
Federal income tax expense	-	(76,028)	-	-	(76,028)
Net loss	4,840,518	800,749	(117,705)	(402,782)	5,120,780
Less net loss attributable to non-controlling interest in HEIC	-	-	-	280,265	280,265
Net loss attributable to the Company	4,840,518	800,749	(117,705)	(683,047)	4,840,515
Other comprehensive income (loss)					
Unrealized holding gains (losses) on available for sale securities, net of tax benefit of $18,300 related to HEIC	5,412,034	35,521	-	(23,089)	5,424,466
Reclassification adjustments for realized gains included in net loss, 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 loss 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 PROPERTY INSURANCE, A MUTUAL COMPANY

FINANCIAL STATEMENTS
December 31, 2018 and 2017

Crowe LLP
Independent Member Crowe Global

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, 2018 and 2017, and the related statements of comprehensive income, 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 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 Authority Property Insurance, A Mutual Company as of December 31, 2018 and 2017, 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 incurred and paid claims development information for accident year 2017 and prior and the historical claims duration information on pages 20 to 22 be presented to supplement the basic financial statements. Such information, although not a 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 supplementary 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 LLP

Crowe LLP

Simsbury, Connecticut
May 6, 2019

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
BALANCE SHEETS
December 31, 2018 and 2017

	2018	2017
ASSETS		
Investments		
Available-for-sale, at fair value	$ 129,476,304	$ 131,624,127
Federal Home Loan Bank of Boston stock, at cost	239,500	158,900
Investment in HEIC	14,407,231	13,236,826
Investment in HIG	5,915,374	4,174,733
Investment in HSIC	11,263,183	8,211,329
Total investments	161,301,592	157,405,915
Cash and cash equivalents	4,230,922	8,072,360
Premiums receivable	23,619,378	25,826,179
Reinsurance recoverables on unpaid losses	8,870,567	9,165,940
Reinsurance recoverables on paid losses	9,925,253	3,442,801
Prepaid reinsurance premiums	3,339,023	3,031,690
Deferred policy acquisition costs	2,104,522	1,988,084
Other assets	849,314	665,509
Due from affiliates	3,963	5,018
Total assets	$ 214,244,534	$ 209,603,496
LIABILITIES AND MEMBERS' EQUITY		
Unpaid losses and loss adjustment expenses	$ 44,505,144	$ 44,615,116
Unearned premiums	27,500,684	25,875,413
Reinsurance premiums payable	196,919	456,281
Reinsurance payable on paid losses and loss adjustment expenses	-	71,110
Accrued expenses and other liabilities	2,189,923	2,228,936
Accrued policyholder dividends	2,302,237	2,237
Due to affiliates	1,156,715	1,964,777
Advance premiums	7,991,388	11,426,030
Total liabilities	85,843,010	86,639,900
Members' equity		
Members' contributions	10,066,439	10,106,515
Accumulated other comprehensive income	1,311,051	4,787,509
Unassigned surplus	117,024,034	108,069,572
Total members' equity	128,401,524	122,963,596
Total liabilities and members' equity	$ 214,244,534	$ 209,603,496

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

STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2018 and 2017

	2018	2017
Revenues		
Premiums earned	$ 65,694,716	$ 61,068,430
Ceded premiums earned	(14,630,900)	(13,716,908)
Net premiums earned	51,063,816	47,351,522
Investment income, net	3,562,555	3,207,346
Unrealized gains (losses) on investments in affiliates	3,326,100	(353,710)
Net realized investment (losses) gains	(87,823)	844,645
Other income	86,574	82,259
Total revenues	57,951,222	51,132,062
Expenses		
Losses and loss adjustment expenses	29,466,557	31,952,684
Salaries and other compensation	6,656,096	6,305,560
General and administrative expenses	9,282,816	11,828,113
Contracted services and professional fees	1,103,149	1,622,327
Total expenses	46,508,618	51,708,684
Net income (loss) before policyholder dividends	11,442,604	(576,622)
Policyholder dividends	(2,300,000)	-
Net income (loss)	9,142,604	(576,622)
Other comprehensive (loss) income		
Unrealized holding (losses) gains	(3,564,281)	2,303,704
Reclassification for realized (losses) gains on sales included in net income (loss)	87,823	(844,645)
Other comprehensive (loss) income	(3,476,458)	1,459,059
Comprehensive income	$ 5,666,146	$ 882,437

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

	Members' Contributions	Accumulated Other Comprehensive Income	Unassigned Surplus	Total
Balance as of January 1, 2017	$ 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
Net income	-	-	9,142,604	9,142,604
Other comprehensive loss	-	(3,476,458)	-	(3,476,458)
Equity dividends	-	-	(188,142)	(188,142)
Members' distributions, net	(40,076)	-	-	(40,076)
Balance as of December 31, 2018	$ 10,066,439	$ 1,311,051	$ 117,024,034	$ 128,401,524

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, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Net income (loss)	$ 9,142,604	$ (576,622)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net realized investment losses (gains)	87,823	(844,645)
Unrealized gain (loss) on investments in affiliates	(3,326,100)	353,710
Amortization and accretion on investments, net	(199,351)	78,981
Changes in assets and liabilities:		
Premiums receivable	2,206,801	(2,219,797)
Reinsurance recoverables on unpaid losses	295,373	(636,528)
Reinsurance recoverables on paid losses	(6,482,452)	556,837
Prepaid reinsurance premiums	(307,333)	2,710,805
Deferred policy acquisition costs	(116,438)	(174,160)
Other assets	(183,805)	103,046
Due from affiliates	1,055	5,570
Unpaid losses and loss adjustment expenses	(109,972)	9,051,383
Unearned premiums	1,625,271	2,197,623
Reinsurance premiums payable	(259,362)	(1,595,680)
Reinsurance payable on paid losses and loss adjustment expenses	(71,110)	71,110
Accrued expenses and other liabilities	(39,013)	295,527
Accrued policyholder dividends	2,300,000	(4,441)
Due to affiliates	(808,062)	886,277
Advance premiums	(3,434,642)	137,104
Cash provided by operating activities	321,287	10,396,100
Cash flows from investing activities		
Purchases of available for sale securities	(53,557,192)	(66,508,533)
Purchase of Federal Home Loan Bank of Boston stock	(80,600)	-
Proceeds from securities sold	40,299,682	47,382,502
Maturities and prepayments of securities	12,403,603	10,553,162
Contributed surplus to Housing Specialty Insurance Company, Inc.	(3,000,000)	(400,000)
Cash used in investing activities	(3,934,507)	(8,972,869)
Cash flows from financing activities		
Equity dividends	(188,142)	(157,537)
Members' (distributions) contributions	(40,076)	27,268
Cash used in financing activities	(228,218)	(130,269)
Net change in cash and cash equivalents	(3,841,438)	1,292,962
Cash and cash equivalents, beginning of year	8,072,360	6,779,398
Cash and cash equivalents, end of year	$ 4,230,922	$ 8,072,360

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, 2018 and 2017. 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, 2018 and 2017, 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, 2018 and 2017.

No contributions were made during 2018 and 2017. There were no dividends declared or paid in 2018 or 2017.

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 2018 or 2017. As of December 31, 2018 and 2017, 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 $3,000,000 and $400,000 during 2018 and 2017, respectively. The Company owns 50% of HSIC as of December 31, 2018 and 2017.

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, 2018 and for the year then ended, is as follows:

	Total Assets	Total Liabilities	Total Equity	Net Income
Housing Investment Group, Inc.	$ 52,736,454	$ 40,905,706	$ 11,830,748	$ 3,481,284
Housing Enterprise Insurance Company, Inc.	$ 102,200,905	$ 62,696,048	$ 39,504,857	$ 4,318,684
Housing Specialty Insurance Company, Inc.	$ 25,027,660	$ 2,501,294	$ 22,526,366	$ 147,841

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)

(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 $239,500 and $158,900 in 2018 and 2017, respectively. 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, 2018 and 2017, 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.

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, 2018 and 2017.

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

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

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

(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, 2018 and 2017, the Company recorded premium taxes of $1,718,243 and $952,457, and agency commissions of $3,206,183 and $2,975,163, respectively, and is reported within general and administrative expenses on the statements of comprehensive income.

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, 2018 and 2017.

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, 2018 and 2017, 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 qualifies under the provisions of Section 115 of the Internal Revenue Code and is exempt from federal income taxes.

The Company accounts for uncertain tax positions in accordance with FASB ASC 740, which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in 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 have any unrecognized tax benefits as of and for the years ended December 31, 2018 and 2017. The Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months.

In the event the Company is ever subject to federal income taxes, its policy would be to recognize interest and penalties related to income taxes as a component of general and administrative expenses. As of December 31, 2018 and 2017, the Company did not record any interest or penalties associated with unrecognized tax benefits. All tax years from 2015 and forward are open and subject to examination.

Subsequent Events: Subsequent events have been evaluated through May 6, 2019, which is the date the financial statements were available to be issued.

Upcoming Accounting Pronouncement: In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Topic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 amends the guidance on the classification and measurement of financial instruments. Amendments in ASU 2016-01 include requiring certain equity investments to be measured at fair value with changes in fair value recognized in net income, and simplifying the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. The amendments of ASU 2016-01 are effective for fiscal years beginning after December 15, 2018.

Upon adoption, a certain amount of unrealized gains and losses of the Company’s equity investment portfolio will be reclassified from accumulated other comprehensive income (loss) to retained earnings (no overall impact to total equity). Subsequent to adoption, changes in unrealized gains and losses of the Company’s equity investment portfolio will impact its results of operations due to recognition in the statements of comprehensive income.

(Continued)

NOTE 3 - INVESTMENTS

Investments classified as available for sale and carried at fair value, as of December 31, 2018, are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury and government agencies	$ 51,391,751	$ 897,730	$ (429,842)	$ 51,859,639
State and political subdivisions	867,712	59,179	-	926,891
Corporate bonds	36,098,978	158,798	(587,461)	35,670,315
Collateralized debt obligations	8,009,258	1,641	(84,718)	7,926,181
Residential mortgage-backed securities	17,027,826	69,754	(443,773)	16,653,807
Commercial mortgage-backed securities	5,027,951	2,979	(82,998)	4,947,932
Total debt securities	118,423,476	1,190,081	(1,628,792)	117,984,765
Mutual funds	9,676,121	1,815,418	-	11,491,539
Total	$ 128,099,597	$ 3,005,499	$ (1,628,792)	$ 129,476,304

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

As of December 31, 2018 and 2017, the Company held $239,500 and $158,900 of FHLBB stock, which is carried at cost as further, described in Note 2.

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The cost and fair value of debt securities are shown by contractual maturity as of December 31, 2018. 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	$ 2,697,125	$ 2,685,918
After one year through five years	44,068,844	43,600,909
After five years through ten years	37,607,051	37,911,612
After ten years	3,985,421	4,258,406
Collateralized debt obligations	8,009,258	7,926,181
Residential mortgage-backed securities	17,027,826	16,653,807
Commercial mortgage-backed securities	5,027,951	4,947,932
Total	$ 118,423,476	$ 117,984,765

Proceeds from sales of securities amounted to $40,299,682 and $47,382,502 in 2018 and 2017, respectively. Gross gains of $841,066 and $1,003,206 and gross losses of $928,889 and $158,561 were realized on those sales during 2018 and 2017, respectively.

The Company holds 291 securities that are in an unrealized loss position as of December 31, 2018, of which 267 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, 2018:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury and government agencies	$ 376,838	$ (8,540)	$ 20,162,733	$ (421,302)
Corporate bonds	3,665,529	(63,290)	17,518,648	(524,171)
Collateralized debt obligations	587,343	(2,622)	7,097,198	(82,096)
Residential mortgage-backed securities	856,376	(2,187)	12,377,991	(441,586)
Commercial mortgage-backed securities	-	-	4,065,468	(82,998)
Total	$ 5,486,086	$ (76,639)	$ 61,222,038	$ (1,552,153)

NOTE 3 - INVESTMENTS (Continued)

The Company held 229 securities that were 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)

The Company had debt securities with amortized costs of $5,935,718 and $5,909,952 as of December 31, 2018 and 2017, 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, 2018 and 2017 are as follows:

	Available-for-Sale Securities	HEIC	HSIC	Total
Balance, January 1, 2017	$ 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
Other comprehensive income before reclassifications	(3,201,081)	(341,134)	(22,066)	(3,564,281)
Amounts reclassified from accumulated other comprehensive loss [a]	87,823	-	-	87,823
Net current-period other comprehensive loss	(3,113,258)	(341,134)	(22,066)	(3,476,458)
Balance, December 31, 2018	$ 1,376,707	$ (61,274)	$ (4,382)	$ 1,311,051

[a] Amounts reclassified from other comprehensive income (loss) into net income 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 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, repurchase agreements, and money market funds, as of December 31, 2018, as follows:

	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 51,859,639	$ -
State and political subdivisions	-	926,891	-
Corporate bonds	-	35,670,315	-
Collateralized debt obligations	-	7,926,181	-
Residential mortgage-backed securities	-	16,653,807	-
Commercial mortgage-backed securities	-	4,947,932	-
Mutual funds	11,491,539	-	-
Repurchase agreement	-	400,000	-
Money market funds	135,728	-	-
Total	$ 11,627,267	$ 118,384,765	$ -

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The Company classifies the fair value of equity securities, mutual fund, investments in debt securities, repurchase agreements, 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 fund	14,735,185	-	-
Repurchase agreement	-	900,000	-
Money market funds	244,857	-	-
Total	$ 14,980,042	$ 117,788,942	$ -

There were no significant transfers between levels in 2018 and 2017.

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

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

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

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

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

Collateralized debt obligations, residential 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.

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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 years ended December 31, 2018 and 2017, 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 2018 and 2017, 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 per occurrence for property. The property limits of $300,000,000 per occurrence is a shared aggregate limit with HEIC.

In 2018 and 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.

