HAI Group®

AUDITED FINANCIAL STATEMENTS

(As of the Years Ended December 31, 2019 and 2018)

Housing Authority Risk Retention Group, Inc.

Housing Authority Property Insurance, A Mutual Company

Housing Enterprise Insurance Company, Inc.

Housing Specialty Insurance Company, Inc.

Innovative Housing Insurance Company, Inc.

Housing Investment Group, Inc. and Subsidiaries

Housing Telecommunications, Inc.

Housing Authority Insurance, Inc.

Public and Affordable Housing Research Corporation

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HOUSING AUTHORITY RISK RETENTION GROUP, INC.

STATUTORY FINANCIAL STATEMENTS

December 31, 2019 and 2018

Crowe

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

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

Report on the Statutory Financial Statements

We have audited the accompanying statutory financial statements of Housing Authority Risk Retention Group, Inc. (the Company), which comprise the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2019 and 2018, and the related statutory statements of operations, changes in capital and surplus, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in conformity with accounting practices prescribed or permitted by the Vermont Department of Financial Regulation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory 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 statutory 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 statutory financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory 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 statutory 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 statutory financial statements.

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

(Continued)

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in Note 2 to the statutory financial statements, the statutory financial statements are prepared by the Company in accordance with accounting practices prescribed or permitted by the Vermont Department of Financial Regulation, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the statutory financial statements of the variances between statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America" paragraph, the statutory financial statements referred to above, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2019 and 2018, and results of its operations and its cash flows for the years then ended in accordance with accounting practices prescribed or permitted by the Vermont Department of Financial Regulation as described in Note 2.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the statutory financial statements as a whole. The supplemental schedules which include the investment risks interrogatories and the summary investment schedule, are presented for purposes of additional analysis and are not required parts of the statutory financial statements. The effects on the supplemental schedules of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the supplemental schedules do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2019 and for the year ended. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the statutory financial statements as a whole.

Crowe LLP

Crowe LLP

Simsbury, Connecticut
April 22, 2020

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS
December 31, 2019 and 2018

	2019	2018
ADMITTED ASSETS		
Cash and invested assets		
Bonds, at amortized cost or fair value	$ 226,291,294	$ 216,465,489
Equity securities, at fair value	27,036,692	21,516,789
Federal Home Loan Bank of Boston stock, at cost	446,800	575,700
Investment in affiliates and majority owned subsidiaries	52,461,044	45,513,435
Real estate occupied by the Company, net	11,815,121	12,245,121
Cash, cash equivalents and short-term investments	7,591,127	8,499,356
Total cash and invested assets	325,642,078	304,815,890
Investment income due and accrued	1,467,674	1,269,696
Premiums receivable	6,569,838	5,483,533
Reinsurance recoverable on paid losses	254,256	-
Funds held by or deposited with reinsured companies	300,000	300,000
EDP equipment, net	1,622,993	681,183
Due from affiliates	2,419,099	2,566,010
Deductible receivables	492,385	964,108
Other assets	2,056,862	2,270,059
Total admitted assets	$ 340,825,185	$ 318,350,479
LIABILITIES AND CAPITAL AND SURPLUS		
Unpaid losses and loss adjustment expenses	$ 99,540,482	$ 94,446,596
Taxes, licenses and fees	815,685	588,120
Borrowed money and interest	4,437,740	5,657,825
Unearned premiums	15,567,303	15,213,955
Advance premiums	4,952	25,554
Accrued dividends to policyholders	4,377,917	2,621,688
Ceded reinsurance premiums payable	738,764	766,092
Due to affiliates	426,065	300,848
Accrued expenses and other liabilities	6,184,910	8,630,300
Total liabilities	132,093,818	128,250,978
Capital and surplus		
Members' contributions	11,029,977	10,990,937
Unassigned funds	197,701,390	179,108,564
Total capital and surplus	208,731,367	190,099,501
Total liabilities and capital and surplus	$ 340,825,185	$ 318,350,479

The accompanying notes are an integral part of the statutory financial statements.

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
STATUTORY STATEMENTS OF OPERATIONS
Years Ended December 31, 2019 and 2018

	2019	2018
Underwriting income		
Net premiums earned	$ 36,066,914	$ 34,405,613
Losses and expenses		
Net losses and loss adjustment expenses incurred	23,278,961	22,594,830
Other underwriting expenses incurred	11,011,085	10,289,269
Total losses and expenses	34,290,046	32,884,099
Net underwriting income	1,776,868	1,521,514
Investment income		
Net investment income earned	6,669,076	6,421,484
Net realized capital gains	5,361,382	506,782
Total investment gain	12,030,458	6,928,266
Income before policyholder dividends	13,807,326	8,449,780
Policyholder dividends	(4,179,000)	(2,487,500)
Net income	$ 9,628,326	$ 5,962,280

The accompanying notes are an integral part of the statutory financial statements.

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS
Years Ended December 31, 2019 and 2018

	2019	2018
Capital and surplus, beginning of year	$ 190,099,501	$ 186,898,634
Net income	9,628,326	5,962,280
Net unrealized capital income (losses)	9,943,465	(429,172)
Members' contributions	27,297	500
Member dividend withdrawals	(658,226)	(660,892)
Change in non-admitted assets	(308,996)	(1,671,849)
Capital and surplus, end of year	$ 208,731,367	$ 190,099,501

The accompanying notes are an integral part of the statutory financial statements.

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
STATUTORY STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operations		
Premiums collected, net of reinsurance	$ 35,394,759	$ 34,632,381
Net investment income	7,160,401	5,551,782
Losses and loss related payments, net	(9,618,440)	(8,029,547)
Commission, expenses paid and aggregate write-ins for deductions	(21,838,668)	(19,773,803)
Dividends paid to policyholders	(2,422,771)	(3,395,500)
Net cash from operations	8,675,281	8,985,313
Cash flows from investments		
Proceeds from investments sold, matured and repaid	130,154,518	136,235,565
Cost of investments acquired	(136,890,120)	(145,621,331)
Cost of real estate acquired	(146,096)	(403,116)
Net cash used in investments	(6,881,698)	(9,788,882)
Cash flows from financing and miscellaneous sources		
Capital and paid in surplus	(630,930)	(660,392)
Borrowed funds	(1,259,877)	(10,305)
Other cash applied	(811,005)	157,048
Net cash used in financing and miscellaneous sources	(2,701,812)	(513,649)
Change in cash, cash equivalents and short-term investments	(908,229)	(1,317,218)
Cash, cash equivalents and short-term investments, beginning of year	8,499,356	9,816,574
Cash, cash equivalents and short-term investments, end of year	$ 7,591,127	$ 8,499,356

The accompanying notes are an integral part of the statutory financial statements.

NOTE 1 - GENERAL

Reporting Entity: Housing Authority Risk Retention Group, Inc. (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.

Concentrations: The Company 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 the Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Vermont Department of Financial Regulation (the Department), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as promulgated by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The Department adopted the National Association of Insurance Commissioners' (NAIC) statutory accounting practices (SAP) as the basis of its statutory accounting practices.

Significant differences between SAP and GAAP as they apply to the Company are as follows:

Statements of Cash Flows - Cash and cash equivalents in the statutory statements of cash flows represent cash balances and investments with initial maturities of three months or less. Short-term investments in the statutory statements of cash flows represent investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and certain investments with maturities of three months or less from the date of purchase. In addition, under NAIC SAP the use of a direct method cash flow does not require a reconciliation of net income (loss) to cash flows from operating activities as required under GAAP.

Investments - Investments in debt securities are reported at amortized cost or market value, if lower, based on their NAIC rating; for GAAP, debt securities would be designated at purchase as held-to-maturity, trading, or available for sale under FASB ASC 320, "*Investments - Debt Securities,"* or accounted for under FASB ASC 825, "*Financial Instruments."* For GAAP, held-to-maturity debt securities would be reported at amortized cost. For debt securities classified as trading, unrealized holding gains and losses would be reported in operations. For debt securities classified as available for sale, unrealized holding gains and losses would be reported as a component of equity as a component of accumulated other comprehensive income. Under the FASB ASC 825 election, all investments would be reported at fair value with unrealized holding gains and losses reported in operations. Under NAIC SAP, investments in equity securities are reported at fair value with changes in fair value recognized in capital and surplus. Under GAAP, in accordance with FASB ASC 321 "*Investments in Equity Securities*", investments in equity securities are required to be reported at fair value with changes in fair value recognized in operations.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in Affiliates - Under GAAP, 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 investment income on the statements of operations, where as NAIC SAP require these changes to be reported as unrealized gains or losses through surplus. Dividends for GAAP are recorded as a reduction of the investment value, where as NAIC SAP records dividends as a component of investment income in the statutory statements of operations.

Majority Owned Subsidiaries - GAAP requires investments in majority owned subsidiaries to be consolidated within the financial statements of the Company owning the interest, while NAIC SAP presents these values as an investment on a single line within the statutory statements of admitted assets, liabilities and capital and surplus. NAIC SAP require changes in the Company's proportionate share of earnings to be reported as unrealized gains or losses through surplus.

Policy Acquisition Costs - For NAIC SAP, the costs of acquiring and renewing business is expensed when incurred. Under GAAP, such costs related to the successful placement of business, to the extent recoverable, would be deferred and amortized over the effective period of the related insurance policy.

Non-Admitted Assets - Certain assets designated as "non-admitted," principally premiums receivable over 90 days old, furniture and fixtures, prepaid expenses, EDP equipment in excess of three percent of surplus and other assets not specifically identified as an admitted asset within the NAIC Accounting Practices and Procedures Manual are excluded from the accompanying statutory statements of admitted assets, liabilities and capital and surplus and are charged directly to capital and surplus. Under GAAP, such assets are included in the balance sheets, net of any valuation allowance.

Unpaid Losses, Loss Adjustment Expenses and Reinsurance Recoverables - For GAAP reporting purposes these amounts are presented on a gross basis rather than being presented net of related reinsurance recoverables, as required by NAIC SAP.

Provision for Reinsurance - Under GAAP, reinsurance recoverables would be evaluated for collectability. Under NAIC SAP, a liability must be established with a corresponding reduction in surplus based upon specific formulas contained within Schedule F of the Annual Statement.

Ceded Premium - GAAP requires that the unexpired portion of reinsurance premiums be reported on a gross basis, where as NAIC SAP requires these unexpired reinsurance premiums to be netted against unearned premium.

Advance Premium - GAAP allows for premium that has been billed but is not yet effective to be reported as a receivable on the balance sheets with a corresponding liability. NAIC SAP requires that premium collected before year end be reported as advance premium and for all uncollected advance premium to be netted against the corresponding premium receivable.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Contingencies - Under Statement of Statutory Accounting Principle (SSAP) No. 101, "*Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10,"* federal income tax contingencies are established pursuant to the same "more likely than not" recognition standard as GAAP. There is the same assumption that the reporting entity will be examined by a tax authority that has full knowledge of all relevant facts. For those tax positions with a probability of loss that is greater than the "more likely than not" level, a "best estimate" of the tax contingency is performed, as opposed to the probability analysis under GAAP. If the "best estimate" results in a tax loss contingency that is greater than 50 percent of the tax benefit originally recognized, the tax loss contingency recognized is equal to 100 percent. Unlike GAAP, tax loss contingencies associated with temporary differences are required to be grossed-up only when a triggering event occurs. Grossed up tax loss contingencies associated with temporary differences would be subject to an admissibility test. Under statutory accounting, interest and penalties related to federal income tax are included in income taxes only. State tax contingencies are recognized to the extent that it is estimable and probable in accordance with SSAP No. 5R, "*Liabilities, Contingencies and Impairments of Assets - Revised."*

Comprehensive Income - Comprehensive income and its components are not presented in the statutory financial statements.