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

Effective January 1, 2015 the Company began providing reinsurance coverage to 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 losses in excess of $250,000 each loss, each policy. Additionally, the Company provides coverage which limit's HSIC's liability for losses arising out of any one loss occurrence to $750,000, exclusive of loss adjustment expenses. Loss adjustment expenses are shared on a pro-rata basis and are in addition to the per occurrence limits. For 2018 and 2017, the Company assumed $531,032 and $496,060, respectively, of premiums from HSIC related to this contract.

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

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

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

The Company, HARRG, 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 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 B++ 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.

Premiums written, assumed and ceded for the years ended December 31, 2018 and 2017, are summarized as follows:

	Premiums Written		Premiums Earned	
	2018	2017	2018	2017
Direct premiums	$ 65,690,124	$ 61,721,653	$ 64,107,285	$ 59,496,923
Assumed premiums	1,629,863	1,544,400	1,587,431	1,571,507
Ceded premiums	(14,938,233)	(11,006,103)	(14,630,900)	(13,716,908)
Net premiums	$ 52,381,754	$ 52,259,950	$ 51,063,816	$ 47,351,522

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

A reconciliation of changes in unpaid losses and loss adjustment expenses for the years ended December 31, 2018 and 2017, are summarized as follows:

	2018	2017
Balance at beginning of year	$ 44,615,116	$ 35,563,733
Less: reinsurance recoverables	(9,165,940)	(8,529,412)
Net balance at beginning of the year	35,449,176	27,034,321
Incurred related to		
Current year	41,446,000	36,571,000
Prior years	(11,979,443)	(4,618,316)
Total incurred	29,466,557	31,952,684
Paid related to		
Current year	(16,234,000)	(11,361,000)
Prior years	(13,047,156)	(12,176,829)
Total paid	(29,281,156)	(23,537,829)
Net balance at end of year	35,634,577	35,449,176
Plus: reinsurance recoverables	8,870,567	9,165,940
Balance at end of year	$ 44,505,144	$ 44,615,116

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by $11,979,443 and $4,618,316, in 2018 and 2017, respectively. The development during 2018 relates primarily to favorable development of accident year 2017. The development during 2017 relates primarily to favorable development of accident year 2016.

The Company recorded net reinsurance recovery activity of $7,453,995 and $7,286,894 in 2018 and 2017, respectively, which are reflected as a decrease in losses and loss adjustment expenses incurred in the statements of comprehensive income.

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, 2018, is audited. All prior years are considered required supplementary information and, therefore, are unaudited.

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, 2018. The information about incurred and paid claims development for the years ended December 31, 2009 to 2017 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, 2018	
	For the Years Ended December 31, (Unaudited)											
Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	IBNR Reserves	Number of Reported Claims
2009	$ 37,148	$ 21,249	$ 18,872	$ 18,772	$ 18,315	$ 18,258	$ 18,098	$ 18,033	$ 18,029	$ 17,554	$ -	508
2010		27,678	20,734	19,413	18,683	18,631	18,607	18,465	18,448	18,448	-	556
2011			25,910	22,533	20,433	20,006	19,714	19,702	19,625	19,441	33	571
2012				28,386	22,816	21,009	20,437	20,295	20,473	20,558	66	541
2013					25,599	23,691	21,874	22,209	22,235	22,232	51	525
2014						23,583	22,691	21,984	21,678	21,399	62	643
2015							25,602	23,390	22,931	22,548	134	591
2016								31,361	27,674	26,679	(1,194)	616
2017									35,983	27,527	(1,182)	578
2018										39,512	7,315	569
									Total	$ 235,898		

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, net of reinsurance									
	For the Years Ended December 31, (Unaudited)									
Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	$ 8,993	$ 15,733	$ 16,464	$ 17,194	$ 17,242	$ 17,438	$ 17,486	$ 17,536	$ 17,551	$ 17,554
2010		9,233	16,354	17,479	17,604	18,172	18,280	18,428	18,448	18,448
2011			9,078	16,431	17,641	18,285	18,664	19,297	19,379	19,379
2012				10,549	16,220	18,071	18,586	18,865	19,392	19,687
2013					11,737	19,140	20,868	21,208	21,620	21,701
2014						11,138	18,822	20,228	20,856	20,939
2015							12,382	19,205	21,120	21,883
2016								14,077	22,498	24,700
2017									10,876	21,671
2018										14,397
									Total	200,359
						Liabilities for claims and claim adjustment expenses				$ 35,539

(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, 2018, is as follows (in thousands):

Net outstanding liabilities for unpaid losses and allocated loss adjustment expenses:	
Commercial property	$ 35,539
Other short duration lines not presented in triangles	95
Net outstanding liabilities for unpaid losses and allocated loss adjustment expenses	35,634
Reinsurance recoverable on unpaid losses and loss adjustment expenses:	
Commercial property	8,871
Reinsurance recoverable on unpaid losses and loss adjustment expenses	8,871
Total gross liability for unpaid losses and loss adjustment expenses	$ 44,505

The following is required supplementary information about average historical claims duration as of December 31, 2018.

	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	48.8%	34.7%	7.1%	2.6%	1.5%	1.6%	0.7%	0.1%	0.0%	0.0%

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 $11,516,218 and $13,272,195 for the years ended December 31, 2018 and 2017, respectively. The amounts due to HARRG under this agreement, which are included in due to affiliates, amounted to $1,098,983 and $1,945,424 as of December 31, 2018 and 2017, respectively.

The Company entered into an Insurance Management Services Agreement (the Agreement) with Housing Insurance Services, Inc. (HIS), whereby HIS performs insurance agency activities for the HAPI assumed insurance programs. HIS is a subsidiary of HIG. Fees incurred under the Agreement amounted to $53,385 and ($51,007) for the years ended December 31, 2018 and 2017, respectively. The amount due from (to) HIS, which is included in due from (to) affiliates, amounted to $245 and $5,018, as of December 31, 2018 and 2017, 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.

NOTE 7 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)

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, 2018 and 2017, commission expense under this agreement amounted to $3,206,183 and $2,975,163, respectively, and the Company has recorded deferred commission expense of $1,345,748 and $1,266,648, 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 $1,448,750 and $1,939,145 for the years ended December 31, 2018 and 2017, respectively.

During 2017, 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. During 2018, HAI had unused grant funds of $370,649 that was reimbursed to the Company.

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 $88,410 and $113,737 for fees paid to HTI for the years ended December 31, 2018 and 2017, respectively. The Company has amounts due to HTI of $4,553 and $12,565 as of December 31, 2018 and 2017, respectively, which are included in due to affiliates on the balance sheets.

As of December 31, 2018 and 2017, there was $51,071 and $6,788, respectively, due to HEIC included within due to affiliates on the balance sheets. Additionally, the Company has amounts due from HEIC of $3,718 as of December 31, 2018, which are included in due from 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 $346,243 and $319,969 and 401(k) expenses of $221,376 and $208,584, for the years ended December 31, 2018 and 2017, respectively. In addition, the Company recorded an expense for incentive compensation of $846,177 and $881,600, for the years ended December 31, 2018 and 2017, respectively, which is included within salaries and other compensation on the statements of comprehensive income.

(Continued)

NOTE 8 - EMPLOYEE BENEFITS (Continued)

HARRG was also the sponsor of a supplemental executive retirement plan (SERP) covering certain key employees of the Company. The purpose of the SERP was 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) for the year ended December 31, 2017, 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 year ended December 31, 2018, policyholder dividends of $2,500,000 were declared by the Company with $2,100,000 related to Class "A" members. Dividends declared to Class "B" members amounted to $400,000, with $200,000 to be paid in cash and $200,000 to be recorded as members' recapitalization dividends within the statements of changes in members' equity. For the year ended December 31, 2017, no policyholder dividends were declared by the Company. In total, policyholder dividends of $2,300,000 were expensed for the year ended December 31, 2018 within the statements of comprehensive income. Dividends were approved by the Vermont Department of Financial Regulation (the Department).

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, 2018 and 2017, 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 2018 and 2017, there were member PHAs that are no longer policyholders; however, they have not formally withdrawn their membership in HAPI and 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 HAI Group products and services. Equity dividends amounted to $188,142 and $157,537 in 2018 and 2017, respectively.

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

NOTE 11 - STATUTORY ACCOUNTING POLICIES

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

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

The amounts of statutory net income (loss) amounted to $5,700,069 and $(397,075) for the years ended December 31, 2018 and 2017, respectively. The amounts of statutory surplus amounted to $124,207,070 and $118,501,871 as of December 31, 2018 and 2017, 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, 2018 and 2017.

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 with FASB ASC 405, *Accounting by Insurance and Other Enterprises for Insurance-Related Assessments.* As of December 31, 2018 and 2017, the Company has not accrued for or been assessed by any state insurance department.

(Continued)

NOTE 12 - COMMITMENTS AND CONTINGENCIES (Continued)

As of December 31, 2018 and 2017, 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, 2018 and 2017. 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, 2018 and 2017, 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, 2018 and 2017.

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, 2018 and 2017.

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. During 2018, the amount due to HARRG was paid in full. As of December 31, 2018, no additional amounts were accrued or due to HARRG related to this loss contingency.

HOUSING ENTERPRISE INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS

December 31, 2018 and 2017

Crowe LLP
Independent Member Crowe Global

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, 2018 and 2017, and the related statements of comprehensive 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 Enterprise Insurance Company, Inc. as of December 31, 2018 and 2017, 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 incurred and paid claims development information for accident year 2017 and prior and the historical claims duration information on pages 19 to 22 be presented to supplement the basic financial statements. Such information, although not a 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 supplementary 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 LLP

Crowe LLP

Simsbury, Connecticut
May 6, 2019

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
BALANCE SHEETS
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 1,170,644	$ 1,509,635
Investments available for sale, at fair value	64,879,881	66,584,880
Premiums receivable	16,939,964	13,675,701
Reinsurance recoverable on unpaid losses	7,119,643	9,338,427
Reinsurance recoverable on paid losses	3,539,849	630,356
Prepaid reinsurance	3,966,667	2,647,270
Deferred policy acquisition costs	2,853,888	1,979,783
Due from affiliate	51,071	6,788
Deferred tax asset	1,049,903	-
Federal income tax receivable	88,744	78,744
Accrued interest and other assets	540,651	474,185
Total assets	$ 102,200,905	$ 96,925,769
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 34,986,833	$ 38,217,092
Unearned premiums	20,987,363	16,459,977
Reinsurance payable	912,389	318,530
Due to affiliates	401,423	652,699
Accounts payable and other liabilities	1,102,778	895,288
Advance premiums	4,305,262	4,221,339
Total liabilities	62,696,048	60,764,925
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 (loss) income	(647,698)	326,973
Retained deficit	(8,847,445)	(13,166,129)
Total shareholders’ equity	39,504,857	36,160,844
Total liabilities and shareholders’ equity	$ 102,200,905	$ 96,925,769

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

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2018 and 2017

	2018	2017
Revenues		
Premiums earned	$ 34,751,234	$ 34,996,512
Ceded premiums earned	(8,929,322)	(8,530,788)
Net premiums earned	25,821,912	26,465,724
Investment income, net	1,704,501	1,565,470
Other income	25,139	35,918
Realized (losses) gains, net	(107,198)	8,409
Total revenues	27,444,354	28,075,521
Losses and expenses		
Losses and loss adjustment expenses	15,271,641	17,316,593
Salaries and benefits	2,186,408	3,519,657
General and administrative expenses	3,271,987	3,098,736
Agency commissions	3,186,448	3,415,814
Total losses and expenses	23,916,484	27,350,800
Net income before federal income tax benefit	3,527,870	724,721
Federal income tax benefit	(790,814)	(76,028)
Net income	4,318,684	800,749
Other comprehensive (loss) income, net of tax:		
Unrealized holding (losses) gains on available for sale securities, net of tax (benefit) expense of ($281,602) and $18,300 in 2018 and 2017, respectively	(1,059,357)	35,521
Reclassification adjustments for realized (losses) gains included in net income, net of tax (benefit) expense of ($22,512) and $2,859 in 2018 and 2017, respectively	84,686	(5,550)
Other comprehensive (loss) income	(974,671)	29,971
Comprehensive income	$ 3,344,013	$ 830,720

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, 2018 and 2017

	Common Stock Shares	Common Stock Amount	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Deficit	Total Shareholders' Equity
Balance as of January 1, 2017	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
Other comprehensive loss	-	-	-	(974,671)	-	(974,671)
Net income	-	-	-	-	4,318,684	4,318,684
Balance as of December 31, 2018	2,000	$ 20,000,000	$ 29,000,000	$ (647,698)	$ (8,847,445)	$ 39,504,857

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

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Net income	$ 4,318,684	$ 800,749
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Amortization and accretion on investments, net	229,949	278,301
Realized losses (gains) on investments	107,198	(8,409)
Deferred federal income taxes	(790,814)	(15,438)
Change in assets and liabilities:		
Premiums receivable	(3,264,263)	410,137
Reinsurance recoverable on unpaid losses	2,218,784	(4,952,562)
Reinsurance recoverable on paid losses	(2,909,493)	829,342
Prepaid reinsurance	(1,319,397)	1,484,104
Deferred policy acquisition costs	(874,105)	516,408
Due from affiliate	(44,283)	(6,788)
Federal income tax receivable	(10,000)	(78,744)
Accrued interest and other assets	(66,466)	49,778
Unpaid losses and loss adjustment expenses	(3,230,259)	6,180,248
Unearned premiums	4,527,386	(2,579,439)
Reinsurance payable	593,859	(556,046)
Due to affiliates	(251,276)	100,546
Accounts payable and other liabilities	207,490	(314,897)
Advance premiums	83,923	19,982
Federal income taxes payable	-	(1,846)
Net cash (used in) provided by operating activities	(473,083)	2,155,426
Cash flows from investing activities		
Purchases of investments	(10,873,784)	(21,704,113)
Proceeds from investments sold	5,443,814	9,264,856
Proceeds from prepayments and maturities of investments	5,564,062	8,444,280
Net cash provided by (used in) investing activities	134,092	(3,994,977)
Net change in cash and cash equivalents	(338,991)	(1,839,551)
Cash and cash equivalents, beginning of year	1,509,635	3,349,186
Cash and cash equivalents, end of year	$ 1,170,644	$ 1,509,635
Cash paid for taxes	$ 10,000	$ 20,000

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, 2018 and 2017, 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 2018 or 2017.