The effects of the foregoing variances from GAAP on the accompanying statutory financial statements have not been determined, but are presumed to be material.

Cash, Cash Equivalents and Short-term Investments: For statutory financial statement purposes, the Company considers cash to be cash on hand and cash on deposit. Cash equivalents consist of repurchase agreements and money market instruments. Short-term investments include investments with initial maturities of one year or less at date of purchase and are valued in accordance with the Purposes and Procedures Manual prepared by the NAIC Securities Valuation Office (SVO).

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: Debt securities are valued and reported in accordance with SSAP No. 26, *"Bonds, Excluding Loan-backed and Structured Securities"* and SSAP No. 43R, "*Loan-backed and Structured Securities-Revised'* under the guidance provided by the Purposes and Procedures Manual prepared by the SVO. Investment grade debt securities are stated at amortized cost. Non-investment grade debt securities with NAIC designations of three through six are reported at the lower of amortized cost or fair value. 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. Equity securities and mutual funds are accounted for under SSAP No. 30, "*Unaffiliated Common Stock*," and are carried at fair value, and changes in net unrealized gains (losses) are reported within capital and surplus.

Within the mortgage-backed securities portfolio, the Company invests in commercial 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. Acceleration or deceleration of prepayments of the underlying mortgages can be caused by interest rate changes. Assumptions for collateralized mortgage obligations are reviewed annually and amortized cost is adjusted for unamortized premiums and discounts, which are amortized using the scientific interest method.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment income is recorded when earned. Realized investment gains and losses, determined on a specific identification basis, are included in investment income.

In June 1995, the Company and Housing Authority Property Insurance, A Mutual Company (HAPI) jointly formed Housing Investment Group, Inc. (HIG) to serve as a for-profit company to govern the related businesses to which the Company and HAPI had an ownership interest. The Company's ownership interest is 50% as of December 31, 2019 and 2018. No contributions were made during 2019 or 2018 to HIG. There were no dividends declared or paid by HIG during 2019 or 2018.

Housing Enterprise Insurance Company, Inc. (HEIC) is a licensed domestic stock insurance company domiciled in the State of Vermont. Currently the Company owns 1,300 shares of voting common stock in the amount of $13,000,000 and HAPI owns 700 shares of voting common stock in the amount of $7,000,000. No additional contributions were made during 2019 and 2018. As of December 31, 2019 and 2018, the Company owns 65% of HEIC.

In December 2013, the Company 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 to specific risks. The Company and HAPI each contributed $3,000,000 and received 100 shares of voting common stock each. During 2018, the Company contributed $3,000,000 of additional capital to HSIC. No amounts were contributed during 2019. The Company owns 50% of HSIC as of December 31, 2019 and 2018.

In July 2015, the Company formed Innovative Housing Insurance Company, Inc. (IHIC), a Vermont captive insurance company, to provide insurance and reinsurance coverage for various types of risks of a single insured entity, Housing Alliance Group, LLC (HAGL), which is a wholly-owned subsidiary of HIG, who works with public housing authorities throughout the United States. On August 21, 2015, the Company contributed $1,000,000 in exchange for 50 shares of no par, $10,000 stated value common stock in IHIC. During 2018, the Company paid in an additional $1,400,000 in contributed capital. No amounts were contributed during 2019. HARRG has a 100% ownership interest in IHIC.

Investments in HIG, HEIC, HSIC and IHIC are carried under the equity method of accounting and adjusted for the NAIC SAP basis of accounting where necessary based on the provisions of SSAP No. 97, "*Investments in Subsidiary, Controlled and Affiliated Entities.*"

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 amortized 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, 2019 and 2018, no impairment has been recognized.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Than Temporary Impairments on Investments: The Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other-than-temporary. Some factors considered in evaluating whether or not a decline in fair value is other-than-temporary include the Company's ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value, the Company's intent to sell the investment at the reporting date, and the financial condition and prospects of the issuer. The Company recognizes other than temporary impairments ("OTTI") on bonds not backed by loans when it is either probable that the Company will not collect all amounts due according to the contractual terms of the bond in effect at the date of acquisition or when the Company has made a decision to sell the bond prior to its maturity at an amount below its amortized cost. When an OTTI is recognized, the bond is written down to fair value and the amount of the write down is recorded as a realized capital loss in the statutory statements of operations.

For loan-backed securities, OTTI are recognized when the fair value is less than the amortized cost basis and the Company has the intent to sell or lacks the intent and ability to retain the investment until recovery. When an OTTI is recognized because the Company has the intent to sell or lacks the intent and ability to retain the investment until recovery, the amortized cost basis of the loan-backed security is written down to the fair value and the amount of the write-down is recorded as a realized capital loss.

If the Company does not have the intent to sell and has the intent and ability to retain the investment until recovery, OTTI are recognized when the present value of future cash flows discounted at the security's effective interest rate is less than the amortized cost basis as of the balance sheet date. When an OTTI is recognized the loan-backed security is written down to the discounted estimated future cash flows and is recorded as a realized capital loss.

The Company recognizes OTTI of equities for declines in value that are other-than-temporary and reports those adjustments as realized capital losses in the statutory statements of operations. The Company recognized no OTTI losses during 2019 or 2018.

Property and EDP Equipment: Real estate occupied by the Company (excluding land of $2,580,836 in 2019 and 2018) and Electronic Data Processing (EDP) equipment 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. 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.

Advance Premium: Premiums which have been billed and collected but are not yet effective before year end are reported as advance premiums on the statutory statements of admitted assets, liabilities and capital and surplus.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and maintenance costs exceed unearned premiums and anticipated investment income. No premium deficiencies have been recognized in 2019 and 2018.

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.

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 SSAP No. 62R, "*Property and Casualty Reinsurance.*" Premiums ceded are expensed over the period of reinsurance protection provided. Anticipated reinsurance recoverables under these contracts are netted against unpaid losses and loss adjustment expenses.

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.

Income Tax Contingencies: Federal and foreign income tax contingencies are established pursuant to SSAP No. 5R with some modifications. The term probable under SSAP No. 5R is replaced by the term "more likely than not" for federal and foreign income tax contingencies only; it shall be assumed that the reporting entity will be examined by the tax authority that has full knowledge of all relevant information; if the estimated tax loss contingency is greater than 50 percent of the tax benefit originally recognized, the tax loss contingency reported shall be equal to 100 percent of the original tax benefit recognized; and if a tax loss contingency is grossed up for a temporary item due to a triggering event, the deferred tax asset would be subject to the admissibility test under SSAP No. 101. State tax contingencies are recognized to the extent that it can be estimated and is probable in accordance with SSAP No. 5R.

Interest and penalties related to foreign or federal income tax positions are included in income taxes.

The Company did not record any income tax contingencies or interest and penalties related to any income tax contingencies as of December 31, 2019 and 2018. The Company does not believe it is reasonably possible that the total liability for income tax contingencies would materially change in the next twelve months.

Use of Estimates: The preparation of the statutory financial statements in conformity with NAIC SAP requires the use of management's estimates and assumptions that affect the reported amounts of admitted assets, liabilities and capital and surplus and revenues and expenses, at and during the reported period, along with the disclosure of contingent assets and liabilities at the date of the statutory financial statements. Actual results could differ from those estimates.

Subsequent Events: Subsequent events have been evaluated through April 22, 2020, which is the date the statutory financial statements were available to be issued. The Company determined there were no such events that warrant recognition or disclosure in the financial statements, except for the event described below.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Company could be materially adversely affected in 2020 and beyond. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

NOTE 3 - INVESTMENTS

Investments, carried at amortized cost and fair value, as of December 31, 2019, are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities, at amortized cost				
U.S. government	$ 74,833,653	$ 1,764,076	$ (64,528)	$ 76,533,201
U.S. states, territories and possessions	100,577	5,471	-	106,048
U.S. political subdivisions of states, territories and possessions	5,506,153	1,460,157	-	6,966,310
U.S. special revenue and special assessment obligations	28,741,787	650,667	(35,228)	29,357,226
Industrial and miscellaneous	112,101,702	3,410,910	(83,446)	115,429,166
Hybrid securities	4,280,119	225,532	-	4,505,651
Other invested assets	727,303	149,820	-	877,123
Total debt securities, at amortized cost	226,291,294	7,666,633	(183,202)	233,774,725
Mutual funds, at fair value	20,751,410	6,285,282	-	27,036,692
Total	$ 247,042,704	$ 13,951,915	$ (183,202)	$ 260,811,417

(Continued)

NOTE 3 - INVESTMENTS (Continued)

Investments carried at amortized cost and fair value as of December 31, 2018, are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities, at amortized cost				
U.S. government	$ 81,306,442	$ 1,066,784	$ (438,694)	$ 81,934,532
U.S. states, territories and possessions	100,676	129	-	100,805
U.S. political subdivisions of states, territories and possessions	5,523,979	1,086,372	-	6,610,351
U.S. special revenue and special assessment obligations	29,015,700	283,417	(564,954)	28,734,163
Industrial and miscellaneous	96,806,771	411,690	(1,194,810)	96,023,651
Surplus debentures	727,684	5,507	-	733,191
Total debt securities, at amortized cost	213,481,252	2,853,899	(2,198,458)	214,136,693
Debt securities, at fair value				
Industrial and miscellaneous	3,140,722	-	(156,485)	2,984,237
Total debt securities, at fair value	3,140,722	-	(156,485)	2,984,237
Mutual funds, at fair value	18,156,121	3,360,668	-	21,516,789
Total	$ 234,778,095	$ 6,214,567	$ (2,354,943)	$ 238,637,719

As of December 31, 2019 and 2018, the Company held $446,800 and $575,700, respectively, of FHLBB stock which is carried at cost as further described in Note 2.

As of December 31, 2019, the Company pledged securities to FHLBB with an amortized cost of $7,283,356 that supports the outstanding collateralized borrowings as further described in Note 7.

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The amortized cost and fair value of debt securities are shown by contractual maturity as of December 31, 2019. 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	$ 2,729,738	$ 2,751,263
After one year through five years	91,899,663	93,802,861
After five years through ten years	51,773,031	54,295,703
After ten years	21,211,922	23,614,584
Residential mortgage-backed securities	24,840,795	25,275,194
Commercial mortgage-backed securities	20,347,732	20,422,348
Collateralized debt obligations	13,488,413	13,612,772
Total debt securities	$ 226,291,294	$ 233,774,725

Proceeds from sales of securities amounted to $107,894,855 and $108,278,894 in 2019 and 2018, respectively. Gross realized gains of $5,565,036 and $2,341,054, and gross realized losses of $196,929 and $1,834,272 were realized on those sales during 2019 and 2018, respectively.