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, 2018 and 2017. 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, 2018 and 2017, all of the Company's investments are classified as available for sale and are carried at fair value. Unrealized gains and losses relating to available for sale securities are reported as a separate component of shareholders' equity as accumulated other comprehensive income. Realized investment gains and losses are determined on a specific identification basis.

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

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

Other Than Temporary Impairments on Investments: When a decline in fair market value is deemed to be other than temporary, a provision for impairment is charged to earnings, and is included in investment income, net, within the statements of comprehensive loss and the cost basis of that investment is reduced.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The Company recorded no impairments of debt securities for the years ended December 31, 2018 and 2017.

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

<u>Unpaid Losses and Loss Adjustment Expenses</u>: 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.

<u>Revenue Recognition</u>: 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.

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

<u>Reinsurance</u>: 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, 2018 and 2017, 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, 2018 and 2017 the Company expensed $4,064,075 and $3,643,224, respectively, of policy acquisition costs.

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, 2018 and 2017.

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.

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, 2018 and 2017. 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, 2018 and 2017, 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.

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 $2,237,621, which was fully offset by a change in valuation allowance.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During March 2018, the FASB issued ASU 2018-05, "*Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*" (ASU 2018-05). ASU 2018-05 codified the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118) to address the application of U.S. GAAP in situations when a registrant did 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. Due to a lack of information, specifically as it related to IRS provided discounting factors as modified for the corporate bond yield, the Company was unable to provide a reasonable estimate for the additional tax basis discounting that would be required as a result of the enactment of the Act; however, a provisional amount was recorded using the current discount rates, which amounted to $332,274 as of December 31, 2017. Accordingly, the Company elected to apply the provisions of ASU 2018-05 in their financial statements and forgo estimating any additional impact to current and deferred taxes.

During December 2018, the IRS issued Revenue Procedure 2019-06 (RP 2019-06). RP 2019-06 provides the insurance industry with unpaid loss reserve discount factors, as amended by the Act, for use in computing the loss reserve discounts retroactively and prospectively, as well as an election to amortize the impact of the retroactive re-measurement over eight years within taxable income. The regulations are subject to final approval from the Department of the Treasury; however, the Company applied provisions of RP 2019-06 in the December 31, 2018 financial statements. As a result of retroactively applying the changes to loss discount factors within the tax provision, the Company will incur an additional $996,127 of taxable income; however, the Company will amortize this impact over eight years through net income. The additional loss reserve discount has been recorded as a deferred tax asset with an offsetting deferred tax liability (referred to as the "TCJA Transition Adjustment") representing the portion of the retroactive remeasurement of the tax discount to be amortized to net income.

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.

<u>Use of Estimates</u>: 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.

<u>Subsequent Events</u>: Subsequent events have been evaluated through May 6, 2019, 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, 2018, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury and government agencies	$ 16,908,060	$ 160,391	$ (256,496)	$ 16,811,955
State and political subdivisions	4,509,905	38,540	(22,534)	4,525,911
Corporate bonds	24,763,251	197,644	(572,839)	24,388,056
Collateralized debt obligations	2,862,111	-	(38,596)	2,823,515
Residential mortgage-backed securities	13,882,930	46,305	(316,816)	13,612,419
Commercial mortgage-backed securities	2,773,495	4,356	(59,826)	2,718,025
Total	$ 65,699,752	$ 447,236	$ (1,267,107)	$ 64,879,881

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

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The cost and fair value of debt securities are shown by contractual maturity as of December 31, 2018. 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	$ 3,247,970	$ 3,232,939
After one year through five years	24,039,420	23,721,618
After five years through ten years	16,053,236	15,768,710
After ten years	2,840,590	3,002,655
Collateralized debt obligations	2,862,111	2,823,515
Residential mortgage-backed securities	13,882,930	13,612,419
Commercial mortgage-backed securities	2,773,495	2,718,025
Total	$ 65,699,752	$ 64,879,881

Proceeds from sales of securities amounted to $5,443,814 and $9,264,856 in 2018 and 2017, respectively. Gross realized gains amounted to $4,040 and $47,655 on the sale of securities in 2018 and 2017, respectively. Gross realized losses amounted to $111,238 and $39,246 in 2018 and 2017, respectively.

The Company holds 275 securities that are in an unrealized loss position as of December 31, 2018, of which 181 of these 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, 2018:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury and government agencies	$ 742,266	$ (9,962)	$ 11,527,622	$ (246,534)
State and political subdivisions	472,099	(3,748)	1,054,486	(18,786)
Corporate bonds	9,597,914	(226,109)	9,273,705	(346,730)
Collateralized debt obligations	99,970	(30)	2,723,547	(38,566)
Residential mortgage-backed securities	3,313,533	(41,757)	7,335,652	(275,059)
Commercial mortgage-backed securities	382,418	(3,651)	1,687,204	(56,175)
Total	$ 14,608,200	$ (285,257)	$ 33,602,216	$ (981,850)

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The Company held 210 securities that were in an unrealized loss position as of December 31, 2017 of which 86 of these securities had 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)
U.S. treasury and government agencies	7,398,014	(41,753)	5,342,164	(169,876)
State and political subdivisions	1,899,231	(16,374)	1,228,076	(12,050)
Corporate bonds	5,990,782	(50,394)	2,689,044	(61,277)
Collateralized debt obligations	1,505,619	(14,470)	237,388	(14,218)
Total	$ 26,563,580	$ (200,835)	$ 13,470,695	$ (354,522)

As of December 31, 2018 and 2017, bonds with an amortized cost of $4,984,542 and $4,962,967, respectively, were deposited with state insurance departments and regulatory authorities, as required by statute. These amounts are included in investments on the balance sheets.

NOTE 4 - ACCUMULATED OTHER COMPREHENSIVE INCOME (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, 2018 and 2017 is as follows:

	Unrealized Gain (Loss) on Available-for Sale Investments
Balance at January 1, 2017	$ 243,195
Other comprehensive income, net before reclassifications	35,521
Amounts reclassified from accumulated other comprehensive income	(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
Other comprehensive loss, net before reclassifications	(1,059,357)
Amounts reclassified from accumulated other comprehensive income	84,686
Net current-period other comprehensive loss	(974,671)
Balance at December 31, 2018	$ (647,698)

(Continued)

NOTE 4 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Continued)

The following table provides the reclassifications out of accumulated other comprehensive income (loss) for the years ended December 31, 2018 and 2017:

Details About Accumulated Other Comprehensive Income (Loss) Components	Amounts Reclassified Accumulated Other Comprehensive Income (Loss) 2018	2017	Affected Line Item in the Statement of Comprehensive Income
Realized (losses) gains on sales of investments	$ (107,198)	$ 8,409	Realized (losses) gains, net on sales of investments
Tax benefit (expense)	22,512	(2,859)	Federal income tax benefit
Total reclassifications	$ (84,686)	$ 5,550	Net income

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 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.

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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 (level 2).

The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2018:

	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 16,811,955	$ -
State and political subdivisions	-	4,525,911	-
Corporate bonds	-	24,388,056	-
Collateralized debt obligations	-	2,823,515	-
Residential mortgage-backed securities	-	13,612,419	-
Commercial mortgage-backed securities	-	2,718,025	-
Money market funds	339,704	-	-
Total	$ 339,704	$ 64,879,881	$ -

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	$ -

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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

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

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

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

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

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

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurement at the reporting date.

Management has evaluated the significance of transfers between levels based upon the nature of the financial instrument. For the years ended December 31, 2018 and 2017, 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 2018 and 2017, 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 per occurrence for property in 2018 and 2017. 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, 2018 and 2017, respectively. The property limit of $300,000,000 per occurrence in 2018 and 2017, respectively, is a shared aggregate limit with HAPI.

In 2018 and 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.

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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 losses in excess of $250,000 each loss, each policy. Additionally, the Company provides coverage which limits HSIC's liability for losses arising out of any one loss occurrence to $750,000, exclusive of loss adjustment expenses. Loss adjustment expenses are shared on a pro-rata basis and are in addition to the per occurrence limits. During 2018 and 2017, the Company assumed $35,775 and $31,058 of premiums, respectively, from HSIC related to this contract. There were no ceded losses recorded for the years ended December 31, 2018 and 2017 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 2018 and 2017, 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.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

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 B++ or better.

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

The Company recorded net reinsurance recovery activity of $3,832,217 and $10,986,625 in 2018 and 2017, respectively, which is reflected as a decrease in losses and loss adjustment expenses incurred in the statements of comprehensive income.

Direct, assumed and ceded premium written and earned by the Company for the years ended December 31, 2018 and 2017, are summarized as follows:

	Premiums Written		Premiums Earned	
	2018	2017	2018	2017
Direct premiums	$ 39,242,845	$ 32,386,015	$ 34,721,621	$ 34,974,988
Assumed premiums	35,775	31,058	29,613	21,524
Ceded premiums	(10,248,719)	(7,046,684)	(8,929,322)	(8,530,788)
Total	$ 29,029,901	$ 25,370,389	$ 25,821,912	$ 26,465,724

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

A reconciliation of changes in the Company's unpaid losses and loss adjustment expenses, included on the balance sheets for the years ended December 31, 2018 and 2017, is summarized as follows:

	2018	2017
Balance at beginning of year	$ 38,217,092	$ 32,036,844
Less: reinsurance recoverables	(9,338,427)	(4,385,865)
Net balance at beginning of year	28,878,665	27,650,979
Incurred related to:		
Current year	22,355,000	23,973,000
Prior years	(7,083,359)	(6,656,407)
Total incurred	15,271,641	17,316,593
Paid related to:		
Current year	(7,709,000)	(8,413,000)
Prior years	(8,574,116)	(7,675,907)
Total paid	(16,283,116)	(16,088,907)
Net balance at end of year	27,867,190	28,878,665
Add: reinsurance recoverables	7,119,643	9,338,427
Balance at end of year	$ 34,986,833	$ 38,217,092

As a result of changes in loss development, the provision for losses and loss adjustment expenses decreased by $7,083,359 and $6,656,407 in 2018 and 2017, respectively. The decrease in 2018 is related to favorable loss development on property and casualty claims related to the 2014 through 2017 accident years. The decrease in 2017 is related to favorable loss development on property and casualty claims related to the 2014 through 2016 accident years.

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, 2018 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.

(Continued)

NOTE 6 - INSURANCE ACTIVITY (Continued)

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, 2018. The information about incurred and paid claims development for the years ended December 31, 2009 to 2017 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, 2018	
	For the Years Ended December 31, (Unaudited)											Cumulative Number of Reported
Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	IBNR Reserves	Claims
2009	$ 2,938	$ 1,995	$ 1,753	$ 1,698	$ 1,766	$ 1,711	$ 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	3,941	-	91
2011			9,264	8,860	8,213	8,227	8,010	7,994	7,994	7,994	-	140
2012				9,603	8,354	8,187	8,140	8,140	8,140	8,140	-	132
2013					9,585	7,615	7,431	7,403	7,418	7,418	-	150
2014						5,640	5,606	5,098	5,060	5,060	-	130
2015							6,715	7,217	6,678	6,674	32	143
2016								10,288	9,177	8,981	48	193
2017									16,512	14,051	(413)	218
2018										15,885	3,718	208
									Total	$ 79,855		

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance									
	For the Years Ended December 31, (Unaudited)									
Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	$ 613	$ 1,583	$ 1,698	$ 1,698	$ 1,698	$ 1,711	$ 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	3,941
2011			5,498	7,818	7,976	7,977	7,983	7,994	7,994	7,994
2012				5,375	7,657	8,126	8,140	8,140	8,140	8,140
2013					5,276	7,343	7,403	7,403	7,418	7,418
2014						2,879	4,875	5,081	5,060	5,060
2015							4,079	5,889	6,601	6,425
2016								5,760	8,389	8,516
2017									8,092	13,510
2018										6,727
									Total	69,442
									Net liabilities for claims and claim adjustment expenses	$ 10,413

NOTE 6 - INSURANCE ACTIVITY (Continued)

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, 2018

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	IBNR Reserves	Cumulative Number of Reported Claims
2009	$ 1,458	$ 1,514	$ 1,767	$ 1,350	$ 1,163	$ 1,093	$ 919	$ 919	$ 919	$ 919	$ -	123
2010		3,103	2,120	2,243	1,914	1,755	1,504	1,548	1,543	1,513	-	120
2011			2,373	4,368	3,406	3,741	3,457	2,964	3,066	3,043	38	219
2012				5,179	6,339	6,446	5,910	5,579	4,742	4,952	150	199
2013					6,507	8,394	8,662	7,817	7,778	7,835	63	222
2014						7,354	5,432	5,124	4,238	3,489	275	190
2015							6,996	6,247	5,079	3,714	620	198
2016								8,452	6,297	5,573	1,593	189
2017									7,462	5,688	2,428	205
2018										6,470	4,410	175
									Total	$ 43,196		

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

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	$ 75	$ 324	$ 582	$ 745	$ 880	$ 896	$ 919	$ 919	$ 919	$ 919
2010		142	619	931	1,139	1,324	1,478	1,484	1,510	1,513
2011			327	897	1,433	2,255	2,709	2,753	2,797	2,884
2012				187	1,273	2,167	3,089	4,147	4,252	4,329
2013					351	1,499	3,153	4,806	6,221	7,552
2014						165	663	1,473	2,691	3,053
2015							187	1,129	2,048	2,410
2016								183	795	1,658
2017									322	1,285
2018										139
									Total	25,742
						Net liabilities for claims and claim adjustment expenses				$ 17,454

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, 2018 is as follows (in thousands):

Net outstanding liabilities for unpaid losses and loss adjustment expenses:	
Commercial property	$ 10,413
General liability	17,454
Net outstanding liabilities for unpaid losses and loss adjustment expenses	27,867
Reinsurance recoverable on unpaid losses and loss adjustment expenses:	
Commercial property	6,584
General liability	536
Reinsurance recoverable on unpaid losses and loss adjustment expenses	7,120
Total unpaid losses and loss adjustment expenses	$ 34,987

NOTE 6 - INSURANCE ACTIVITY (Continued)

The following is supplementary information about average historical claims duration as of December 31, 2018:

	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	57.3%	35.6%	4.7%	-0.4%	0.1%	0.2%	0.0%	0.0%	0.0%	0.0%
General Liability	5.7%	20.2%	21.1%	20.4%	15.3%	6.5%	1.5%	1.5%	0.1%	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 $4,632,965 and $5,964,299 for the years ended December 31, 2018 and 2017, respectively. The amounts due to HARRG under this agreement, which are included in due to affiliates, amounted to $400,144 and $643,826 as of December 31, 2018 and 2017, 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, 2018 and 2017, commissions expensed under this agreement amounted to $684,795 and $657,788, respectively, which is included within agency commissions on the statements of comprehensive income.