The Company holds 102 securities that are in an unrealized loss position as of December 31, 2019, of which 63 of these securities have been in an unrealized loss position for twelve months or greater. The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2019:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Debt securities				
U.S. government	$ 2,777,838	$ (56,771)	$ 1,151,480	$ (7,757)
U.S. special revenue and special assessment obligations	2,549,412	(12,364)	3,408,657	(22,864)
Industrial and miscellaneous	13,209,503	(71,254)	8,067,505	(12,192)
Total	$ 18,536,753	$ (140,389)	$ 12,627,642	$ (42,813)

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The Company held 344 securities that were in an unrealized loss position as of December 31, 2018, of which 217 of these securities were in an unrealized loss position for twelve months or greater. The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities were 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. government	$ 1,812,963	$ (16,988)	$ 14,625,904	$ (421,706)
U.S. special revenue and special assessment obligations	7,343,363	(89,089)	13,280,883	(475,865)
Industrial and miscellaneous	25,788,079	(440,428)	38,716,601	(910,867)
Total	$ 34,944,405	$ (546,505)	$ 66,623,388	$ (1,808,438)

NOTE 4 - FAIR VALUE MEASUREMENTS

The Company measures fair value in accordance with SSAP No. 100, "*Fair Value Measurement,"* which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. 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 SSAP No. 100 are described as follows:

> Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities 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 or liabilities in active markets; (ii) Quoted prices for identical or similar assets or liabilities in inactive markets; (iii) Inputs other than quoted prices that are observable for the asset or liability; 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.

(Continued)

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

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, 2019 and 2018.

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

The following table presents the financial instruments, measured at fair value, by valuation hierarchy, as well as the carrying value of those instruments in the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2019:

	Admitted Assets	Fair Value Level 1	Level 2	Level 3	Total
Financial instruments (carried at fair value)					
Money market funds	$ 426,570	$ 426,570	$ -	$ -	$ 426,570
Repurchase agreements	1,600,000	-	1,600,000	-	1,600,000
Mutual funds	27,036,692	27,036,692	-	-	27,036,692
Total	29,063,262	27,463,262	1,600,000	-	29,063,262
Financial instruments (carried at amortized cost)					
Debt securities	226,291,294	-	233,774,725	-	233,774,725
Total	$ 255,354,556	$ 27,463,262	$ 235,374,725	$ -	$ 262,837,987

(Continued)

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents the financial instruments, measured at fair value, by valuation hierarchy, as well as the carrying value of those instruments in the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2018:

	Admitted	Fair Value			
	Assets	Level 1	Level 2	Level 3	Total
Financial instruments (carried at fair value)					
Money market funds	$ 417,960	$ 417,960	$ -	$ -	$ 417,960
Repurchase agreements	1,200,000	-	1,200,000	-	1,200,000
Mutual funds	21,516,789	21,516,789	-	-	21,516,789
Debt securities	2,984,237	-	2,984,237	-	2,984,237
Total	26,118,986	21,934,749	4,184,237	-	26,118,986
Financial instruments (carried at amortized cost)					
Debt securities	213,481,252	-	214,136,693	-	214,136,693
Total	$ 239,600,238	$ 21,934,749	$ 218,320,930	$ -	$ 240,255,679

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.

As of December 31, 2019 and 2018, the Company held no level 3 investments.

NOTE 5 - INSURANCE ACTIVITY

The Company 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 the Company 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, 2019 and 2018, coverage is provided up to $20,000,000, with the first $1,000,000 of loss retained by the Company plus a pro rata share of loss adjustment expenses. Losses in excess of $1,000,000 are reinsured as discussed 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 the Company plus a pro rata share of loss adjustment expenses. Losses in excess of $1,000,000 are reinsured as discussed within.

Terrorism - All the Company's 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 reauthorizations. The Terrorism Risk Insurance Program is a Federal program administered by the Department of the Treasury authorized through December 31, 2027 that provides for a system of shared public and private compensation for certain insured losses resulting from certified acts of terrorism.

NOTE 5 - INSURANCE ACTIVITY (Continued)

In order for a loss to be covered under the program (subject losses), the loss must meet certain aggregate industry loss minimums and must be the result of an event that is certified as an act of terrorism. The annual aggregate industry loss minimum under the program is $180,000,000 for 2019 and will increase to $200,000,000 for 2020. Under the program, a participating insurer, in exchange for making terrorism insurance available, is entitled to be reimbursed by the Federal Government for 81% of subject losses in 2019, after an insurer deductible, subject to an annual cap. This reimbursement percentage will decrease to 80% of subject losses in 2020, and will remain at 80% through December 31, 2027.

The deductible for any calendar year is equal to 20% of the insurer's direct earned premiums for covered lines for the preceding calendar year. The annual cap limits the amount of aggregate subject losses for all participating insurers to $100,000,000,000. Once subject losses have reached the $100,000,000,000 aggregate during a program year, participating insurers will not be liable under the program for additional covered terrorism losses for that program year.

The Company, 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.

Effective July 1, 2019 and 2018, the Company obtained reinsurance coverage with various subscribing reinsurers, which provides for $4,000,000 of coverage in excess of the Company's $1,000,000 retention with a $1,000,000 aggregate deductible relating to general liability, public officials liability and employment practice liability. In addition, effective July 1, 2019 and 2018, the Company obtained reinsurance coverage with various subscribing reinsurers, which provides for $10,000,000 of coverage in excess of $5,000,000 relating to general liability, public officials liability and employment practice liability.

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

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

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 5 - INSURANCE ACTIVITY (Continued)

Premiums written, assumed and ceded for the years ended December 31, 2019 and 2018 are summarized as follows:

	Premiums Written		Premiums Earned	
	2019	2018	2019	2018
Direct premiums	$ 38,063,806	$ 37,074,412	$ 37,938,726	$ 36,624,904
Premiums assumed	1,911,928	1,759,248	1,806,039	1,746,346
Premiums ceded	(3,555,472)	(4,294,517)	(3,677,851)	(3,965,637)
Net premiums	$ 36,420,262	$ 34,539,143	$ 36,066,914	$ 34,405,613

A reconciliation of changes in unpaid losses and loss adjustment expenses as of and for the years ended December 31, 2019 and 2018, are summarized as follows:

	2019	2018
Balance at beginning of year	$ 94,446,596	$ 90,926,254
Incurred related to		
Current year	37,274,287	35,904,000
Prior years	(13,995,326)	(13,309,170)
Total incurred	23,278,961	22,594,830
Paid related to		
Current year	(3,235,808)	(3,041,000)
Prior years	(14,949,267)	(16,033,488)
Total paid	(18,185,075)	(19,074,488)
Balance at end of year	$ 99,540,482	$ 94,446,596

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by $13,995,326 and $13,309,170 in 2019 and 2018, respectively. The development during 2019 relates primarily to favorable development on HARRG's retained liability book of business for accident years 2016-2018. The development during 2018 relates primarily to favorable development on HARRG's retained liability book of business for accident years 2015-2017.

The Company recorded net reinsurance activity of $60,455 and $1,028,983 in 2019 and 2018, respectively, which is reflected as an increase in net losses and loss adjustment expenses incurred in the statutory statements of operations.

(Continued)

NOTE 6 - PROPERTY AND EQUIPMENT

The cost, accumulated depreciation, and net book value of the Company's property and EDP equipment are as follows:

	2019	2018
Land	$ 2,580,836	$ 2,580,836
Building	14,789,207	14,664,832
Furniture and fixtures	1,838,838	1,798,045
	19,208,881	19,043,713
Less: accumulated depreciation	(7,132,713)	(6,452,739)
	12,076,168	12,590,974
Non-admitted assets	(261,047)	(345,853)
Total	$ 11,815,121	$ 12,245,121
EDP equipment	$ 3,908,809	$ 4,360,739
EDP software	2,887,723	1,581,540
	6,796,532	5,942,279
Less: accumulated depreciation	(5,173,539)	(5,261,096)
Total	$ 1,622,993	$ 681,183

Depreciation expense for the years ended December 31, 2019 and 2018 amounted to $1,356,845 and $1,373,450, respectively. Depreciation expense of $909,098 and $912,327 was allocated to affiliated entities per the management services agreement, as disclosed in Note 8, in 2019 and 2018, respectively.

NOTE 7 - BORROWED MONEY

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, 2019 and 2018, the term loan had an outstanding balance of $4,435,627 and $5,657,825, respectively. FHLB borrowings are collateralized by U.S. Treasury securities, the fair value of which must be maintained at certain specific levels relative to outstanding borrowings. As of December 31, 2019, the Company had pledged assets with a fair value of $7,384,406.

Interest expensed related to the FHLBB term loans was $143,213 and $167,688 for the years ended December 31, 2019 and 2018, respectively, and is included within other underwriting expenses incurred on the statutory statements of operations.

The aggregate scheduled principal repayments on the long-term debt of the Company are as follows as of December 31, 2019:

2020	$ 1,254,375
2021	1,290,184
2022	1,327,031
2023	564,037
	$ 4,435,627

NOTE 8 - 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 $846,500 for the years ended December 31, 2019 and 2018.

During 2018, the Company disbursed $125,000 to HAI in the form of grants to carry out research, feasibility studies, and funding for new initiatives for residents, owners, operators, developers and vendors. During 2018, HAI had unused funds in the form of grants of $370,649 that were reimbursed to the Company. During 2019, no grants were issued by the Company to HAI.

The Company 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 the Company’s fronted auto insurance program. The Agreement provides for a specified percentage to be paid based upon assumed written premium. Fees incurred under the Agreement amounted to $90,302 and $87,317 for the years ended December 31, 2019 and 2018, respectively.

(Continued)

NOTE 8 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)

The Company entered into an agreement with Housing Telecommunications, Inc. (HTI) to support the delivery of risk management training to members and employees of HARRG. The Company recognized expenses of $45,700 for risk management services fees paid to HTI for the years ended December 31, 2019 and 2018. Also as part of the agreement, HARRG pays HTI a sponsorship fee. The Company recognized expenses of $51,645 for sponsorship fees paid to HTI for the years ended December 31, 2019 and 2018.

The Company has common paymaster and facilities agreements with its affiliates, in which the Company is the common paymaster for all of its affiliates' employees. The Company 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	
	2019	2018
HAPI	$ 10,747,961	$ 11,516,218
HIS	3,847,516	3,718,084
HEIC	4,640,390	4,632,965
HAI	857,403	1,392,650
HTI	1,377,610	1,223,356
Housing Specialty Insurance Company, Inc. (HSIC)	956,689	755,557
HIG	546,985	461,671
Public and Affordable Housing Research Corporation (PAHRC)	464,405	353,303
Housing Systems Solutions, Inc. (HSS)	-	121,002
IHIC	63,027	55,527
Total	$ 23,501,986	$ 24,230,333

(Continued)

NOTE 8 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)

In addition to the allocated costs, 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, 2019 and 2018, the Company had the following amounts receivable from and payable to affiliated entities:

	2019		2018	
	Amounts receivable	Amounts payable	Amounts receivable	Amounts payable
HAPI	$ 1,070,291	$ -	$ 1,098,983	$ -
HAI	67,397	-	55,935	-
HTI	174,443	21,408	59,439	23,121
HIG	52,143	-	116,200	-
HEIC	454,932	-	400,144	-
HIS	413,681	404,657	741,058	277,727
PAHRC	79,584	-	22,475	-
HSIC	97,715	-	61,275	-
IHIC	8,913	-	10,501	-
Total	$ 2,419,099	$ 426,065	$ 2,566,010	$ 300,848

NOTE 9 - 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 $559,432 and $578,263 for the years ended December 31, 2019 and 2018, 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.

(Continued)

NOTE 9 - EMPLOYEE BENEFITS (Continued)

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 the Company. The plan 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, 2019 and 2018, the SERP's cash value associated with related life insurance amounted to $2,011,302 and $1,868,040, respectively. SERP benefit incurred amounted to $143,262 for the year ended December 31, 2019, net of allocated amounts to affiliated companies. During 2019, the Company recorded an expense of $317,287 relating to premium payments. 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 $1,037,738 and $1,098,659 as of December 31, 2019 and 2018, respectively, net of allocated amounts to affiliated companies, recorded in accrued expenses and other liabilities on the statutory statements of admitted assets, liabilities and capital and surplus. The Company expensed $894,033 and $874,273 of incentive compensation for the years ended December 31, 2019 and 2018, respectively.