The Company has amounts due from (to) HIS of $2,439 and ($8,873) as of December 31, 2018 and 2017, respectively, which are included in due to affiliates.

The Company has amounts due (to) from HAPI of ($3,718) and $6,788 as of December 31, 2018 and 2017, respectively, which are included in due from affiliate. As of December 31, 2018, the Company has amounts due from HAPI of $51,071, which is included in receivables from affiliates.

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 $17,250 and $11,880 for fees paid to HTI for the years ended December 31, 2018 and 2017, respectively.

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 $167,250 and $277,521 for the years ended December 31, 2018 and 2017, 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 $115,863 and $172,111 and 401(k) expenses of $72,641 and $112,506 for the years ended December 31, 2018 and 2017, respectively. In addition, the Company recorded incentive compensation expense of $289,743 and $504,273, as of December 31, 2018 and 2017, respectively, which is due to HARRG at each year end and included within accounts payable and other liabilities on the balance sheet.

HARRG was the sponsor of a supplemental executive retirement plan (SERP) covering certain key employees of the Company. The purpose of the SERP was 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) for the year ended December 31, 2017. 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. Statutory net income amounted to $2,655,342 and $1,301,713 for the years ended December 31, 2018 and 2017, respectively. Statutory surplus amounted to $37,417,874 and $33,638,715 as of December 31, 2018 and 2017, respectively. No dividends were declared or paid in fiscal year 2018 or 2017.

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, 2018 and 2017.

(Continued)

NOTE 12 - FEDERAL INCOME TAXES

The provision for income taxes differs from the amount of federal income tax benefit determined by applying the 21% regular federal income tax rate for 2018 and 34% regular federal income tax rate for 2017 to pre-tax net income as follows:

	2018		2017	
	Amount	Percent	Amount	Percent
Federal income taxes computed at the statutory rate	$ 740,853	21.00%	$ 246,405	34.00%
Valuation allowance	(1,514,814)	(42.94%)	(2,514,912)	(347.02%)
Expense due to enactment of federal tax reform	-	0.00%	2,237,621	308.76%
Other	(16,853)	(0.48%)	(45,142)	(6.23%)
Total	$ (790,814)	(22.42%)	$ (76,028)	(10.49%)

Federal income tax benefit consists of the following for the years ended December 31, 2018 and 2017:

	2018	2017
Current	$ -	$ (60,590)
Deferred:		
Deferred tax expense (benefit) exclusive of the effects of other components listed below	402,004	(15,438)
Expense due to enactment of federal tax reform	5	2,237,621
Decrease in beginning of year deferred tax asset valuation allowance	(1,192,823)	-
Decrease in valuation allowance due to enactment of federal tax reform	-	(2,237,621)
Total	$ (790,814)	$ (76,028)

(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, 2018 and 2017, are as follows:

	2018	2017
Deferred tax assets:		
Discounted loss reserves	$ 492,228	$ 332,274
Unearned premiums	714,869	580,134
Accrued bonus	-	114,628
Accrued severance	-	8,174
Retiree medical expense	27,883	30,727
Capital loss carryforward	22,510	-
Unrealized losses	172,173	-
Net operating loss carry-forward	2,506,469	3,055,422
Gross deferred tax assets	3,936,132	4,121,359
Deferred tax liabilities:		
TCJA transition adjustment	(183,039)	-
Deferred service fee income	(4,070)	(4,070)
Unrealized gains	-	(86,917)
Deferred policy acquisition costs	(599,316)	(415,754)
Gross deferred tax liabilities	(786,425)	(506,741)
Valuation allowance	(2,099,804)	(3,614,618)
Deferred tax asset, net	$ 1,049,903	$ -

The Company has net operating loss carry-forwards as of December 31, 2018 and 2017 of $11,935,565 and $14,549,629, respectively, that will begin to expire in 2031. The Company has capital loss carryovers available of $107,198 as of December 31, 2018, that will begin to expire in 2023. Additionally, the Company has $74,830 of AMT carryovers as of December 31, 2017. Due to the refundable nature of AMT credits, these amounts have been recorded within income tax receivable.

During 2018, as a result of the Company's continued profitability, management determined that a partial release of its valuation allowance against its deferred tax asset was warranted. Based on its projections of future taxable income, the Company decreased its valuation allowance by $1,192,823. As of December 31, 2018, the Company's valuation allowance amounted to $2,099,804.

(Continued)

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, 2018 and 2017, the Company has not accrued for or been assessed by any state insurance department.

As of December 31, 2018 and 2017, 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, 2018 and 2017. 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. During 2018, the amount due to HARRG was paid in full. As of December 31, 2018, no additional amounts were accrued or due to HARRG related to this loss contingency.

HOUSING SPECIALTY INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS
December 31, 2018 and 2017

Crowe

Crowe LLP
Independent Member Crowe Global

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, 2018 and 2017, 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 Specialty Insurance Company, Inc. as of December 31, 2018 and 2017, 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 incurred and paid claims development information for 2017 and prior and the historical claims duration information 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 supplementary 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 LLP

Crowe LLP

Simsbury, Connecticut
May 6, 2019

HOUSING SPECIALTY INSURANCE COMPANY, INC.
BALANCE SHEETS
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 538,312	$ 1,385,138
Investments available for sale, at fair value	22,657,927	16,252,181
Premiums receivable	350,338	327,643
Reinsurance recoverables on unpaid losses	1,040,318	253,890
Reinsurance recoverables on paid losses	77,833	71,110
Prepaid reinsurance	169,439	151,931
Deferred policy acquisition costs	62,223	54,853
Accrued interest and other assets	131,270	98,903
Total assets	$ 25,027,660	$ 18,595,649
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 1,656,937	$ 1,135,169
Unearned premiums	611,329	548,571
Reinsurance payable	98,210	91,281
Due to affiliates	64,230	319,595
Accounts payable and other liabilities	70,588	78,376
Total liabilities	2,501,294	2,172,992
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	20,800,000	14,800,000
Accumulated other comprehensive (loss) income	(8,764)	35,368
Retained deficit	(264,870)	(412,711)
Total shareholders' equity	22,526,366	16,422,657
Total liabilities and shareholders' equity	$ 25,027,660	$ 18,595,649

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

HOUSING SPECIALTY INSURANCE COMPANY, INC.
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2018 and 2017

	2018	2017
Revenues		
Premiums earned	$ 1,983,411	$ 1,853,942
Ceded premiums earned	(562,320)	(547,164)
Net premiums earned	1,421,091	1,306,778
Investment income, net	519,063	384,982
Realized (loss) gain, net	(81,088)	48,884
Total revenues	1,859,066	1,740,644
Losses and expenses		
Losses and loss adjustment expenses	717,134	609,651
Salaries and benefits	415,787	453,019
General and administrative expenses	365,660	628,495
Agency commissions	199,250	185,576
Total losses and expenses	1,697,831	1,876,741
Net income (loss) before income tax expense (benefit)	161,235	(136,097)
Income tax expense (benefit)	13,394	(8,362)
Net income (loss)	147,841	(127,735)
Other comprehensive (loss) income, net of tax		
Unrealized holding (losses) gains on available for sale securities, net of tax (benefit) expense of ($28,760) and $38,100 in 2018 and 2017, respectively	(108,192)	73,958
Reclassification adjustments for realized (losses) gains included in net income (loss), net of tax (benefit) expense of ($17,028) and $16,621 in 2018 and 2017, respectively	64,060	(32,263)
Other comprehensive (loss) income	(44,132)	41,695
Comprehensive income (loss)	$ 103,709	$ (86,040)

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, 2018 and 2017

	Common Stock		Contributed	Accumulated Other Comprehensive	Retained	Total Shareholders'
	Shares	Amount	Surplus	(Loss) Income	Deficit	Equity
Balance as of January 1, 2017	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
Other comprehensive loss	-	-	-	(44,132)	-	(44,132)
Contributed surplus	-	-	6,000,000	-	-	6,000,000
Net income	-	-	-	-	147,841	147,841
Balance as of December 31, 2018	200	$ 2,000,000	$ 20,800,000	$ (8,764)	$ (264,870)	$ 22,526,366

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

HOUSING SPECIALTY INSURANCE COMPANY, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Net income (loss)	$ 147,841	$ (127,735)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Amortization and accretion on investments, net	(89,830)	(5,690)
Realized losses (gains) on investments	81,088	(48,884)
Deferred federal income taxes	9,401	(15,221)
Change in assets and liabilities:		
Due from affiliate	-	5,765
Premiums receivable	(22,695)	(17,759)
Reinsurance recoverables on unpaid losses	(786,428)	(253,890)
Reinsurance recoverables on paid losses	(6,723)	(71,110)
Prepaid reinsurance	(17,508)	4,377
Deferred policy acquisition costs	(7,370)	(5,023)
Accrued interest and other assets	(32,367)	(6,363)
Unpaid losses and loss adjustment expenses	521,768	535,859
Unearned premiums	62,758	52,042
Reinsurance payable	6,929	(13,340)
Due to affiliates	(255,365)	251,920
Accounts payable and other liabilities	(7,788)	54,997
Net cash (used in) provided by operating activities	(396,289)	339,945
Cash flows from investing activities		
Purchases of investments	(14,856,337)	(7,402,375)
Proceeds from investments sold	6,123,166	5,295,684
Proceeds from prepayments and maturities of investments	2,282,634	1,693,613
Net cash used in investing activities	(6,450,537)	(413,078)
Cash flows from financing activities		
Proceeds from contributed surplus	6,000,000	800,000
Net cash provided by financing activities	6,000,000	800,000
Net change in cash and cash equivalents	(846,826)	726,867
Cash and cash equivalents, beginning of year	1,385,138	658,271
Cash and cash equivalents, end of year	$ 538,312	$ 1,385,138

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, 2018 and 2017, HARRG and HAPI owned 100 shares of common stock in the amount of $1,000,000 each. During 2018 and 2017, HARRG and HAPI contributed surplus in the amount of $6,000,000 and $800,000, respectively, to 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 a cash account, money market funds and repurchase obligations as of December 31, 2018 and 2017. 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, 2018 and 2017, 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 (loss) income. Realized investment gains and losses are determined on a specific identification basis.

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

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 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. 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, 2018 and 2017.

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 (loss) income.

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

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

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.

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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, 2018 and 2017, 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 primarily of agency commissions, are expensed on a pro rata basis over the policy term. The portion of 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, 2018 and 2017, the Company expensed $199,250 and $185,576, 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, 2018 and 2017. 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, 2018 and 2017, 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 reduced 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During March 2018, the FASB issued ASU 2018-05, "*Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*" (ASU 2018-05). ASU 2018-05 codified the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118) to address the application of U.S. GAAP in situations when a registrant did 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. Due to a lack of information, specifically as it related to IRS provided discounting factors as modified for the corporate bond yield, the Company was unable to provide a reasonable estimate for the additional tax basis discounting that would be required as a result of the enactment of the Act; however, a provisional amount had been recorded using the current discount rates, which amounted to $4,927 as of December 31, 2017. Accordingly, the Company elected to apply the provisions of ASU 2018-05 in their financial statements and forgo estimating any additional impact to current and deferred taxes.

During December 2018, the IRS issued Revenue Procedure 2019-06 (RP 2019-06). RP 2019-06 provides the insurance industry with unpaid loss reserve discount factors, as amended by the Act, for use in computing the loss reserve discounts retroactively and prospectively, as well as an election to amortize the impact of the retroactive re-measurement over eight years within taxable income. The regulations are subject to final approval from the Department of the Treasury, however the Company applied provisions of RP 2019-06 in the December 31, 2018 financial statements. As a result of retroactively applying the changes to loss discount factors within the tax provision, the Company will incur an additional $22,239 of taxable income, however the Company will amortize this impact over eight years through net income (loss). The additional loss reserve discount has been recorded as a deferred tax asset with an offsetting deferred tax liability (referred to as the "TCJA Transition Adjustment") representing the portion of the retroactive re-measurement of the tax discount to be amortized to net income (loss).

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, 2018 and 2017.

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.

Reclassifications: Certain reclassifications to the 2017 financial statements have been made in order to conform with the 2018 presentation. Such reclassifications did not have a material effect on the financial statements.

Subsequent Events: Subsequent events have been evaluated through May 6, 2019, 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, 2018, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury and government agencies	$ 15,324,427	$ 73,315	$ (93,643)	$ 15,304,099
State and political subdivisions	374,193	25,508	-	399,701
Corporate bonds	6,214,249	33,153	(40,516)	6,206,886
Collateralized debt obligations	700,061	-	(5,490)	694,571
Commercial mortgage-backed securities	53,761	-	(1,091)	52,670
Total	$ 22,666,691	$ 131,976	$ (140,740)	$ 22,657,927

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

The cost and fair value of debt securities are shown by contractual maturity as of December 31, 2018. 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	$ 731,012	$ 727,505
After one year through five years	15,711,077	15,685,416
After five years through ten years	4,390,143	4,438,947
After ten years	1,080,637	1,058,818
Collateralized debt obligations	700,061	694,571
Commercial mortgage-backed securities	53,761	52,670
Total	$ 22,666,691	$ 22,657,927

Proceeds from sales of securities amounted to $6,123,166 and $5,295,684 in 2018 and 2017, respectively. Gross realized gains amounted to $23,616 and $74,469 on the sale of securities in 2018 and 2017, respectively. Gross realized losses amounted to $104,704 and $25,585 in 2018 and 2017, respectively.