The Company 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 is terminated. The accounts are also credited with interest per the OPEB Plan terms.

The Company accounts for the OPEB Plan under the requirements of SSAP No. 14, "*Postretirement Benefits Other Than Pensions.*" The accrued benefit obligation recorded amounted to $2,534,788 and $2,730,030 as of December 31, 2019 and 2018. Balances will be paid out as participants meet the plan requirements.

NOTE 10 - CAPITAL AND SURPLUS

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 50% of their first year's premium. Class "B" 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. The Company declared policyholder dividends of $4,200,000 and $2,500,000 for the years ended December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, $4,158,000 and $2,457,000 related to Class "A" members, respectively. During 2019 and 2018, dividends were declared to Class "B" members in the amount of $42,000 and $25,000, with $21,000 and $12,500 to be paid in cash and $21,000 and $12,500 to be recorded as members' recapitalization dividends within the statements of changes in capital and surplus, respectively. In total, policyholder dividends of $4,179,000 and $2,487,500 were expensed for the years ended December 31, 2019 and 2018, respectively, within the statutory statements of operations. Dividends were approved by the Vermont Department of Financial Regulation (the Department).

(Continued)

NOTE 10 - CAPITAL AND SURPLUS (Continued)

The Company may also provide 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. For the years ended December 31, 2019 and 2018, no premium dividends were declared.

The Company also provides its members with equity dividends for the purchase of HAI Group products and services. Equity dividends amounted to $658,226 and $660,892 in 2019 and 2018, 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 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.

As of December 31, 2019 and 2018, there were member PHAs that are no longer policyholders; however, they have not formally withdrawn their membership in the Company nor formally requested a distribution of their surplus accounts. Should these members request a distribution of their surplus accounts, the Company 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 statutory statements of admitted assets, liabilities and capital and surplus. There are no member surplus refunds payable as of December 31, 2019 and 2018.

The Company is required by the Department to maintain a minimum statutory surplus of $1,000,000 in 2019 and 2018.

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 at December 31, 2019 and 2018.

(Continued)

NOTE 11 - COMMITMENTS AND CONTINGENCIES

As of December 31, 2019 and 2018, 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, 2019 and 2018. 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.

The Company had a $2,143,885 and $3,223,763 irrevocable letter of credit with BBH, related to the Company's fronted auto program as of December 31, 2019 and 2018, respectively. 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, 2019 and 2018.

NOTE 12 - NON-ADMITTED ASSETS

Certain assets designated as non-admitted, have been excluded from admitted assets and charged against capital and surplus. As of December 31, 2019 and 2018, amounts reflected as non-admitted assets were as follows:

	2019	2018
Nonadmits on investment in affiliate	$ 719,940	$ 868,329
Premiums receivable over 90 days	265,109	373,840
Furniture and fixtures	261,047	345,853
Deductible receivable over 90 days	540,543	77,609
Prepaid expenses	1,221,016	1,033,028
	$ 3,007,655	$ 2,698,659

NOTE 13 - RECONCILIATION TO STATUTORY ANNUAL STATEMENT

There are no material differences between net income and capital and surplus as reported herein and the Annual Statement as previously filed with the Department as of and for the years ended December 31, 2019 and 2018.

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY

STATUTORY FINANCIAL STATEMENTS
December 31, 2019 and 2018

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 Statutory Financial Statements

We have audited the accompanying statutory financial statements of Housing Authority Property Insurance, A Mutual Company, which comprise the statutory statement of admitted assets, liabilities and capital and surplus as of December 31, 2019 and 2018, and the related statutory statements of operations, changes in capital and surplus and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in conformity with accounting practices prescribed or permitted by the Vermont Department of Financial Regulation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory 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 statutory 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 statutory financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory 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 statutory 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 statutory financial statements.

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

(Continued)

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in Note 2 to the statutory financial statements, the statutory financial statements are prepared by Housing Authority Property Insurance, A Mutual Company in accordance with accounting practices prescribed or permitted by the Vermont Department of Financial Regulation, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the statutory financial statements of the variances between statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America” paragraph, the statutory financial statements referred to above, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Housing Authority Property Insurance, A Mutual Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of Housing Authority Property Insurance, A Mutual Company as of December 31, 2019 and 2018, and results of its operations and its cash flows for the years then ended in accordance with accounting practices prescribed or permitted by the Vermont Department of Financial Regulation as described in Note 2.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the statutory financial statements as a whole. The supplemental schedules which include the investment risks interrogatories and the summary investment schedule, are presented for purposes of additional analysis and are not required parts of the statutory financial statements. The effects on the supplemental schedules of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the supplemental schedules do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of Housing Authority Property Insurance, A Mutual Company as of December 31, 2019 and for the year ended. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the statutory financial statements as a whole.

Crowe LLP

Crowe LLP

Simsbury, Connecticut
April 22, 2020

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS
December 31, 2019 and 2018

	2019	2018
ADMITTED ASSETS		
Cash and invested assets		
Debt securities, at amortized cost or fair value	$ 137,874,883	$ 118,310,415
Equity securities, at fair value	14,439,851	11,491,539
Federal Home Loan Bank of Boston stock, at cost	239,500	239,500
Investment in affiliates	34,196,760	29,499,796
Cash, cash equivalents and short-term investments	4,679,590	4,235,603
Total cash and invested assets	191,430,584	163,776,853
Investment income due and accrued	848,226	725,483
Premiums receivable	16,537,952	15,627,990
Reinsurance recoverable on paid losses	4,935,369	9,925,253
Funds held by or deposited with reinsured companies	10,000	10,000
Due from affiliates	51,366	3,963
Total admitted assets	$ 213,813,497	$ 190,069,542
LIABILITIES AND CAPITAL AND SURPLUS		
Unpaid losses and loss adjustment expenses	$ 39,397,318	$ 35,634,577
Reinsurance payable on paid losses	85,033	77,833
Taxes, licenses and fees	268,345	860,651
Unearned premiums	25,137,001	24,161,661
Accrued dividends	4,787,566	2,302,237
Ceded reinsurance premiums payable	682,488	118,364
Provision for reinsurance	169,000	222,000
Funds held under reinsurance treaties	200,000	197,198
Due to affiliates	1,076,926	1,157,436
Accrued expenses and other liabilities	996,609	1,130,515
Total liabilities	72,800,286	65,862,472
Capital and surplus		
Members' contributions	10,252,471	10,066,439
Unassigned funds	130,760,740	114,140,631
Total capital and surplus	141,013,211	124,207,070
Total liabilities and capital and surplus	$ 213,813,497	$ 190,069,542

The accompanying notes are an integral part of the statutory financial statements.

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
STATUTORY STATEMENTS OF OPERATIONS
Years Ended December 31, 2019 and 2018

	2019	2018
Underwriting income		
Net premiums earned	$ 53,792,545	$ 51,063,816
Losses and expenses		
Net losses and loss adjustment expenses incurred	29,727,229	30,811,439
Other underwriting expenses incurred	14,742,408	15,287,091
Total losses and expenses	44,469,637	46,098,530
Net underwriting income	9,322,908	4,965,286
Investment income		
Net investment income earned	3,248,378	2,995,194
Net realized capital gain (loss)	2,506,165	(46,910)
Total investment gain	5,754,543	2,948,284
Other income	83,950	86,499
Net income before policyholder dividends	15,161,401	8,000,069
Policyholder dividends	(4,656,000)	(2,300,000)
Net income	$ 10,505,401	$ 5,700,069

The accompanying notes are an integral part of the statutory financial statements.

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS
Years Ended December 31, 2019 and 2018

	2019	2018
Capital and surplus, beginning of year	$ 124,207,070	$ 118,501,871
Net income	10,505,401	5,700,069
Net unrealized capital gains	6,245,246	901,429
Equity dividends	(235,426)	(188,142)
Members' contributions (distributions), net	300	(40,076)
Change in non-admitted assets	237,620	(826,081)
Change in provision for reinsurance	53,000	158,000
Capital and surplus, end of year	$ 141,013,211	$ 124,207,070

The accompanying notes are an integral part of the statutory financial statements.

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
STATUTORY STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operations		
Premiums collected, net of reinsurance	$ 54,422,047	$ 50,816,598
Net investment income	3,226,094	2,769,414
Miscellaneous income	83,950	86,499
Losses and loss related payments, net	(18,373,022)	(34,531,842)
Commissions, expenses paid and aggregate write-ins for deductions	(17,914,178)	(17,596,581)
Dividends paid to policyholders	(2,170,671)	-
Net cash from operations	19,274,220	1,544,088
Cash flows from investments		
Proceeds from investments sold, matured and repaid	59,627,694	52,645,790
Cost of investments acquired	(78,009,933)	(56,637,790)
Net cash from investments	(18,382,239)	(3,992,000)
Cash flows from financing and miscellaneous sources		
Members' contributions and distributions, net	(235,125)	(228,218)
Other cash applied	(212,869)	(1,163,090)
Net cash from financing and miscellaneous sources	(447,994)	(1,391,308)
Change in cash, cash equivalents and short-term investments	443,987	(3,839,220)
Cash, cash equivalents and short-term investments, beginning of year	4,235,603	8,074,823
Cash, cash equivalents and short-term investments, end of year	$ 4,679,590	$ 4,235,603

The accompanying notes are an integral part of the statutory 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: HAPI provides property insurance coverage 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 the Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Vermont Department of Financial Regulation (the Department), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The Department has adopted the National Association of Insurance Commissioners' (NAIC) statutory accounting practices (SAP) as the basis of its statutory accounting practices.

Significant differences between NAIC SAP and GAAP as they apply to the Company are as follows:

Statements of Cash Flows - Cash and cash equivalents in the statutory statements of cash flows represent cash balances and investments with initial maturities of three months or less. Short-term investments in the statutory statements of cash flows represent investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and certain investments with maturities of three months or less from the date of purchase. In addition, under NAIC SAP the use of a direct method cash flow does not require a reconciliation of net income to cash flows from operating activities as required under GAAP.

Investments - Investments in debt securities are reported at amortized cost or market value, if lower, based on their NAIC rating; for GAAP, debt securities would be designated at purchase as held-to-maturity, trading or available for sale under FASB ASC 320, "*Investments - Debt Securities",* or accounted for under FASB ASC 825, "*Financial Instruments".* For GAAP, held-to-maturity debt securities would be reported at amortized cost. For debt securities classified as trading, unrealized holding gains and losses would be reported in operations. For debt securities classified as available for sale, unrealized holding gains and losses would be reported as a component of members' equity as a component of accumulated other comprehensive income. Under the FASB ASC 825 election, all investments would be reported at fair value with unrealized holding gains and losses reported in operations. Under NAIC SAP, investments in equity securities are reported at fair value with changes in fair value recognized in members' surplus. Under GAAP, in accordance with FASB ASC 321 "*Investments in Equity Securities*", investments in equity securities are required to be reported at fair value with changes in fair value recognized in operations.

Investments in Affiliates - Under GAAP, 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 or earnings within investment income on the statement of operations, whereas NAIC SAP require these changes to be reported as unrealized gains or losses through surplus. Dividends for GAAP are recorded as a reduction of the investment value, whereas NAIC SAP records dividends as a component of investment income in the statement of operations.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Policy Acquisition Costs - Under NAIC SAP the costs of acquiring and renewing business are expensed when incurred. Under GAAP, such costs related to the successful placement of business, to the extent recoverable, would be deferred and amortized over the effective period of the related insurance policy.