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NOTE 3 - INVESTMENTS (Continued)

The Company holds 48 securities that are in an unrealized loss position as of December 31, 2018, of which 22 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, 2018:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury and government agencies	$ 571,609	$ (9,208)	$ 3,233,656	$ (84,435)
Corporate bonds	1,790,876	(15,773)	1,047,482	(24,743)
Collateralized debt obligations	208,882	(1,111)	485,689	(4,379)
Commercial mortgage-backed securities	-	-	52,670	(1,091)
Total	$ 2,571,367	$ (26,092)	$ 4,819,497	$ (114,648)

The Company held 47 securities that were in an unrealized loss position as of December 31, 2017, of which 21 securities had 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 had 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)

(Continued)

NOTE 4 - ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

A summary of the net changes in after-tax accumulated other comprehensive (loss) income attributable to the Company and significant amounts reclassified out of accumulated other comprehensive (loss) income for the years ended December 31, 2018 and 2017 is as follows:

	Accumulated Other Comprehensive (Loss) Income
Balance at January 1, 2017	$ (12,149)
Other comprehensive income, net before reclassifications	73,958
Amounts reclassified from accumulated other comprehensive loss	(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
Other comprehensive loss, net before reclassifications	(108,192)
Amounts reclassified from accumulated other comprehensive income	64,060
Net current-period other comprehensive loss	(44,132)
Balance at December 31, 2018	$ (8,764)

The following table provides the reclassifications out of accumulated other comprehensive (loss) income for the years ended December 31, 2018 and 2017:

Details about Accumulated Other Comprehensive (Loss) Income Components	Amount Reclassified From Accumulated Other Comprehensive (Loss) Income 2018	Amount Reclassified From Accumulated Other Comprehensive (Loss) Income 2017	Affected Line Item in the Statement of Comprehensive Income (Loss)
Realized (losses) gains on sales of investments	$ (81,088)	$ 48,884	Realized (loss) gain, net
Tax benefit (expense)	17,028	(16,621)	Income tax expense (benefit)
Total reclassification	$ (64,060)	$ 32,263	Net income (loss)

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.

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS

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

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

> *Level 1* - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Company has the ability to access.
>
> *Level 2* - Inputs to the valuation methodology include: (i) Quoted prices for similar assets in active markets; (ii) Quoted prices for identical or similar assets in inactive markets; (iii) Inputs other than quoted prices that are observable for the asset; (iv) Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
>
> *Level 3* - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2018:

	Level 1	Level 2	Level 3
U.S. treasury and government agencies	$ -	$ 15,304,099	$ -
State and political subdivisions	-	399,701	-
Corporate bonds	-	6,206,886	-
Collateralized debt obligations	-	694,571	-
Commercial mortgage-backed securities	-	52,670	-
Money market funds	96,529	-	-
Total	$ 96,529	$ 22,657,927	$ -

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	$ -

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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

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

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

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

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

Collateralized debt obligations 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, 2018 and 2017, 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. Insured risks of the Company were located in various states as of December 31, 2018 and only in the State of Florida as of December 31, 2017.

HAPI and HEIC provide reinsurance coverage to the Company for commercial property coverage on public and affordable housing units, respectively. In accordance with the reinsurance agreement, the Company cedes losses in excess of $250,000 each loss, each policy. Loss adjustment expenses are shared on a pro-rata basis and are in addition to the per occurrence limits. The Company's liability is limited to $750,000 per loss occurrence, exclusive of loss adjustment expenses. During 2018, the Company ceded $531,032 and $35,775 of premiums to HAPI and HEIC, respectively, related to this contract. During 2017, the Company ceded $496,060 and $31,058 of premiums to HAPI and HEIC, respectively, related to this contract.

(Continued)

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

For the year ended December 31, 2018, the Company ceded losses of $807,000 to HAPI under this contract with $77,833 recorded as reinsurance recoverable on paid losses on the balance sheet. 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.

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 2018 and 2017, 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, 2018 and 2017, are summarized as follows:

	Premiums Written		Premiums Earned	
	2018	2017	2018	2017
Direct premiums	$ 2,046,169	$ 1,905,984	$ 1,983,411	$ 1,853,942
Ceded premiums	(579,828)	(542,787)	(562,320)	(547,164)
	$ 1,466,341	$ 1,363,197	$ 1,421,091	$ 1,306,778

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, 2018 and 2017 is summarized as follows:

	2018	2017
Balance at beginning of year	$ 1,135,169	$ 599,310
Less: reinsurance recoverables	(253,890)	-
Net balance at beginning of year	881,279	599,310
Incurred related to:		
Current year	1,105,000	775,000
Prior years	(387,866)	(165,349)
Total incurred	717,134	609,651
Paid related to:		
Current year	(734,000)	(279,000)
Prior years	(247,794)	(48,682)
Total paid	(981,794)	(327,682)
Net balance at end of year	616,619	881,279
Plus: reinsurance recoverables	1,040,318	253,890
Balance at end of year	$ 1,656,937	$ 1,135,169

As a result of changes in loss development, the provision for losses and loss adjustment expenses decreased by $387,866 and $165,349 in 2018 and 2017 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, 2018 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, 2018. The information about incurred and paid claims development for the years ended December 31, 2013 to 2017 is presented as supplementary information and is unaudited.

For any coverages where ten years of 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, 2018	
	For the Years Ended December 31, (Unaudited)							Cumulative Number of Reported Claims
Accident Year	2013	2014	2015	2016	2017	2018	IBNR Reserves	
2013	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-
2014		-	-	-	-	-	-	-
2015			414	310	293	263	-	8
2016				661	360	314	-	11
2017					928	616	1	15
2018						1,105	141	10
					Total	$ 2,298		

	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	2018
2013	$ -	$ -	$ -	$ -	$ -	$ -
2014		-	-	-	-	-
2015			62	243	268	263
2016				129	266	266
2017					166	523
2018						629
					Total	1,681
	Net liabilities for claims and claim adjustment expenses					$ 617

(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, 2018 is as follows (in thousands):

Net outstanding liabilities for unpaid losses and loss adjustment expenses:	
Commercial property	$ 617
Net outstanding liabilities for unpaid losses and loss adjustment expenses	617
Reinsurance recoverable on unpaid losses and loss adjustment expense:	
Commercial property	1,040
Reinsurance recoverable on unpaid losses and loss adjustment expenses	1,040
Total gross liability for unpaid losses and loss adjustment expenses	$ 1,657

The following is required supplementary information about average historical claims duration as of December 31, 2018.

	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	37.1%	56.8%	4.7%	-1.7%	*	*	*	*	*	*

* - The Company only has four 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 $755,557 and $986,713 for the years ended December 31, 2018 and 2017, respectively. The amounts due to HARRG under this agreement, which are included in due to affiliates, amounted to $61,275 and $144,878 as of December 31, 2018 and 2017, 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 $37,500 and $48,259 for the years ended December 31, 2018 and 2017, 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 $2,295 and $2,782 for the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, there was $2,955 and $174,717, respectively, due to Housing Insurance Services, Inc. (HIS).

(Continued)

NOTE 8 - EMPLOYEE BENEFITS

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

HARRG maintains a defined contribution profit sharing plan and is the sponsor of the Housing Authority Risk Retention Group 401(k) plan, covering substantially all employees. The Company recorded profit sharing plan expenses of $21,360 and $20,813 and 401(k) expenses of $14,256 and $13,746, for the years ended December 31, 2018 and 2017, respectively. In addition, the Company recorded an expense for incentive compensation of $52,405 and $89,330, for the years ended December 31, 2018 and 2017, respectively, which is included within salaries and other compensation on the statements of comprehensive income (loss).

HARRG was the sponsor of a supplemental executive retirement plan (SERP) covering certain key employees of the Company. The purpose of the SERP was 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 allocated to HSIC related to the SERP amounted to $2,400 for the year ended December 31, 2017. 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 income (loss) amounted to $149,873 and $(147,978) for the years ended December 31, 2018 and 2017, respectively. The amount of statutory surplus amounted to $22,464,634 and $16,319,493 as of December 31, 2018 and 2017, respectively. No dividends were declared or paid in fiscal years 2018 and 2017.

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, 2018 and 2017.

(Continued)

NOTE 12 - INCOME TAXES

The provision for income tax differs from the amount of income tax expense (benefit) determined by applying the U.S. statutory rate of 21% and 34% to pretax net income (loss) from operations for the year ended December 31, 2018 and 2017, respectively, as follows:

	2018		2017	
	Amount	Percent	Amount	Percent
Federal income taxes computed at the statutory rate	$ 33,859	21.00%	$ (46,273)	34.00%
Valuation allowance	(23,856)	(14.80%)	(9,818)	7.21%
Tax exempt interest	(3,771)	(2.34%)	(9,957)	7.32%
State income taxes, net of federal benefit	3,154	1.96%	4,458	(3.28%)
Expense due to enactment of federal tax reform	-	0.00%	52,246	(38.39%)
Other	4,008	2.49%	982	(0.72%)
Total	$ 13,394	8.31%	$ (8,362)	6.14%

Income tax expense (benefit) consists of the following for the years ended December 31, 2018 and 2017:

	2018	2017
Current		
State	$ 3,993	$ 6,859
Federal	-	-
	3,993	6,859
Deferred		
State	-	-
Federal		
Deferred tax expense (benefit) exclusive of the effects of other components listed below	9,401	(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)
	9,401	(15,221)
Total	$ 13,394	$ (8,362)

(Continued)

NOTE 12 - INCOME TAXES (Continued)

The tax effect of temporary differences, which result in deferred tax assets and liabilities, are as follows as of December 31, 2018 and 2017:

	2018	2017
Deferred tax assets:		
Organizational costs	$ 633	$ 696
Retiree medical	1,998	1,917
Discounted loss reserves	6,902	4,927
Unearned premiums	18,559	16,659
Charitable contributions	3	-
Accrued bonus	-	14,841
Accrued contingency reserve	10,571	10,571
Capital loss carryforward	17,028	-
Accrued severance	22	1,056
Unrealized losses on investments	1,840	-
Net operating loss carry-forward	21,979	54,649
Gross deferred tax assets	79,535	105,316
Deferred tax liabilities:		
Unrealized gains on investments	-	(9,401)
TCJA transition adjustment	(4,086)	-
Deferred policy acquisition costs	(13,067)	(11,519)
Gross deferred tax liabilities	(17,153)	(20,920)
Valuation allowance	(62,382)	(84,396)
Deferred tax asset, net	$ -	$ -

The Company has net operating loss carry-forwards as of December 31, 2018 of $104,662 that will begin to expire in 2034. The Company has capital loss carry-forwards as of December 31, 2018 of $81,088 that will begin to expire in 2023. The Company has no AMT Credits available.

As of December 31, 2018 and 2017, the Company recorded a full valuation allowance against the deferred tax asset of $62,382 and $84,396, 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.

(Continued)

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. During 2018, the amount due to HARRG was paid in full. As of December 31, 2018, no additional amounts were accrued or due to HARRG related to this loss contingency.

INNOVATIVE HOUSING INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS
December 31, 2018 and 2017

Crowe LLP
Independent Member Crowe Global

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, 2018 and 2017, and the related statements of comprehensive income, 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 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 Innovative Housing Insurance Company, Inc. as of December 31, 2018 and 2017, 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 LLP

Crowe LLP

Simsbury, Connecticut
May 6, 2019

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
BALANCE SHEETS
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 3,320,571	$ 3,783,356
Investment, available for sale, at fair value	2,028,877	-
Premiums receivable	-	25,000
Other assets	4,948	4
Total assets	$ 5,354,396	$ 3,808,360
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities:		
Unearned premiums	$ 219,944	$ 95,295
Advance premiums	64,635	73,215
Accounts payable and other liabilities	52	8,725
Due to affiliate	10,501	17,431
Total liabilities	295,132	194,666
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	4,750,000	3,350,000
Accumulated other comprehensive income	13,969	-
Retained deficit	(204,705)	(236,306)
Total shareholder's equity	5,059,264	3,613,694
Total liabilities and shareholder's equity	$ 5,354,396	$ 3,808,360

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

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2018 and 2017

	2018	2017
Revenues		
Premiums earned	$ 65,666	$ 26,378
Investment income	11,991	440
Total revenues	77,657	26,818
Expenses		
Salaries and benefits	(707)	74,579
General and administrative expenses	50,476	69,944
Total expenses	49,769	144,523
Net income (loss) before federal income tax benefit	27,888	(117,705)
Federal tax benefit	(3,713)	-
Net income (loss)	31,601	(117,705)
Other comprehensive income, net of tax		
Unrealized holding gains on available for sale securities, net of tax expense of $3,713 in 2018	13,969	-
Other comprehensive income	13,969	-
Comprehensive income	$ 45,570	$ (117,705)

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, 2018 and 2017

	Common Stock Shares	Common Stock Amount	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Deficit	Total Shareholder's Equity
Balance as of January 1, 2017	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
Other comprehensive income	-	-	-	13,969	-	13,969
Contributed surplus	-	-	1,400,000	-	-	1,400,000
Net income	-	-	-	-	31,601	31,601
Balance as of December 31, 2018	50	$ 500,000	$ 4,750,000	$ 13,969	$ (204,705)	$ 5,059,264

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

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Net income (loss)	$ 31,601	$ (117,705)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred federal income taxes	(3,713)	-
Change in assets and liabilities:		
Premiums receivable	25,000	(25,000)
Other assets	(4,944)	(4)
Unearned premiums	124,649	79,708
Advance premiums	(8,580)	73,215
Accounts payable and other liabilities	(8,673)	8,725
Due to affiliate	(6,930)	9,997
Net cash provided by operating activities	148,410	28,936
Cash flows from investing activities		
Purchases of investments	(2,011,195)	-
Net cash used in financing activities	(2,011,195)	-
Cash flows from financing activities		
Contributed surplus	1,400,000	2,100,000
Net cash provided by financing activities	1,400,000	2,100,000
Net change in cash and cash equivalents	(462,785)	2,128,936
Cash and cash equivalents, beginning of year	3,783,356	1,654,420
Cash and cash equivalents, end of year	$ 3,320,571	$ 3,783,356

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 2018 and 2017, HARRG paid in an additional $1,400,000 and $2,100,000, 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.

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 equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. As of December 31, 2018, 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 shareholder's equity as accumulated other comprehensive income. Realized investment gains and losses are determined on a specific identification basis.

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 within the statements of comprehensive income and the cost basis of that investment is reduced.

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 year ended December 31, 2018.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Unpaid Losses and Loss Adjustment Expense Reserves: As of December 31, 2018 and 2017, management's best estimate of unpaid losses and loss adjustment expenses on its claims made written policies is zero. As of December 31, 2018 and 2017, 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.

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, 2018 and 2017, 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, 2018 and 2017. 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)

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, 2018 and 2017, 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 May 6, 2019, which is the date the financial statements were available to be issued.

Upcoming Accounting Pronouncement: In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Topic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 amends the guidance on the classification and measurement of financial instruments. Amendments in ASU 2016-01 include requiring certain equity investments to be measured at fair value with changes in fair value recognized in net income, and simplifying the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. The amendments of ASU 2016-01 are effective for fiscal years beginning after December 15, 2018.

Upon adoption, a certain amount of unrealized gains and losses of the Company's equity investment portfolio will be reclassified from accumulated other comprehensive income to retained deficit (no overall impact to total equity). Subsequent to adoption, changes in unrealized gains and losses of the Company's equity investment portfolio will impact its results of operations due to recognition in the statement of comprehensive income.

NOTE 3 - INVESTMENTS

Investments classified as available for sale and carried at fair value as of December 31, 2018, are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mutual fund	$ 2,011,195	$ 17,682	$ -	$ 2,028,877
Total	$ 2,011,195	$ 17,682	$ -	$ 2,028,877

There were no investment sales during 2018 and as such, no gains or losses were realized.

(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, 2018 is as follows:

	Accumulated Other Comprehensive Income
Balance at January 1, 2018	$ -
Other comprehensive income, net	13,969
Net current-period other comprehensive income	13,969
Balance at December 31, 2018	$ 13,969

NOTE 5 - FAIR VALUE MEASUREMENTS

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

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

> *Level 1 -* Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Company has the ability to access.
>
> *Level 2 -* Inputs to the valuation methodology include: (i) Quoted prices for similar assets in active markets; (ii) Quoted prices for identical or similar assets in inactive markets; (iii) Inputs other than quoted prices that are observable for the asset; (iv) Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
>
> *Level 3 -* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2018:

	Level 1	Level 2	Level 3
Mutual fund	$ 2,028,877	$ -	$ -
Total	$ 2,028,877	$ -	$ -

(Continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

Management evaluated the significance of transfers between levels based upon the nature of the financial instrument. For the year ended December 31, 2018, there were no significant transfer in or out of levels 1, 2, or 3.

NOTE 6 - 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, 2018 and 2017 are summarized as follows:

	Premiums Written		Premiums Earned	
	2018	2017	2018	2017
Direct premiums	$ 190,315	$ 106,086	$ 65,666	$ 26,378

In consideration of ASU 2015-09, *Disclosures about Short Duration Contracts*, given that the Company does not have any loss history as of December 31, 2018, the required disclosures were not included within these financial statements as they would not be meaningful.

NOTE 7 - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company has a 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 and facilities agreements were $55,527 and $127,570 for the years ended December 31, 2018 and 2017, respectively. The amounts due to HARRG under this agreement, which are included in due to affiliate, amounted to $10,501 and $17,431 as of December 31, 2018 and 2017, respectively.

NOTE 8 - 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 $(23) and $3,241 and 401(k) expenses of $(17) and $2,878 for the years ended December 31, 2018 and 2017, respectively.

(Continued)

NOTE 8 - EMPLOYEE BENEFITS (Continued)

HARRG was the sponsor of a supplemental executive retirement plan (SERP) covering certain key employees of the Company. The purpose of the SERP was 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), for the year ended December 31, 2017. 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 common paymaster agreement, which is paid to HARRG (See Note 7).

NOTE 10 - SURPLUS

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

NOTE 11 - FEDERAL INCOME TAXES

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

	2018		2017	
Federal income taxes computed at the statutory rate	$ 5,856	21.00%	$ (40,020)	34.00%
Valuation allowance	(9,569)	(34.31%)	9,384	(7.97%)
Expense due to enactment of federal tax reform	-	0.00%	30,698	(26.08%)
Other	-	0.00%	(62)	0.05%
Total	$ (3,713)	(13.31%)	$ -	(0.00%)

NOTE 11 - FEDERAL INCOME TAXES (Continued)

Federal income tax benefit consists of the following for the years ended December 31, 2018 and 2017:

	2018	2017
Current	$ -	$ -
Deferred:		
Deferred tax benefit exclusive of the effects of other components listed below	(3,713)	-
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	-	-
Total	$ (3,713)	$ -

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

	2018	2017
Deferred tax assets		
Net operating loss carry-forward	$ 31,770	$ 40,702
Unearned premiums	11,952	7,077
Accrued bonus	-	1,620
Accrued severance	1	164
Retiree medical expense	9	26
Gross deferred tax assets	43,732	49,589
Deferred tax liabilities		
Unrealized gains on investments	(3,713)	-
Gross deferred tax liabilities	(3,713)	-
Valuation allowance	(40,019)	(49,589)
Total deferred tax asset, net	$ -	$ -

The Company has net operating loss carry-forwards as of December 31, 2018 of $151,286, which will begin to expire in 2035. The Company has no capital loss or AMT Credit carryovers available.

As of December 31, 2018 and 2017, the Company recorded a valuation allowance against the deferred tax asset of $40,019 and $49,589, 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.

(Continued)

NOTE 12 - RECONCILIATION TO ANNUAL REPORT

There were no differences between the Company's Annual Report, as filed with the Department, as of and for the years ended December 31, 2018 and 2017, to the amounts shown in the accompanying financial statements.

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

Crowe LLP
Independent Member Crowe Global

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, 2018 and 2017, 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 from 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, 2018 and 2017, and the results of their operations and their 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 LLP

Crowe LLP

Simsbury, Connecticut
May 6, 2019

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017

	2018	2017
ASSETS		
Current assets		
Cash	$ 22,995,035	$ 24,625,296
Agency and commission accounts receivables	27,437,775	18,781,088
Due from related parties	281,886	278,818
Income taxes receivable	52,435	1,555
Deferred expense	284,579	143,510
Other assets	489,566	11,818
Total current assets	51,541,276	43,842,085
Deferred tax asset	1,195,178	-
Software (net of accumulated amortization of $25,000 and $13,195 in 2018 and 2017, respectively)	-	11,805
Total assets	$ 52,736,454	$ 43,853,890
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Commission payable and accounts current	$ 35,814,049	$ 30,789,092
Deferred commissions and other revenues	3,686,067	3,397,417
Accounts payable and accrued expenses	547,487	726,237
Due to related parties	858,103	591,680
Total current liabilities	40,905,706	35,504,426
Stockholders' equity		
Common stock, Class A, no par value, $5,000 per share stated value, 2 shares authorized, issued and outstanding in 2018 and 2017	10,000	10,000
Common stock, Class B, no par value, various stated values, 300,000 shares authorized in 2018 and 2017, 198,700 shares issued and outstanding in 2018 and 2017	39,400,000	39,400,000
Additional paid-in capital	482,234	482,234
Retained deficit	(28,061,486)	(31,542,770)
Total stockholders' equity	11,830,748	8,349,464
Total liabilities and stockholders' equity	$ 52,736,454	$ 43,853,890

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, 2018 and 2017

	2018	2017
Net revenues		
Commission income	$ 5,916,933	$ 5,548,432
Insurance management services	140,703	32,394
Program fees	255,000	255,000
Other income	342,726	151,737
Total revenues	6,655,362	5,987,563
Costs and expenses		
Salaries and benefits	2,739,845	3,966,700
General and administrative	1,516,796	3,084,982
Amortization	11,805	8,334
Total costs and expenses	4,268,446	7,060,016
Income (loss) before provision for income taxes	2,386,916	(1,072,453)
Income tax (benefit) expense	(1,094,368)	67,757
Net income (loss)	$ 3,481,284	$ (1,140,210)

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, 2018 and 2017

	Common Stock Class A		Common Stock Class B (1)		Additional		
	Shares	Amount	Shares	Amount	Paid-In Capital	Retained Deficit	Total
Balance as of January 1, 2017	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
Net income	-	-	-	-	-	3,481,284	3,481,284
Balance as of December 31, 2018	2	$ 10,000	198,700	$ 39,400,000	$ 482,234	$ (28,061,486)	$ 11,830,748

(1) 182,000 shares issued and outstanding at $100 per share stated value as of December 31, 2018 and 2017, 500 shares issued and outstanding at $10,000 per share stated value as of December 31, 2018 and 2017, 16,200 shares issued and outstanding at $1,000 per share stated value as of December 31, 2018 and 2017

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, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Net income (loss)	$ 3,481,284	$ (1,140,210)
Adjustments to reconcile net loss to		
net cash used in operating activities:		
Amortization	11,805	8,334
Deferred tax asset	(1,195,178)	-
Changes in assets and liabilities		
Agency and commissions accounts receivables	(8,656,687)	301,036
Due from related parties	(3,068)	(204,426)
Income taxes receivable	(50,880)	55,496
Deferred expense	(141,069)	(127,923)
Other assets	(477,748)	115,041
Commission payable and accounts current	5,024,957	1,294,605
Deferred commissions and other revenues	288,650	309,883
Accounts payable and accrued expenses	(178,750)	(539,350)
Due to related parties	266,423	(148,557)
Net cash used in operating activities	(1,630,261)	(76,071)
Net change in cash	(1,630,261)	(76,071)
Cash, beginning of year	24,625,296	24,701,367
Cash, end of year	$ 22,995,035	$ 24,625,296
Supplemental disclosure		
Income taxes paid (received) during the year	$ 151,690	$ (12,261)

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. 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. 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. On September 27, 2018, the Board of Directors voted to dissolve HSS. On November 2, 2018, the Company fully dissolved its assets into HIG.

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 2018 or 2017 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, 2018 and 2017. 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 revenues within the consolidated balance sheets.

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, 2018 and 2017, the Company did not record an allowance for doubtful accounts against its accounts receivable as management believes all amounts are fully collectible.

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 was to be amortized over a three year period. As of December 31, 2018 and 2017, accumulated amortization amounted to $25,000 and $13,194, respectively.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018 and 2017. 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, 2018 and 2017, 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 reduced 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.

Reclassification: Certain reclassifications to the 2017 financial statements have been made in order to conform with the 2018 presentation. Such reclassifications did not have a material effect on the financial statements.

Subsequent Events: Subsequent events have been evaluated through May 6, 2019, which is the date the consolidated financial statements were available to be issued.

(Continued)

NOTE 3 - INCOME TAXES

The provision for income tax (benefit) expense consists of the following for the years ended December 31, 2018 and 2017:

	2018	2017
Current federal and state tax	$ 100,810	$ 67,757
Deferred federal and state tax:		
Deferred tax expense exclusive of the effects of other components listed below	79,247	-
Decrease in beginning of year deferred tax asset valuation allowance	(1,274,425)	-
Expense due to enactment of federal tax reform	-	4,288,065
Decrease in valuation allowance due to enactment of federal tax reform	-	(4,288,065)
Total	$ (1,094,368)	$ 67,757

The tax effect of temporary differences, which result in deferred tax assets, as of December 31, 2018 and 2017, are as follows:

	2018	2017
Deferred Tax Assets:		
Net operating loss	$ 6,588,725	$ 6,758,514
Charitable carry forward	18	18
Accrued severance	231	9,577
State taxes	683,092	732,356
Accrued retirement benefits	53,532	53,265
Accrued bonus	-	97,486
Research and development	642,256	642,256
Accrued contingency reserve	-	10,571
Restructuring accrual	-	7,980
Depreciation	-	184,141
Gross deferred tax asset	7,967,854	8,496,164
Valuation allowance	(6,772,676)	(8,496,164)
Net deferred tax asset	$ 1,195,178	$ -

(Continued)

NOTE 3 - INCOME TAXES (Continued)

The 2018 and 2017 provision for income taxes differs from the amount of income tax (benefit) expense determined by applying the 21% and 34% U.S. statutory federal income tax rate, respectively, as follows:

	2018		2017	
	Amount	Percent	Amount	Percent
Federal tax at statutory rate	$ 501,252	21.00%	$ (364,634)	34.00%
State taxes	129,654	5.43%	35,941	(3.35%)
Valuation allowance	(1,723,486)	(72.21%)	(3,747,202)	349.40%
Split dollar life	-	-	(10,803)	1.01%
Meals and entertainment	748	0.03%	1,297	(0.12%)
Expense due to enactment of federal tax reform	-	-	4,288,065	(399.84%)
Other	(2,536)	(0.11%)	(134,907)	12.58%
Income tax expense	$ (1,094,368)	(45.86%)	$ 67,757	(6.32%)

The Company has a net operating loss carry-forward as of December 31, 2018 of $31,374,881 that will begin to expire in 2033. The Company has no 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.