Comprehensive Income - Comprehensive income and its components are not presented in the statutory financial statements.

Non-Admitted Assets - Certain assets designated as "non-admitted," principally premiums receivable over 90 days old, prepaid expenses and other assets not specifically identified as an admitted asset within the NAIC Accounting Practices and Procedures Manual are excluded from the accompanying statutory statements of admitted assets, liabilities and capital and surplus and are charged directly to capital and surplus. Under GAAP, such assets are included in the balance sheets, net of any valuation allowance.

Unpaid Losses, Loss Adjustment Expenses and Reinsurance Recoverables - For GAAP reporting purposes these amounts are presented on a gross basis rather than being presented net of related reinsurance recoverables, as required by statutory reporting practices.

Ceded Premium - GAAP requires that the unexpired portion of reinsurance premiums be reported on a gross basis, whereas NAIC SAP requires unexpired reinsurance premiums be netted against unearned premiums.

Advance Premium - GAAP allows for premium that has been billed but is not yet effective to be reported as a receivable on the balance sheets with a corresponding liability. NAIC SAP requires that premium be collected before year end to be reported as advance premium and for all uncollected advance premium to be netted against the premium receivable.

Provision for Reinsurance - Under GAAP, reinsurance recoverables would be evaluated for collectability. Under NAIC SAP, a liability must be established with a corresponding reduction in surplus based upon specific formulas contained within Schedule F of the Annual Statement.

Income Tax Contingencies - Under Statement of Statutory Accounting Principle (SSAP) No. 101, "*Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10,"* federal income tax contingencies are established pursuant to the same "more likely than not" recognition standard as GAAP. There is the same assumption that the reporting entity will be examined by a tax authority that has full knowledge of all relevant facts. For those tax positions with a probability of loss that is greater than the "more likely than not" level, a "best estimate" of the tax contingency is performed, as opposed to the probability analysis under GAAP. If the "best estimate" results in a tax loss contingency that is greater than 50 percent of the tax benefit originally recognized, the tax loss contingency recognized is equal to 100 percent. Unlike GAAP, tax loss contingencies associated with temporary differences are required to be grossed-up only when a triggering event occurs. Grossed-up tax loss contingencies associated with temporary differences would be subject to an admissibility test. Under statutory accounting, interest and penalties related to federal income tax are included in income taxes only. State tax contingencies are recognized to the extent that it is estimable and probable in accordance with SSAP No. 5R, "*Liabilities, Contingencies and Impairments of Assets - Revised."*

The effects of the foregoing variances from GAAP on the accompanying statutory financial statements have not been determined, but are presumed to be material.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents and Short-term Investments: For statutory financial statement purposes, the Company considers cash to be cash on hand and cash on deposit. Cash equivalents consist of repurchase agreements and money market instruments. Short-term investments include investments with initial maturities of one year or less at date of purchase and are valued under the guidance provided by the Purposes and Procedures Manual prepared by the Securities Valuation Office (SVO).

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: Debt securities are valued and reported in accordance with SSAP No. 26, "*Bonds, Excluding Loan-backed and Structured Securities",* and SSAP No. 43R, "*Loan-backed and Structured Securities-Revised"* under the guidance provided by the Purposes and Procedures Manual of the NAIC SVO. Investment grade debt securities are stated at amortized cost. Non-investment grade debt securities with NAIC designations of three through six are reported at the lower of amortized cost or fair value. 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. Equity securities and mutual funds are accounted for under SSAP No. 30, "*Unaffiliated Common Stock*," and are carried at fair value, and changes in net unrealized gains (losses) are reported within capital and surplus.

Within the mortgage-backed securities portfolio, the Company invests in commercial 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. Acceleration or deceleration of prepayments of the underlying mortgages can be caused by interest rate changes. Assumptions for collateralized mortgage obligations are reviewed annually and amortized cost is adjusted for unamortized premiums and discounts, which are amortized using the scientific interest method.

Investment income is recorded when earned. Realized investment gains and losses, determined on a specific identification basis, are included in investment income.

In June 1995, the Company and Housing Authority Risk Retention Group, Inc. (HARRG), an affiliate through common management, 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, 2019 and 2018. No stock purchases were made during 2019 and 2018. There were no dividends declared or paid by HIG in 2019 or 2018.

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 2019 and 2018. As of December 31, 2019 and 2018, the Company owns 35% of HEIC.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. HSIC was established to operate as a surplus lines insurer for certain insurance risks that are difficult to place in traditional markets. The Company and HARRG each contributed $3,000,000 and received 100 shares of voting common stock each. During 2018, the Company contributed surplus of $3,000,000 to HSIC. No amounts were contributed during 2019. The Company owns 50% of HSIC as of December 31, 2019 and 2018.

Investments in HIG, HEIC and HSIC are carried under the equity method of accounting and adjusted for the NAIC SAP basis of accounting where necessary based on the provisions of SSAP No. 97, "*Investments in Subsidiary, Controlled and Affiliated Entities.*"

<u>Federal Home Loan Bank of Boston Stock</u>: 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, 2019 and 2018, no impairment has been recognized.

<u>Other-Than-Temporary Impairments on Investments</u>: The Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other than temporary. Some factors considered in evaluating whether or not a decline in fair value is other than temporary include the Company's ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value, the Company's intent to sell the investment at the reporting date, and the financial condition and prospects of the issuer. The Company recognizes other-than-temporary impairments (OTTI) on bonds not backed by loans when it is either probable that the Company will not collect all amounts due according to the contractual terms of the bond in effect at the date of acquisition or when the Company has made a decision to sell the bond prior to its maturity at an amount below its amortized cost. When an OTTI is recognized, the bond is written down to fair value and the amount of the write down is recorded as a realized capital loss in the statutory statements of operations.

For loan-backed securities, OTTI are recognized when the fair value is less than the amortized cost basis and the Company has the intent to sell or lacks the intent and ability to retain the investment until recovery. When an OTTI is recognized because the Company has the intent to sell or lacks the intent and ability to retain the investment until recovery, the amortized cost basis of the loan-backed security is written down to the fair value and the amount of the write-down is recorded as a realized capital loss.

If the Company does not have the intent to sell and has the intent and ability to retain the investment until recovery, OTTI are recognized when the present value of future cash flows discounted at the security's effective interest rate is less than the amortized cost basis as of the balance sheet date. When an OTTI is recognized the loan-backed security is written down to the discounted estimated future cash flows and is recorded as a realized capital loss.

The Company recognizes OTTI of equities for declines in value that are other than temporary and reports those adjustments as realized capital losses in the statutory statements of operations. The Company recognized no OTTI losses during 2019 or 2018.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unpaid Losses and Loss Adjustment Expense Reserves: Unpaid losses and loss adjustment expense reserves, including 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 and recoverables represent the estimated ultimate cost of all incurred losses and loss adjustment expenses including related recoverables less amounts paid. 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.

Advance Premium: Premiums which have been billed and collected but are not yet effective before year end are reported as advance premiums on the statutory statements of admitted assets, liabilities and capital and surplus.

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 SSAP No. 62R, "*Property and Casualty Reinsurance.*" Premiums ceded are expensed over the term of the underlying related policies. Anticipated reinsurance recoverables under these contracts are netted against unpaid losses and loss adjustment expenses.

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 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.

Income Tax Contingencies: Federal and foreign income tax contingencies are established pursuant to SSAP No. 5R with some modifications. The term probable under SSAP No. 5R is replaced by the term "more likely than not" for federal and foreign income tax contingencies only; it shall be assumed that the reporting entity will be examined by the tax authority that has full knowledge of all relevant information; if the estimated tax loss contingency is greater than 50 percent of the tax benefit originally recognized, the tax loss contingency reported shall be equal to 100 percent of the original tax benefit recognized; and if a tax loss contingency is grossed up for a temporary item due to a triggering event, the deferred tax asset would be subject to the admissibility test under SSAP No. 101.

Interest and penalties related to foreign or federal income tax positions are included in income taxes. State tax contingencies are recognized to the extent that it can be estimated and is probable in accordance with SSAP No. 5R.

The Company did not record any income tax contingencies or interest and penalties related to any income tax contingencies as of December 31, 2019 and 2018. The Company does not believe it is reasonably possible that the total liability for income tax contingencies would materially change in the next twelve months.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and maintenance costs exceed unearned premiums and anticipated investment income. There were no premium deficiencies recognized as of December 31, 2019 and 2018.

Use of Estimates: The preparation of financial statements in conformity with NAIC SAP 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 statutory financial statements. Actual results could differ from those estimates.

Subsequent Events: Subsequent events have been evaluated through April 22, 2020, which is the date the statutory financial statements were available to be issued. The Company determined there were no such events that warrant recognition or disclosure in the financial statements, except for the event described below.

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Company could be materially adversely affected in 2020 and beyond. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

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NOTE 3 - INVESTMENTS

Investments, carried at amortized cost or fair value, as of December 31, 2019, are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities, at amortized cost:				
U.S. government	$ 55,927,609	$ 1,188,537	$ (49,255)	$ 57,066,891
U.S. states, territories and possessions	346,249	104,020	-	450,269
U.S. political subdivisions of states, territories and possessions	1,356,384	303,133	-	1,659,517
U.S. special revenue and special assessment obligations	18,531,407	383,817	(27,258)	18,887,966
Industrial and miscellaneous	59,313,429	1,756,102	(42,901)	61,026,630
Hybrid securities	2,215,394	113,300	-	2,328,694
Other invested assets	184,411	37,958	-	222,369
Total debt securities, at amortized cost	137,874,883	3,886,867	(119,414)	141,642,336
Mutual funds, at fair value	11,073,361	3,366,490	-	14,439,851
Total	$ 148,948,244	$ 7,253,357	$ (119,414)	$ 156,082,187

NOTE 3 - INVESTMENTS (Continued)

Investments, carried at amortized cost or fair value, as of December 31, 2018, are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities, at amortized cost:				
U.S. government	$ 49,933,937	$ 637,237	$ (425,653)	$ 50,145,521
U.S. states, territories and possessions	1,861,016	288,062	(426)	2,148,652
U.S. political subdivisions of states, territories and possessions	16,877,842	69,754	(443,347)	16,504,249
U.S. special revenue and special assessment obligations	8,623,751	33,264	(88,907)	8,568,108
Industrial and miscellaneous	39,046,119	160,406	(557,395)	38,649,130
Other invested assets	184,508	1,371	-	185,879
Total debt securities, at amortized cost	116,527,173	1,190,094	(1,515,728)	116,201,539
Debt securities, at fair value:				
Industrial and miscellaneous	1,896,306	-	(113,064)	1,783,242
Total debt securities, at fair value	1,896,306	-	(113,064)	1,783,242
Mutual funds, at fair value	9,676,121	1,815,418	-	11,491,539
Total	$ 128,099,600	$ 3,005,512	$ (1,628,792)	$ 129,476,320

As of December 31, 2019 and 2018, the Company held $239,500 of FHLBB stock which is carried at cost as further described in Note 2.

The amortized cost and fair value of debt securities are shown by contractual maturity as of December 31, 2019. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due to mature		
One year or less	$ 1,308,754	$ 1,316,367
After one year through five years	62,591,691	63,650,792
After five years through ten years	31,032,473	32,618,609
After ten years	8,643,652	9,363,781
Collateralized debt obligations	11,982,341	12,021,445
Residential mortgage-backed securities	16,697,908	17,008,410
Commercial mortgage-backed securities	5,618,064	5,662,932
Total fixed income securities	$ 137,874,883	$ 141,642,336

(Continued)

NOTE 3 - INVESTMENTS (Continued)

Proceeds from sales of securities amounted to $49,717,227 and $40,299,682 in 2019 and 2018, respectively. Gross realized gains amounted to $2,646,380 and $830,240 on the sale of securities in 2019 and 2018, respectively. Gross realized losses amounted to $139,215 and $877,150 in 2019 and 2018, respectively.

The Company holds 90 securities that are in an unrealized loss position as of December 31, 2019, of which 59 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, 2019:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government	$ 1,574,683	$ (34,118)	$ 1,766,774	$ (15,137)
U.S. special revenue and special assessment obligations	1,026,575	(6,779)	3,155,231	(20,479)
Industrial and miscellaneous	7,314,626	(38,365)	3,624,599	(4,536)
Total	$ 9,915,884	$ (79,262)	$ 8,546,604	$ (40,152)

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

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government	$ 376,838	$ (8,540)	$ 20,038,535	$ (417,113)
All other governments	-	-	-	-
U.S. states, territories, and possessic	149,558	(426)	-	-
U.S. special revenue and special assessment obligations	587,343	(2,622)	7,221,396	(86,285)
U.S. political sudvisions of states, territories, and possessions	706,818	(1,761)	12,377,991	(441,586)
Industrial and miscellaneous	3,665,529	(63,290)	21,584,116	(607,169)
Total	$ 5,486,086	$ (76,639)	$ 61,222,038	$ (1,552,153)

The Company had debt securities with amortized costs of $5,456,909 and $5,935,718 as of December 31, 2019 and 2018, respectively, deposited with state insurance departments and regulatory authorities and are restricted, as required by certain state statutes. These amounts are included in debt securities, at amortized cost or fair value on the statutory statements of admitted assets, liabilities and capital and surplus.

NOTE 4 - FAIR VALUE MEASUREMENTS

The Company measures fair value in accordance with SSAP No. 100, "*Fair Value Measurement,"* which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. 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 SSAP No. 100 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 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, 2019 and 2018.

The Company's valuation techniques used to measure the fair value of investments, including money market funds and mutual funds, 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 driven valuations using significant inputs derived from or corroborated by observable market data.

The following table presents the financial instruments, measured at fair value, by valuation hierarchy, as well as the carrying value of those instruments in the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2019:

	Admitted	Fair Value			
	Assets	Level 1	Level 2	Level 3	Total
Financial instruments					
(carried at fair value)					
Money market funds	$ 316,086	$ 316,086	$ -	$ -	$ 316,086
Repurchase agreements	600,000	-	600,000	-	600,000
Mutual funds	14,439,851	14,439,851	-	-	14,439,851
Total	15,355,937	14,755,937	600,000	-	15,355,937
Financial instruments					
(carried at amortized cost)					
Debt securities	137,874,883	-	141,642,336	-	141,642,336
Total	$ 153,230,820	$ 14,755,937	$ 142,242,336	$ -	$ 156,998,273

(Continued)

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents the financial instruments, measured at fair value, by valuation hierarchy, as well as the carrying value of those instruments in the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2018:

	Admitted Assets	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total
Financial instruments (carried at fair value)					
Debt securities	$ 1,783,242	$ -	$ 1,783,242	$ -	$ 1,783,242
Money market funds	135,728	135,728	-	-	135,728
Repurchase agreements	400,000	-	400,000	-	400,000
Mutual funds	11,491,539	11,491,539	-	-	11,491,539
Total	13,810,509	11,627,267	2,183,242	-	13,810,509
Financial instruments (carried at amortized cost)					
Debt securities	116,527,173	-	116,201,539	-	116,201,539
Total	$ 130,337,682	$ 11,627,267	$ 118,384,781	$ -	$ 130,012,048

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.

As of December 31, 2019 and 2018, the Company held no level 3 investments.

NOTE 5 - INSURANCE ACTIVITY

The Company primarily provides property coverages that are written on both a direct basis and an assumed basis through a fronting agreement. For 2019 and 2018, 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 limit of $300,000,000 per occurrence is a shared aggregate limit with HEIC.

In 2019 and 2018, 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 $20,000,000 and $22,000,000 in 2019 and 2018, respectively.

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 public 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. During 2019 and 2018, the Company assumed $565,967 and $531,032, respectively, of premiums from HSIC related to this contract.

All the Company's 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 reauthorizations. The Terrorism Risk Insurance Program is a Federal program administered by the Department of the Treasury authorized through December 31, 2027 that provides for a system of shared public and private compensation for certain insured losses resulting from certified acts of terrorism.

In order for a loss to be covered under the program (subject losses), the loss must meet certain aggregate industry loss minimums and must be the result of an event that is certified as an act of terrorism. The annual aggregate industry loss minimum under the program is $180,000,000 for 2019 and will increase to $200,000,000 for 2020. Under the program, a participating insurer, in exchange for making terrorism insurance available, is entitled to be reimbursed by the Federal Government for 81% of subject losses in 2019, after an insurer deductible, subject to an annual cap. This reimbursement percentage will decrease to 80% of subject losses in 2020, and will remain at 80% through December 31, 2027.

The deductible for any calendar year is equal to 20% of the insurer's direct earned premiums for covered lines for the preceding calendar year. The annual cap limits the amount of aggregate subject losses for all participating insurers to $100,000,000,000. Once subject losses have reached the $100,000,000,000 aggregate during a program year, participating insurers will not be liable under the program for additional covered terrorism losses for that program year.

(Continued)

NOTE 5 - INSURANCE ACTIVITY (Continued)

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 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.

Premiums direct written, assumed and ceded for the years ended December 31, 2019 and 2018, are summarized as follows:

	Premiums Written		Premiums Earned	
	2019	2018	2019	2018
Direct premiums	$ 68,345,584	$ 65,690,124	$ 67,236,914	$ 64,107,285
Assumed premiums	1,834,412	1,629,863	1,752,280	1,587,431
Ceded premiums	(15,412,111)	(14,938,233)	(15,196,649)	(14,630,900)
Net premiums	$ 54,767,885	$ 52,381,754	$ 53,792,545	$ 51,063,816

(Continued)

NOTE 5 - INSURANCE ACTIVITY (Continued)

A reconciliation of changes in unpaid losses and loss adjustment expenses for the years ended December 31, 2019 and 2018, are summarized as follows:

	2019	2018
Balance at beginning of year	$ 35,634,577	$ 35,449,176
Incurred related to:		
Current year	39,699,500	41,446,000
Prior years	(9,972,271)	(10,634,561)
Total incurred	29,727,229	30,811,439
Paid related to:		
Current year	(12,561,770)	(16,234,000)
Prior years	(13,402,718)	(14,392,038)
Total paid	(25,964,488)	(30,626,038)
Balance at end of year	$ 39,397,318	$ 35,634,577

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by $9,972,271 and $10,634,651 in 2019 and 2018, respectively. The development during 2019 relates primarily to favorable development of accident year 2018. The development during 2018 relates primarily to favorable development of accident year 2017.

The Company recorded net reinsurance recovery activity of $3,105,398 and $7,490,461 in 2019 and 2018, respectively, which are reflected as a decrease in net losses and loss adjustment expenses incurred in the statutory statements of operations.

NOTE 6 - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company has common paymaster and facilities agreements with HARRG, in which HARRG is the common paymaster for the Company. HARRG provides 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 $10,747,961 and $11,516,218 for the years ended December 31, 2019 and 2018, respectively. The amounts due to HARRG under this agreement, which are included in due to affiliates, amounted to $1,070,291 and $1,098,983 as of December 31, 2019 and 2018, respectively.

The Company entered into an insurance management services agreement with Housing Insurance Services, Inc. (HIS), whereby HIS performs insurance agency activities for the Company's insurance programs. HIS is a subsidiary of HIG. Fees incurred under this agreement amounted to $59,894 and $53,385 for the years ended December 31, 2019 and 2018, respectively. The amount due from HIS, which is included in due from affiliates, amounted to $51,366 and $245 as of December 31, 2019 and 2018, respectively. These amounts include both amounts due under this agreement and losses incurred by the Company and paid by HIS on the Company's behalf related to its assumed auto program with Travelers Indemnity Company.

(Continued)

NOTE 6 - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company maintains a commission agreement with HIS for direct premium written. The commission agreement provides for a commission percentage to be paid based upon direct written premium, which is expensed on a pro-rata basis by the Company in line with the underlying policies to which they relate. For the years ended December 31, 2019 and 2018, commission expense under this agreement amounted to $3,362,098 and $3,206,183, respectively, which is included in underwriting expenses incurred on the statutory statement of operations.

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 for the years ended December 31, 2019 and 2018.

During 2018, HAI had unused funds in the form of a grant to carry out research, feasibility studies, and funding for new initiatives for residents, owners, operators, developers and vendors 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 expenses of $43,700 for risk management services fees paid to HTI for the years ended December 31, 2019 and 2018. Also, as part of the agreement, HAPI pays HTI a sponsorship fee. The Company recognized expenses of $88,410 for sponsorship fees paid to HTI for the years ended December 31, 2019 and 2018. The Company has amounts due to HTI of $5,946 and $4,553 as of December 31, 2019 and 2018, respectively, which are included in due to affiliates on the statutory statements of admitted assets, liabilities and capital and surplus.

As of December 31, 2018, there was $51,071 due to HEIC included in due to affiliates on the statutory statements of admitted assets, liabilities and capital and surplus. Additionally, the Company has amounts due from HEIC of $3,718 as of December 31, 2018, which were included in due from affiliates on the statutory statements of admitted assets, liabilities and capital and surplus. As of December 31, 2019, the Company had no amounts due to or from HEIC.

The Company occupies office space located at Cheshire, Connecticut, which is owned by HARRG. The cost of occupying the premises is part of the facilities agreement.

NOTE 7 - 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 $298,185 and $346,243 and 401(k) expenses of $195,038 and $221,376, for the years ended December 31, 2019 and 2018, respectively. In addition, the Company recorded an expense for incentive compensation of $779,281 and $846,177, for the years ended December 31, 2019 and 2018, respectively, which is included within other underwriting expenses incurred on the statutory statements of operations.

NOTE 8 - CAPITAL AND SURPLUS

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 50% of their first year’s premium. Class “B” 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, 2019, policyholder dividends of $4,800,000 were declared by the Company with $4,512,000 related to Class “A” members. Dividends declared to Class “B” members amounted to $288,000, with $144,000 to be paid in cash and $144,000 to be recorded as members’ recapitalization dividends within the statements of changes in capital and surplus. 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 capital and surplus. In total, policyholder dividends of $4,656,000 and $2,300,000 were expensed for the years ended December 31, 2019 and 2018, respectively, within the statutory statements of operations. Dividends were approved by the Board of Directors.

The Company may also provide 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, 2019 and 2018, 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.

During 2019 and 2018, there were member PHAs that are no longer policyholders; however, they have not formally withdrawn their membership in HAPI, nor 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 statements of admitted assets, liabilities and capital and surplus.

The Company provides its members with equity dividends for the purchase of HAI Group products and services. Equity dividends amounted to $235,426 and $188,142 in 2019 and 2018, 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.

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

(Continued)

NOTE 8 - CAPITAL AND SURPLUS (Continued)

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 at December 31, 2019 and 2018.

NOTE 9 - 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 SSAP No. 35, "*Guaranty Fund and Other Assessments."* As of December 31, 2019 and 2018, the Company has not accrued for or been assessed by any state insurance department.

As of December 31, 2019 and 2018, 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, 2019 and 2018. 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, 2019 and 2018, the Company has an irrevocable standby letter of credit from BBH of $612,684 and $1,418,948, respectively, 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, 2019 and 2018.