During 2018, as a result of the Company's continued profitability, management determined that a partial release of its valuation allowance against its deferred tax asset was warranted. Based on its projections of future taxable income, the Company decreased its valuation allowance by $1,274,425. As of December 31, 2018, the Company's valuation allowance amounted to $6,772,676.

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:

	2018	2017
HIS	$ 3,718,084	$ 3,983,884
HIG	461,671	547,671
HSS	121,002	955,107
Total	$ 4,300,757	$ 5,486,662

(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, 2018 and 2017, the Company had the following amounts receivable from and payable to affiliated entities:

	2018		2017	
	Amounts Receivable	Amounts Payable	Amounts Receivable	Amounts Payable
HARRG	$ 276,823	$ 857,258	$ 101,787	$ 584,348
HAPI	2,108	245	2,314	7,332
HSIC	2,955	-	174,717	-
HTI	-	600	-	-
Total	$ 281,886	$ 858,103	$ 278,818	$ 591,680

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, 2018 and 2017, the Company recorded profit sharing expenses of $161,400 and $213,148, respectively and 401(k) expenses of $101,880 and $145,025, respectively. In addition, the Company recorded accrued incentive compensation expenses of $344,449 and $472,930, for the years ended December 31, 2018 and 2017, respectively, which is included within salaries and benefits within the consolidated statements of operations.

HARRG was also the sponsor of a supplemental executive retirement plan (SERP) covering certain key employees of HARRG. The purpose of the SERP was 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) for the year ended December 31, 2017. 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).

(Continued)

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, 2018 and 2017:

	2018	2017
Software	$ 25,000	$ 25,000
Less: accumulated amortization and impairments	(25,000)	(13,195)
	$ -	$ 11,805

Amortization expense for the years ended December 31, 2018 and 2017 amounted to $11,805 and $8,334, 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 insurance management services agreements with HAPI and HARRG to provide various insurance agency activities. Fees for these services in 2018 and 2017 amounted to $140,703 and $32,394, respectively. These fees are calculated based upon a percentage of gross written premium for the years ended December 31, 2018 and 2017. 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 2018 and 2017, commission income under this agreement amounted to $3,975,421 and $3,787,573, respectively, and the Company has recorded deferred commission income of $2,415,646 and $2,216,362, respectively, as of December 31, 2018 and 2017.

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, 2018 and 2017, commission income related to unaffiliated carriers amounted to $1,941,512 and $1,760,859, respectively, and the Company has deferred $985,915 and $1,012,548, respectively.

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2018

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Systems Solutions, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
ASSETS						
Current assets						
Cash	$ 185,992	$ 22,575,165	$ -	$ 233,878	$ -	$ 22,995,035
Agency and commission accounts receivable	-	27,437,775	-	-	-	27,437,775
Due from related parties	87,771	281,886	-	-	(87,771)	281,886
Income taxes receivable (payable)	973,623	(921,188)	-	-	-	52,435
Deferred expense	-	-	-	284,579	-	284,579
Other assets	11	253,893	-	235,662	-	489,566
Total current assets	1,247,397	49,627,531	-	754,119	(87,771)	51,541,276
Deferred tax asset	1,188,639	4,761	-	1,778	-	1,195,178
Investment in HIS	9,194,571	-	-	-	(9,194,571)	-
Investment in HAG	339,082	-	-	-	(339,082)	-
Total assets	$ 11,969,689	$ 49,632,292	$ -	$ 755,897	$ (9,621,424)	$ 52,736,454
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities						
Commission payable and accounts current	$ -	$ 35,814,049	$ -	$ -	$ -	$ 35,814,049
Deferred commissions and other revenue	-	3,401,561	-	284,506	-	3,686,067
Accounts payable and accrued expenses	22,741	480,208	-	44,538	-	547,487
Due to related parties	116,200	741,903	-	87,771	(87,771)	858,103
Total current liabilities	138,941	40,437,721	-	416,815	(87,771)	40,905,706
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)	-
Additional paid-in capital	269,664	-	-	700,000	(487,430)	482,234
Retained (deficit) earnings	(27,848,916)	9,169,571	-	(360,918)	(9,021,223)	(28,061,486)
Total stockholders' equity	11,830,748	9,194,571	-	339,082	(9,533,653)	11,830,748
Total liabilities and stockholders' equity	$ 11,969,689	$ 49,632,292	$ -	$ 755,897	$ (9,621,424)	$ 52,736,454

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 receivable (payable)	5,328	(595,899)	582,620	9,506	-	1,555
Deferred expense	-	-	-	143,510	-	143,510
Other assets	4	5,816	5,273	725	-	11,818
Total current assets	266,028	42,392,018	843,348	345,384	(4,693)	43,842,085
Software (net of accumulated amortization of $13,195 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	-	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

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
December 31, 2018

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Systems Solutions, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
Net revenues						
Commission income	$ -	$ 5,916,933	$ -	$ -	$ -	$ 5,916,933
Insurance management services	-	140,703	-	-	-	140,703
Program fees	-	-	-	255,000	-	255,000
Other income	265,000	7,568	(9,119)	344,277	(265,000)	342,726
Gain on investment in subsidiaries	2,309,530	-	-	-	(2,309,530)	-
Total revenues	2,574,530	6,065,204	(9,119)	599,277	(2,574,530)	6,655,362
Costs and expenses						
Salaries and benefits	151,235	2,563,169	-	25,441	-	2,739,845
General and administrative	235,182	1,307,341	(112,718)	351,991	(265,000)	1,516,796
Amortization	-	-	11,805	-	-	11,805
Total costs and expenses	386,417	3,870,510	(100,913)	377,432	(265,000)	4,268,446
Income before income taxes	2,188,113	2,194,694	91,794	221,845	(2,309,530)	2,386,916
Income tax (benefit) expense	(1,293,171)	437,488	(280,893)	42,208	-	(1,094,368)
Net income	$ 3,481,284	$ 1,757,206	$ 372,687	$ 179,637	$ (2,309,530)	$ 3,481,284

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)

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
December 31, 2018

	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 income	$ 3,481,284	$ 1,757,206	$ 372,687	$ 179,637	$ (2,309,530)	$ 3,481,284
Adjustments to reconcile net income to						
net cash (used in) provided by operating activities:						
Amortization	-	-	11,805	-	-	11,805
Deferred tax asset	(1,188,639)	(4,761)	-	(1,778)	-	(1,195,178)
Gain on investment in subsidiaries	(2,309,530)	-	-	-	2,309,530	-
Changes in assets and liabilities						
Agency and commissions accounts receivables	-	(8,656,687)	-	-	-	(8,656,687)
Due from related parties	(81,075)	(104,855)	99,784	-	83,078	(3,068)
Income taxes receivable	(106,786)	325,289	(278,889)	9,506	-	(50,880)
Deferred expense	-	-	-	(141,069)	-	(141,069)
Other assets	(7)	(248,077)	5,273	(234,937)	-	(477,748)
Deferred tax asset						-
Commission payable and accounts current	-	5,024,957	-	-	-	5,024,957
Deferred commissions and other revenues	-	172,651	-	115,999	-	288,650
Accounts payable and accrued expenses	12,239	9,226	(232,014)	31,799	-	(178,750)
Due to related parties	(9,811)	276,234	-	83,078	(83,078)	266,423
Net cash (used in) provided by operating activities	(202,325)	(1,448,817)	(21,354)	42,235	-	(1,630,261)
Cash flows from investing activities						
Dissolution of HSS	132,314	-	(132,314)	-	-	-
Net cash provided by (used in) investing activities	132,314	-	(132,314)	-	-	-
Net change in cash	(70,011)	(1,448,817)	(153,668)	42,235	-	(1,630,261)
Cash, beginning of year	256,003	24,023,982	153,668	191,643	-	24,625,296
Cash, end of year	$ 185,992	$ 22,575,165	$ -	$ 233,878	$ -	$ 22,995,035

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:						
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
Deferred expense	-	-	-	(127,923)	-	(127,923)
Other assets	55	41,824	55,308	17,854	-	115,041
Commission payable and accounts current	-	1,294,605	-	-	-	1,294,605
Deferred commissions and other revenues	-	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) 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

HOUSING TELECOMMUNICATIONS, INC.

FINANCIAL STATEMENTS
December 31, 2018 and 2017

Crowe

Crowe LLP
Independent Member Crowe Global

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, 2018 and 2017, 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, 2018 and 2017, 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 LLP

Crowe LLP

Simsbury, Connecticut
May 6, 2019

HOUSING TELECOMMUNICATIONS, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash	$ 2,028,114	$ 1,626,369
Accounts receivable	82,071	30,255
Prepaid expenses	77,941	74,584
Due from affiliates	28,274	78,338
Total assets	$ 2,216,400	$ 1,809,546
LIABILITIES AND NET ASSETS		
Accounts payable	$ 207,670	$ 239,014
Due to affiliates	59,439	-
Unearned subscription fees	517,128	563,410
Total liabilities	784,237	802,424
Net assets without donor restrictions	1,432,163	1,007,122
Total liabilities and net assets	$ 2,216,400	$ 1,809,546

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, 2018 and 2017

	2018	2017
Revenue without donor restrictions:		
Subscription fees	$ 1,059,182	$ 997,055
Risk management service fees	100,000	100,000
Sponsorship fees	150,000	200,000
Pay per view fees	599,269	527,803
Producer content development fees	88,843	-
Other income	10,250	-
Total revenue without donor restrictions	2,007,544	1,824,858
Expenses:		
Salaries and benefits	777,594	1,069,655
General and administrative expenses	458,071	329,444
Program costs	346,838	417,745
Total expenses	1,582,503	1,816,844
Change in net assets without donor restrictions	425,041	8,014
Net assets without donor restrictions, beginning of year	1,007,122	999,108
Net assets without donor restrictions, end of year	$ 1,432,163	$ 1,007,122

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

HOUSING TELECOMMUNICATIONS, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 425,041	$ 8,014
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Accounts receivable	(51,816)	(29,166)
Prepaid expenses	(3,357)	7,724
Due from affiliates	50,064	(78,338)
Accounts payable	(31,344)	183,191
Due to affiliates	59,439	(194,675)
Unearned subscription fees	(46,282)	(41,855)
Net cash provided by (used in) operating activities	401,745	(145,105)
Net change in cash	401,745	(145,105)
Cash, beginning of year	1,626,369	1,771,474
Cash, end of year	$ 2,028,114	$ 1,626,369

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:

Without Donor Restrictions: Net assets that are not subject to donor-imposed restrictions.

With Donor Restrictions: Net assets that are subject to donor-imposed restrictions. The Company did not have any net assets that were with donor restrictions as of December 31, 2018 or 2017.

As of December 31, 2018 and 2017, all of the Company's net assets are classified as net assets without donor restrictions.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Producer content development fees are recorded based on the underlying contractual agreements and earned as services are provided.

Cash: Cash is comprised of two cash accounts as of December 31, 2018 and 2017. 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, 2018 and 2017, no allowance for doubtful accounts was established, as management believes all balances are fully collectible.

Subsequent Events: Subsequent events have been evaluated through May 6, 2019, which is the date the financial statements were available to be issued.

Recently Adopted Accounting Standard: In August 2016, the FASB issued ASU 2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities".* This update makes several improvements to current reporting requirements for not-for-profit entities to provide more relevant information about their resources to donors, grantors, creditors and other users. FASB ASU 2016-14 is effective for annual periods beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The Company has adopted this update with the issuance of the December 31, 2018 financial statements. Adoption of this ASU did not have a material impact on the Company's financial position or results of operations.

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.

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, 2018 and 2017. 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, 2018 and 2017, 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 $1,223,356 and $1,242,966 for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, $59,439 was 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, 2018 and 2017, respectively.

The Related Companies provide a sponsorship fee to the Company, which is intended to support membership training and education. The Company recorded sponsorship fee income of $150,000 and $200,000, respectively, for the years ended December 31, 2018 and 2017.

As of December 31, 2018, the Company had amounts due from Housing Insurance Services, Inc., (HIS), a related party through common management, of $600 for operating expenses paid on HIS's behalf.

As of December 31, 2018 and 2017, on the statements of financial position within due from affiliates, are receivables from HARRG in the amount $23,121 and $65,773, respectively, and from HAPI in the amount of $4,553 and $12,565, respectively, related to equity dividends declared by HARRG and HAPI that have been applied to the PHAs' current subscription fees.

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, 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, 2018 and 2017, the Company recorded profit sharing plan expenses of $37,777 and $46,859, respectively, and 401(k) expenses of $25,128 and $27,224, respectively. In addition, the Company recorded incentive compensation expenses of $106,545 and $165,258 for the years ended December 31, 2018 and 2017, respectively, which is included within salaries and benefits within the statements of activities and changes in net assets.

(Continued)

NOTE 5 - EMPLOYEE BENEFITS (Continued)

HARRG was also the sponsor of a supplemental executive retirement plan (SERP) covering certain key employees of HARRG. The purpose of the SERP was 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), for the year ended December 31, 2017. 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 - AVAILABLE RESOURCES AND LIQUIDITY

The Company regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Company's main source of liquidity at its disposal consists of cash.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Company considers all expenditures related to its ongoing program activities as well as the conduct of services undertaken to support those activities to be general expenditures. In addition to financial assets available to meet general expenditures over the next 12 months, the Company operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the statements of cash flows, which identify the sources and uses of the Company's cash.

NOTE 8 - 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. The table below presents expenses by both their nature and their function for the year ended December 31, 2018.

	Program Activities	Supporting Activities	Total Expenses
Salaries and benefits	$ 430,240	$ 347,354	$ 777,594
Program acquisition	346,838	-	346,838
Services and professional fees	2,971	49,943	52,914
Travel, meetings and professional development	4,956	14,296	19,252
Office and occupancy	782	319,660	320,442
Depreciation	56,211	-	56,211
Event support	-	5,032	5,032
Other	-	4,220	4,220
Total expenses	$ 841,998	$ 740,505	$ 1,582,503

(Continued)

NOTE 8 - FUNCTIONAL EXPENSES (Continued)

The table below presents expenses by both their nature and their function for the year ended December 31, 2017.