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.

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 in the amount of $2,500,000 as required by the state of Maine. On April 18, 2019, the Maine Bureau of Insurance determined that the Unconditional Financial Guaranty was no longer required between the Company and HEIC in order for HEIC to obtain licensure in the State of Maine.

(Continued)

NOTE 10 - NON-ADMITTED ASSETS

Certain assets designated as non-admitted, have been excluded from admitted assets and charged against capital and surplus. As of December 31, 2019 and 2018, amounts reflected as non-admitted assets were as follows:

	2019	2018
Non admitted assets of investment in affiliate	$ 719,940	$ 868,329
Prepaid expenses	24,600	113,831
	$ 744,540	$ 982,160

NOTE 11 - RECONCILIATION TO STATUTORY ANNUAL STATEMENT

There are no material differences between admitted assets, liabilities, net income and capital and surplus as reported herein and the Annual Statement as previously filed with the Department for the years ended December 31, 2019 and 2018.

HOUSING ENTERPRISE INSURANCE COMPANY, INC.

STATUTORY FINANCIAL STATEMENTS

December 31, 2019 and 2018

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

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

Report on the Statutory Financial Statements

We have audited the accompanying statutory financial statements of Housing Enterprise Insurance Company, Inc. (the "Company"), which comprise the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2019 and 2018, and the related statutory statements of operations, changes in capital and surplus and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in conformity with accounting practices prescribed or permitted by the Vermont Department of Financial Regulation. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of statutory 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 statutory 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 statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory 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 statutory 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 statutory financial statements.

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

(Continued)

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in Note 2 to the statutory financial statements, the statutory financial statements are prepared by the Company in accordance with accounting practices prescribed or permitted by the Vermont Department of Financial Regulation, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the statutory financial statements of the variances between statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America” paragraph, the statutory financial statements referred to above, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of Housing Enterprise Insurance Company, Inc., as of December 31, 2019 and 2018, and results of its operations and its cash flows for the years then ended in accordance with accounting practices prescribed or permitted by the Vermont Department of Financial Regulation described in Note 2.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the statutory financial statements as a whole. The supplemental schedules which include the investment risks interrogatories and the summary investment schedule are presented for purposes of additional analysis and are not required parts of the statutory financial statements. The effects on the supplemental schedules of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the supplemental schedules do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of Housing Enterprise Insurance Company, Inc. as of December 31, 2019 and for the year ended. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the statutory financial statements as a whole.

Crowe LLP

Crowe LLP

Simsbury, Connecticut
April 22, 2020

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS
December 31, 2019 and 2018

	2019	2018
ADMITTED ASSETS		
Cash and invested assets:		
Investments, at amortized cost or fair value	$ 68,735,986	$ 65,651,978
Cash, cash equivalents and short-term investments	6,350,342	1,212,966
Receivable for securities	405	-
Total cash and invested assets	75,086,733	66,864,944
Investment income due and accrued	499,752	454,122
Premiums receivable	15,977,212	12,634,701
Reinsurance recoverable on paid losses	4,584,716	3,539,849
Deferred tax asset	1,611,589	1,198,375
Federal income tax receivable	88,744	88,744
Due from affiliates	36,259	51,071
Total admitted assets	$ 97,885,005	$ 84,831,806
LIABILITIES AND CAPITAL AND SURPLUS		
Unpaid losses and loss adjustment expenses	$ 27,887,810	$ 27,867,191
Taxes, licenses and fees	291,331	551,966
Unearned premiums	20,630,350	17,020,696
Ceded reinsurance premium payable	2,988,996	900,097
Funds held under reinsurance treaties	10,392	79,459
Payable to affiliates	454,932	401,423
Provision for unauthorized reinsurance	70,000	116,000
Accrued expenses and other liabilities	738,186	477,100
Total liabilities	53,071,997	47,413,932
Capital and surplus:		
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
Unassigned funds	(4,186,992)	(11,582,126)
Total capital and surplus	44,813,008	37,417,874
Total liabilities and capital and surplus	$ 97,885,005	$ 84,831,806

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
STATUTORY STATEMENTS OF OPERATIONS
Years Ended December 31, 2019 and 2018

	2019	2018
Underwriting income		
Net premiums earned	$ 32,263,120	$ 25,821,913
Losses and expenses		
Net losses and loss adjustment expenses incurred	17,540,041	16,114,317
Other underwriting expenses incurred	9,578,015	8,547,836
Total losses and expenses	27,118,056	24,662,153
Net underwriting gain	5,145,064	1,159,760
Investment income		
Net investment income earned	1,596,864	1,601,987
Net realized capital gains (losses), (net of taxes of $20,615 and $0 in 2019 and 2018, respectively)	77,554	(131,545)
Total investment gain	1,674,418	1,470,442
Other income	31,190	25,140
Net income before all other federal income taxes	6,850,672	2,655,342
Federal income taxes incurred	(20,615)	-
Net income	$ 6,871,287	$ 2,655,342

The accompanying notes are an integral part of the statutory financial statements.

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS
Years Ended December 31, 2019 and 2018

	2019	2018
Capital and surplus, beginning of year	$ 37,417,874	$ 33,638,715
Net income	6,871,287	2,655,342
Change in net unrealized capital gains (losses)	11,968	22,878
Change in net deferred income taxes	965,616	1,197,480
Change in non-admitted assets	(499,737)	(68,541)
Change in provision for reinsurance	46,000	(28,000)
Capital and surplus, end of year	$ 44,813,008	$ 37,417,874

The accompanying notes are an integral part of the statutory financial statements.

	2019	2018
Cash from operations		
Premiums collected, net of reinsurance	$ 34,619,163	$ 26,431,128
Net investment income	1,846,590	1,822,776
Miscellaneous income	31,191	25,139
Losses and loss related payments, net	(15,621,957)	(17,185,971)
Commissions, expenses paid and aggregate write-ins for deductions	(12,775,832)	(11,094,326)
Federal income taxes paid	-	(10,000)
Net cash from operations	8,099,155	(11,254)
Cash from investments		
Proceeds from investments sold, matured and repaid	15,793,295	10,983,064
Cost of investments acquired	(19,037,312)	(10,838,787)
Miscellaneous applications	(405)	-
Net cash from investments	(3,244,422)	144,277
Cash from financing and miscellaneous sources		
Other cash provided (applied)	282,643	(430,914)
Net cash from financing and miscellaneous sources	282,643	(430,914)
Change in cash, cash equivalents and short-term investments	5,137,376	(297,891)
Cash, cash equivalents and short-term investments, beginning of year	1,212,966	1,510,857
Cash, cash equivalents and short-term investments, end of year	$ 6,350,342	$ 1,212,966

The accompanying notes are an integral part of the statutory 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, 2019 and 2018, 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 2019 and 2018.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Vermont Department of Financial Regulation (the Department), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The Department has adopted the National Association of Insurance Commissioners' (NAIC) statutory accounting practices (SAP) as the basis of its statutory accounting practices.

Significant differences between NAIC SAP and GAAP as they apply to the Company are as follows:

Investments - Investments in debt securities are reported at amortized cost or market value, if lower, based on their NAIC rating; for GAAP, debt securities would be designated at purchase as held-to-maturity, trading, available for sale or accounted for under FASB ASC 825, "Financial Instruments." For GAAP, held-to-maturity debt securities would be reported at amortized cost. For debt securities classified as trading, unrealized holding gains and losses are reported in operations. For those classified as available for sale, unrealized holding gains and losses would be reported as a component of accumulated other comprehensive income within capital and surplus. Under the FASB ASC 825 election, all investments would be reported at fair value with unrealized holding gains and losses reported in operations.

Policy Acquisition Costs - For NAIC SAP the costs of acquiring and renewing business is expensed when incurred. Under GAAP, such costs related to the successful placement of business, to the extent recoverable, would be deferred and amortized over the effective period of the related insurance policy.

Non-Admitted Assets - Certain assets designated as "non-admitted," principally premiums receivable over 90 days old, prepaid expenses, deferred tax assets and other assets not specifically identified as an admitted asset within the NAIC Accounting Practices and Procedures Manual are excluded from the accompanying statutory statements of admitted assets, liabilities and capital and surplus and are charged directly to capital and surplus. Under GAAP, such assets are included in the balance sheets, net of any valuation allowance.

Comprehensive Income - Comprehensive income and its components are not presented in the statutory financial statements.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statements of Cash Flows - Cash and cash equivalents in the statutory statements of cash flows represent cash balances, money market funds and investments with initial maturities of three months or less. Short-term investments in the statutory statements of cash flows represent investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and certain investments with maturities of three months or less from the date of purchase. In addition, under NAIC SAP the use of a direct method cash flow does not require a reconciliation of net income (loss) to cash flows from operating activities as required under GAAP.

Unpaid Losses, Loss Adjustment Expenses and Reinsurance Recoverables - For GAAP reporting purposes, these amounts are presented on a gross basis rather than being presented net of related reinsurance recoverables, as required by statutory reporting practices.

Income Taxes - For statutory purposes, net deferred income taxes are admitted following the application of certain criteria, with the resulting admitted tax asset being credited directly to unassigned surplus. The changes in deferred income taxes relating to temporary differences between net income for financial reporting purposes and taxable income are recognized as a separate component of gains and losses in surplus rather than included in income tax expense or benefit. Under GAAP, deferred income tax assets and liabilities are recorded for temporary differences between the reported amounts of assets and liabilities and those in the Company's income tax return. Charges to deferred income tax assets and liabilities are recorded in current operations under GAAP.

Income Tax Contingencies - Under Statement of Statutory Account Principle (SSAP) No. 101 "*Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10*," federal income tax contingencies are established pursuant to the same "more likely than not" recognition standard as GAAP. For those tax positions with a probability of loss that is greater than the "more likely than not" level, a "best estimate" of the tax contingency is performed, as opposed to the probability analysis under GAAP. If the "best estimate" results in a tax loss contingency that is greater than 50 percent of the tax benefit originally recognized, the tax loss contingency recognized is equal to 100 percent. Unlike GAAP, tax loss contingencies associated with temporary differences are required to be grossed-up only when a triggering event occurs. Grossed up tax loss contingencies associated with temporary differences would be subject to an admissibility test. Under statutory accounting, interest and penalties related to federal income tax are included in income taxes only. State tax contingencies are recognized to the extent that it is estimable and probable in accordance with SSAP No. 5R, "Liabilities, Contingencies and Impairments of Assets - Revised."

Provision for Reinsurance - Under GAAP, reinsurance recoverables would be evaluated for collectability. Under NAIC SAP, a liability must be established with a corresponding reduction in surplus based upon specific formulas contained within Schedule F of the Annual Statement.

Ceded Premium - GAAP requires that the unexpired portion of reinsurance premiums be reported on a gross basis, whereas statutory accounting practices require these unexpired premiums be netted against unearned premium.

Advance Premium - GAAP allows for premium that has been billed but is not yet effective to be reported as a receivable on the balance sheet with a corresponding liability. Statutory accounting practices require that premium be collected before year end to be reported as advance premium and for all uncollected advance premium to be netted against premium receivable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The effects of the foregoing variances from GAAP on the accompanying statutory financial statements have not been determined, but are presumed to be material.

Cash, Cash Equivalents and Short-term Investments: For statutory financial statement purposes, the Company considers cash to be cash on hand and cash on deposit. Cash equivalents consist of money market instruments. Short-term investments include investments whose maturities, at the time of purchase, are one year or less and are valued under the guidance provided by the Purposes and Procedures Manual prepared by the Securities Valuation Office (SVO).