	Program Activities	Supporting Activities	Total Expenses
Salaries and benefits	$ 589,622	$ 480,033	$ 1,069,655
Program acquisition	426,631	-	426,631
Grants and donations	-	51	51
Services and professional fees	2,663	71,501	74,164
Travel, meetings and professional development	21,072	15,862	36,934
Office and occupancy	11,970	138,964	150,934
Depreciation	-	49,669	49,669
Event support	-	4,116	4,116
Other	-	4,690	4,690
Total expenses	$ 1,051,958	$ 764,886	$ 1,816,844

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, services and professional fees, and travel, meetings and professional development, which are allocated on the basis of estimates of time and effort.

HOUSING AUTHORITY INSURANCE, INC.

FINANCIAL STATEMENTS
December 31, 2018 and 2017

Crowe LLP
Independent Member Crowe Global

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, 2018 and 2017, 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, 2018 and 2017, 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 LLP

Crowe LLP

Simsbury, Connecticut
May 6, 2019

HOUSING AUTHORITY INSURANCE, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash	$ 1,313,205	$ 1,771,009
Refundable advance	619,504	666,671
Due from affiliates	-	13,661
Prepaid expenses and other assets	20,212	21,567
Total assets	$ 1,952,921	$ 2,472,908
LIABILITIES AND NET ASSETS		
Accounts payable	$ 82,169	$ 167,367
Due to affiliates	55,935	132,590
Deferred grant revenue	-	741,298
Total liabilities	138,104	1,041,255
Net assets without donor restrictions	1,814,817	1,431,653
Total liabilities and net assets	$ 1,952,921	$ 2,472,908

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

HOUSING AUTHORITY INSURANCE, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended December 31, 2018 and 2017

	2018	2017
Revenues without donor restrictions:		
Membership fees	$ 2,500,000	$ 3,500,000
Grant revenue	-	224,435
Other revenue	1,769	76,977
Total revenues without donor restrictions	2,501,769	3,801,412
Expenses:		
Salaries and benefits	570,344	954,627
General and administrative expenses	352,982	842,132
Grants and donations	894,935	1,163,661
Event support	5,020	49,966
Member benefits	295,324	243,502
Total expenses	2,118,605	3,253,888
Change in net assets without donor restrictions	383,164	547,524
Net assets without donor restrictions, beginning of year	1,431,653	884,129
Net assets without donor restrictions, end of year	$ 1,814,817	$ 1,431,653

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

HOUSING AUTHORITY INSURANCE, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 383,164	$ 547,524
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Changes in assets and liabilities:		
Refundable advance	47,167	(133,240)
Due from affiliates	13,661	110,825
Prepaid expenses and other assets	1,355	12,975
Accounts payable	(85,198)	71,999
Grant payable to affiliate	-	(37,018)
Due to affiliates	(76,655)	(69,268)
Deferred grant revenue	(741,298)	25,566
Net cash (used in) provided by operating activities	(457,804)	529,363
Net change in cash	(457,804)	529,363
Cash, beginning of year	1,771,009	1,241,646
Cash, end of year	$ 1,313,205	$ 1,771,009

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 has carried 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:

> With Donor Restrictions: Net assets that are subject to donor-imposed restrictions.
>
> Without Donor Restrictions: Net assets that are not subject to donor-imposed restrictions. The Company did not have any net assets that were with donor restrictions as of December 31, 2018 or 2017.

As of December 31, 2018 and 2017, all of the Company's net assets are classified as net assets without donor restrictions.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018 and 2017. 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.

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, 2018 and 2017, no allowance for doubtful accounts was established, as management believes all balances are fully collectible.

Subsequent Events: Subsequent events have been evaluated through May 6, 2019, which is the date the financial statements were available to be issued.

Recently Adopted Accounting Standard: In August 2016, the FASB issued ASU 2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities".* This update makes several improvements to current reporting requirements for not-for-profit entities to provide more relevant information about their resources to donors, grantors, creditors and other users. FASB ASU 2016-14 is effective for annual periods beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The Company has adopted this update with the issuance of the December 31, 2018 financial statements. Adoption of this ASU did not have a material impact on the Company's financial position or results of operations.

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, 2018 and 2017. 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.

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, 2018 and 2017, the Company did not record any penalties or interest associated with unrecognized tax benefits.

(Continued)

NOTE 4 - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company earned membership fees of $846,500 and $1,185,100 from HARRG, $1,448,750 and $2,028,250 from HAPI, $167,250 and $234,150 from HEIC and $37,500 and $52,500 from HSIC for the years ended December 31, 2018 and 2017, 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 $1,392,650 and $1,788,611 for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, $55,935 and $132,590, 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, the Company recorded grant revenue in the amount of $224,435 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 grant are deferred until future periods. As HAI had not utilized all of the grant funds provided by HARRG and HAPI, the Company returned all unused grant funds during 2018. HARRG and HAPI did not provide a grant to the Company during 2018.

During 2018 and 2017, the Company recorded grant expenditures in the amount of $318,787 and $608,782, 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, 2018 and 2017, the Company was owed $175,413 and $44,200, respectively, from PAHRC related to grant activities. These amounts are included in refundable advance on the statements of financial position.

As of December 31, 2017, 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.

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

During 2018 and 2017, the Company recorded grant expenditures in the amount of $428,380 and $368,014, 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, 2018 and 2017, AHAB had unspent grant funds of $444,091 and $622,472, respectively, which is recorded as a refundable advance within the statements of financial position.

(Continued)

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, 2018 and 2017, the Company recorded profit sharing plan expenses of $29,831 and $48,211, respectively, and 401(k) expenses of $19,661 and $29,767, respectively. In addition, the Company recorded incentive compensation expense of $64,798 and $147,231 for the years ended December 31, 2018 and 2017, respectively, which is included within salaries and benefits within the statements of activities and changes in net assets.

HARRG was also the sponsor of a supplemental executive retirement plan (SERP) covering certain key employees of the Company. The purpose of the SERP was 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) for the year ended December 31, 2017. 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.

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 of funds spent for the year ended December 31, 2017, within the statements of activities and changes in net assets. There were no unspent grant funds as of December 31, 2017. 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 - AVAILABLE RESOURCES AND LIQUIDITY

The Company regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Company's main sources of liquidity at its disposal consist of cash and refundable advances.

(Continued)

NOTE 8 - AVAILABLE RESOURCES AND LIQUIDITY (Continued)

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Company considers all expenditures related to its ongoing program activities as well as the conduct of services undertaken to support those activities to be general expenditures. In addition to financial assets available to meet general expenditures over the next 12 months, the Company operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the statements of cash flows, which identify the sources and uses of the Company's cash.

NOTE 9 - 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. The table below presents expenses by both their nature and their function for the year ended December 31, 2018.

	Program Activities	Supporting Activities	Total Expenses
Salaries and benefits	$ 17,682	$ 552,662	$ 570,344
Member benefits	-	295,324	295,324
Grants and donations	894,935	-	894,935
Services and professional fees	49,316	81,099	130,415
Travel, meetings and professional development	735	69,077	69,812
Office and occupancy	-	80,998	80,998
Depreciation	-	34,167	34,167
Event support	-	5,020	5,020
Other	-	37,590	37,590
Total expenses	$ 962,668	$ 1,155,937	$ 2,118,605

The table below presents expenses by both their nature and their function for the year ended December 31, 2017.

	Program Activities	Supporting Activities	Total Expenses
Salaries and benefits	$ 21,099	$ 933,528	$ 954,627
Member benefits	-	243,502	243,502
Grants and donations	1,163,661	-	1,163,661
Services and professional fees	240,292	271,087	511,379
Travel, meetings and professional development	52,914	58,562	111,476
Office and occupancy	900	136,746	137,646
Depreciation	4,018	47,728	51,746
Event support	5,826	44,141	49,967
Other	-	29,884	29,884
Total expenses	$ 1,488,710	$ 1,765,178	$ 3,253,888

(Continued)

NOTE 9 - FUNCTIONAL EXPENSES (Continued)

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, event support, travel, meetings and professional development, and services and professional fees, which are allocated on the basis of estimates of time and effort.

PUBLIC AND AFFORDABLE HOUSING
RESEARCH CORPORATION

FINANCIAL STATEMENTS
December 31, 2018 and 2017

Crowe LLP
Independent Member Crowe Global

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, 2018 and 2017, 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, 2018 and 2017, 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 LLP

Crowe LLP

Simsbury, Connecticut
May 6, 2019

PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash	$ 258,372	$ 139,822
Prepaid expenses	6,367	309
Total assets	$ 264,739	$ 140,131
LIABILITIES AND NET ASSETS		
Accounts payable	$ 45,592	$ 40,906
Unearned subscription revenue	10,947	1,888
Due to affiliate	22,475	45,525
Deferred grant revenue	175,413	44,200
Total liabilities	254,427	132,519
Net assets without donor restrictions	10,312	7,612
Total liabilities and net assets	$ 264,739	$ 140,131

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

PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended December 31, 2018 and 2017

	2018	2017
Revenue without donor restrictions:		
Grant revenue	$ 318,787	$ 608,782
Other revenue	37,185	36,416
Total revenue without donor restrictions	355,972	645,198
Expenses:		
Salaries and benefits	259,136	300,156
General and administrative expenses	94,136	337,430
Total expenses	353,272	637,586
Change in net assets without donor restrictions	2,700	7,612
Net assets without donor restrictions, beginning of year	7,612	-
Net assets without donor restrictions, end of year	$ 10,312	$ 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, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 2,700	$ 7,612
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Grant receivable from affiliate	-	37,018
Prepaid expenses	(6,058)	2,207
Accounts payable	4,686	(97,169)
Unearned subscription revenue	9,059	1,888
Due to affiliate	(23,050)	(2,413)
Deferred grant revenue	131,213	44,200
Net cash provided by (used in) operating activities	118,550	(6,657)
Net change in cash	118,550	(6,657)
Cash, beginning of year	139,822	146,479
Cash, end of year	$ 258,372	$ 139,822

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. 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:

Without Donor Restrictions: Net assets that are not subject to donor-imposed restrictions.

With Donor Restrictions: Net assets that are subject to donor-imposed restrictions. The Company did not have any net assets that were with donor restrictions as of December 31, 2018 or 2017.

As of December 31, 2018 and 2017, all of the Company's net assets are classified as net assets without donor restrictions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2018 and 2017. Subscription revenue is earned ratably over the subscription period and 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 the sponsored event have been satisfied.

Cash: Cash is comprised of a single cash account as of December 31, 2018 and 2017. 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 May 6, 2019, which is the date the financial statements were available to be issued.

Recently Adopted Accounting Standard: In August 2016, the FASB issued ASU 2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities".* This update makes several improvements to current reporting requirements for not-for-profit entities to provide more relevant information about their resources to donors, grantors, creditors and other users. FASB ASU 2016-14 is effective for annual periods beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The Company has adopted this update with the issuance of the December 31, 2018 financial statements. Adoption of this ASU did not have a material impact on the Company's financial position or results of operations.

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, 2018 and 2017. 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)

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, 2018 and 2017, the Company did not record any penalties or interest associated with unrecognized tax benefits.

NOTE 4 - CONTRIBUTION INCOME

During 2018 and 2017, the Company received contributions from several donors amounting to $20,544 and $18,804, respectively, 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.

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 $353,303 and $474,224 for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, $22,475 and $45,525, 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, 2018 and 2017, the Company recorded grant revenue in the amount of $318,787 and $608,782, 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, 2018 and 2017, the Company had deferred grant revenue of $175,413 and $44,200, respectively. These amounts are included within deferred grant revenue 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, 2018 and 2017, the Company recorded profit sharing plan expenses of $11,689 and $13,650, respectively, and 401(k) expenses of $9,467 and $12,420, respectively. In addition, the Company recorded incentive compensation expenses of $33,386 and $45,565, respectively, for the years ended December 31, 2018 and 2017, which is included within salaries and benefits within the statements of activities and changes in net assets.

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NOTE 6 - EMPLOYEE BENEFITS (Continued)

HARRG was the sponsor of a supplemental executive retirement plan (SERP) covering certain key employees of the Company. The purpose of the SERP was 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) for the year ended December 31, 2017. 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 - AVAILABLE RESOURCES AND LIQUIDITY

The Company regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Company's main source of liquidity at its disposal consists of cash.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Company considers all expenditures related to its ongoing program activities as well as the conduct of services undertaken to support those activities to be general expenditures. In addition to financial assets available to meet general expenditures over the next 12 months, the Company operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the statements of cash flows, which identify the sources and uses of the Company's cash.

NOTE 9 - 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. The table below presents expenses by both their nature and their function for the year ended December 31, 2018.

	Program Activities	Supporting Activities	Total Expenses
Salaries and benefits	$ 196,629	$ 62,507	$ 259,136
Services and professional fees	3,638	30,077	33,715
Travel, meetings and professional development	3,985	1,881	5,866
Office and occupancy	163	35,305	35,468
Depreciation	-	17,635	17,635
Event support	-	1,249	1,249
Other	-	203	203
Total expenses	$ 204,415	$ 148,857	$ 353,272

(Continued)

NOTE 9 - FUNCTIONAL EXPENSES (Continued)

The table below presents expenses by both their nature and their function for the year ended December 31, 2017.

	Program Activities	Supporting Activities	Total Expenses
Salaries and benefits	$ 233,585	$ 66,571	$ 300,156
Grants and donations	34,846	-	34,846
Services and professional fees	227,419	32,570	259,989
Travel, meetings and professional development	6,414	4,685	11,099
Office and occupancy	998	26,148	27,146
Depreciation	-	1,830	1,830
Event support	18	237	255
Other	-	2,265	2,265
Total expenses	$ 503,280	$ 134,306	$ 637,586

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include office and occupancy, which are allocated on a square footage basis, as well as salaries and benefits, services and professional fees, travel, meetings and professional development, and event support, which are allocated on the basis of estimates of time and effort.