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: Debt securities are valued and reported in accordance with SSAP No. 26, "Bonds, Excluding Loan-backed and Structured Securities" and SSAP No. 43R, "Loan-backed and Structured Securities-Revised" under the guidance provided by the Purposes and Procedures Manual prepared by the SVO. Investment grade debt securities are stated at amortized cost. Non-investment grade debt securities with NAIC designations of three through six are reported at the lower of amortized cost or fair value. The amortized cost of debt securities are adjusted for amortization of premiums and accretion of discounts. Such amortization and accretion are included in net investment income.

Within the mortgage-backed securities portfolios, the Company invests in collateralized mortgage obligations and mortgage-backed security pools. 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. Acceleration or deceleration of prepayments of the underlying mortgages can be caused by interest rate changes. Assumptions for collateralized mortgage obligations are reviewed annually and amortized cost is adjusted for unamortized premiums and discounts, which are amortized using the scientific interest method.

Investment income is recorded when earned. Realized investment gains and losses, determined on a specific identification basis, are included in investment income.

Other-Than-Temporary Impairments of Investments: The Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other-than-temporary. Some factors considered in evaluating whether or not a decline in fair value is other-than-temporary include the Company's ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value, the Company's intent to sell the investment at the reporting date, and the financial condition and prospects of the issuer. The Company recognizes other-than-temporary impairments (OTTI) on bonds not backed by loans when it is either probable that the Company will not collect all amounts due according to the contractual terms of the bond in effect at the date of acquisition or when the Company has made a decision to sell the bond prior to its maturity at an amount below its amortized cost. When an OTTI is recognized, the bond is written down to fair value and the amount of the write down is recorded as a realized capital loss in the statutory statements of operations.

For loan-backed securities, OTTI are recognized when the fair value is less than the amortized cost basis and the Company has the intent to sell or lacks the intent and ability to retain the investment until recovery. When an OTTI is recognized because the Company has the intent to sell or lacks the intent and ability to retain the investment until recovery, the amortized cost basis of the loan-backed security is written down to the fair value and the amount of the write-down is recorded as a realized capital loss.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

If the Company does not have the intent to sell and has the intent and ability to retain the investment until recovery, OTTI are recognized when the present value of future cash flows discounted at the security's effective interest rate is less than the amortized cost basis as of the balance sheet date. When an OTTI is recognized the loan-backed security is written down to the discounted estimated future cash flows and is recorded as a realized capital loss.

The Company recognized no other-than-temporary impairment losses during 2019 or 2018.

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 and collected for policies not yet effective before year end are reported as advance premiums on the statutory statements of admitted assets, liabilities and capital and surplus.

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 and maintenance costs exceed unearned premiums and anticipated investment income. There were no premium deficiencies recognized as of December 31, 2019 and 2018.

Unpaid Losses and Loss Adjustment Expense Reserves: Unpaid losses and loss adjustment expense reserves, including 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 and recoverables represent the estimated ultimate cost of all incurred losses and loss adjustment expenses including related recoverables less amounts paid. 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.

Income Taxes: Federal income taxes are recorded in accordance with SSAP No. 101. This guidance provides that the deferred tax asset reversal and surplus limitation parameters of the admissibility test are based on the risk-based capital level or other surplus limitation as defined under paragraph 11.b. It also requires gross deferred tax assets to be reduced by a statutory valuation allowance if it is more likely than not that some portion or all of the gross deferred tax assets will not be realized. Finally, the guidance sets a more likely than not threshold for the recording of contingent tax liabilities.

The provision for federal income taxes is based on amounts estimated to be currently payable as a result of operations in the current period. A provision has been made for deferred federal income taxes on temporary differences in the basis of assets and liabilities for tax and financial reporting purposes, as required by the NAIC, and is presented as a change in capital and surplus. All tax years from 2016 forward are open and subject to examination by the Internal Revenue Service.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 H.R.1, commonly known as the Tax Cuts and Jobs Act (the Act), for use in computing the loss reserve discounts retroactively and prospectively, as well as a requirement to amortize the impact of the retroactive re-measurement over eight years within taxable income. As a result of retroactively applying the changes to loss discount factors within the tax provision, the Company incurred additional taxable income; however, the Company will amortize this impact over eight years through net income.

During August 2019, the IRS updated these discount factors by issuing Revenue Procedure 2019-31 (RP 2019-31), all other provisions outlined in RP 2019-31 remain consistent with RP 2019-06. The Company applied provisions of RP 2019-31 in the December 31, 2019 financial statements. As a result of retroactively applying the changes to loss discount factors within the tax provision, the Company recognized a reduction of taxable income in the amount of $131,826. As of December 31, 2019, the Company has recorded a deferred tax liability in the amount of $136,127, which represents the remaining amount to be amortized under provisions of RP-2019-06 and RP-2019-31.

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.

Income Tax Contingencies: Federal and foreign income tax contingencies are established pursuant to SSAP No. 5R with some modifications. The term probable under SSAP No. 5R is replaced by the term “more likely than not” for federal and foreign income tax contingencies only; it shall be assumed that the reporting entity will be examined by the tax authority that has full knowledge of all relevant information; if the estimated tax loss contingency is greater than 50 percent of the tax benefit originally recognized, the tax loss contingency recorded shall be equal to 100 percent of the original tax benefit recognized; and if a tax loss contingency is grossed up for a temporary item due to a triggering event, the deferred tax asset would be subject to the admissibility test under SSAP No. 101. State tax contingencies are recognized to the extent that it can be estimated and is probable in accordance with SSAP No. 5R.

Interest and penalties related to foreign or federal income tax positions are included in income taxes.

The Company did not record any income tax contingencies or interest and penalties related to any income tax contingencies as of December 31, 2019 and 2018. The Company does not believe it is reasonably possible that the total liability for income tax contingencies would materially change in the next twelve months.

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 SSAP No. 62R “*Property and Casualty Reinsurance.*” 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 netted against unpaid losses.

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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates: The preparation of financial statements in conformity with NAIC SAP 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 statutory financial statements. Actual results could differ from those estimates.

Subsequent Events: Subsequent events have been evaluated through April 22, 2020, which is the date the statutory financial statements were available to be issued. The Company determined there were no such events that warrant recognition or disclosure in the statutory financial statements, except for the event described below.

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Company could be materially adversely affected in 2020 and beyond. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

NOTE 3 - INVESTMENTS

Investments, carried at amortized cost, as of December 31, 2019, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments (amortized cost):				
U.S. government	$ 17,606,407	$ 562,561	$ (36,455)	$ 18,132,513
All other governments	56,145	14,406	-	70,551
U.S. states, territories and possessions	693,306	110,953	-	804,259
U.S. political subdivisions of states, territories and possessions	1,352,317	71,220	-	1,423,537
U.S. special revenue and special assessment obligations	18,987,867	416,164	(24,382)	19,379,649
Industrial and miscellaneous	30,003,217	1,050,867	(9,102)	31,044,982
Hybrid securities	36,727	8,273	-	45,000
Total	$ 68,735,986	$ 2,234,444	$ (69,939)	$ 70,900,491

(Continued)

NOTE 3 - INVESTMENTS (Continued)

Investments, carried at amortized cost and fair value, as of December 31, 2018, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments (amortized cost):				
U.S. government	$ 17,642,785	$ 107,996	$ (313,856)	$ 17,436,925
U.S. states, territories and possessions	700,567	58,717	(4,848)	754,436
U.S. political subdivisions of states, territories and possessions	837,881	9,915	(5,909)	841,887
U.S. special revenue and special assessment obligations	16,938,244	68,607	(305,952)	16,700,899
Industrial and miscellaneous	29,438,103	199,535	(623,506)	29,014,132
Hybrid securities	37,173	2,465	-	39,638
Total	65,594,753	447,235	(1,254,071)	64,787,917
Investments (fair value):				
Industrial and miscellaneous	70,000	-	(12,775)	57,225
Total	$ 65,664,753	$ 447,235	$(1,266,846)	$ 64,845,142

The amortized cost and fair value of debt securities are shown by contractual maturity as of December 31, 2019. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due to mature:		
One year or less	$ 4,483,263	$ 4,503,241
After one year through five years	22,885,230	23,324,528
After five years through ten years	16,287,142	17,040,607
After ten years	5,598,270	6,213,618
Collateralized debt obligations	2,505,441	2,521,076
Residential mortgage-backed securities	14,190,033	14,452,950
Commercial mortgage-backed securities	2,786,607	2,844,471
Total	$ 68,735,986	$ 70,900,491

Proceeds from sales of securities amounted to $9,908,472 and $5,443,814 in 2019 and 2018, respectively. Gross realized gains amounted to $134,523 and $4,097 on the sale of securities in 2019 and 2018, respectively. Gross realized losses amounted to $36,354 and $135,642 in 2019 and 2018, respectively.

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The Company holds 63 securities that are in an unrealized loss position as of December 31, 2019, of which 48 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 the individual securities have been in a continuous unrealized loss position as of December 31, 2019:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government	$ 1,273,859	$ (24,297)	$ 1,407,799	$ (12,158)
U.S. special revenue and special assessment obligations	1,912,598	(12,631)	1,999,554	(11,751)
Industrial and miscellaneous	933,955	(3,093)	2,991,231	(6,009)
Total	$ 4,120,412	$ (40,021)	$ 6,398,584	$ (29,918)

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 greater. 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. government	$ 742,266	$ (9,962)	$ 12,164,976	$ (303,894)
U.S. states, territories and possessions	-	-	265,084	(4,848)
U.S. political subdivisions of states, territories and possessions	295,788	(2,233)	263,709	(3,676)
U.S. special revenue and special assessment obligations	3,591,513	(44,079)	7,906,184	(261,873)
Industrial and miscellaneous	9,943,894	(228,722)	13,002,263	(407,559)
Total	$ 14,573,461	$ (284,996)	$ 33,602,216	$ (981,850)

The Company had debt securities with amortized costs of $4,942,798 and $4,983,789 as of December 31, 2019 and 2018, respectively, deposited with state insurance departments and regulatory authorities and are restricted, as required by certain state statutes. These amounts are included in debt securities, at amortized cost or fair value on the statutory statements of admitted assets, liabilities and capital and surplus.

(Continued)

NOTE 4 - FAIR VALUE MEASUREMENTS

The Company measures fair value in accordance with SSAP No. 100, "*Fair Value Measurement*," which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. 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 SSAP No. 100 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 in inactive markets; (iii) Inputs other than quoted prices that are observable for the asset; or (iv) Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
>
> Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used to measure financial instruments at fair value. The same methodologies were used as of December 31, 2019 and 2018.

The Company's valuation techniques used to measure the fair value of investments, including money market funds and short-term investments, 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 driven valuations using significant inputs derived from or corroborated by observable market data.

The following table present the financial instruments, measured at fair value, by valuation hierarchy, as well as the carrying value of those instruments in the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2019:

	Admitted	Fair Value			
	Assets	Level 1	Level 2	Level 3	Total
Financial instruments (carried at fair value):					
Money market funds	$ 3,400,135	$ 3,400,135	$ -	$ -	$ 3,400,135
Financial instruments (carried at amortized cost):					
Debt securities	68,735,986	-	70,900,491	-	70,900,491
Total	$ 72,136,121	$ 3,400,135	$ 70,900,491	$ -	$ 74,300,626

(Continued)

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

The following tables present the financial instruments, measured at fair value, by valuation hierarchy, as well as the carrying value of those instruments in the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2018:

	Admitted Assets	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total
Financial instruments (carried at fair value):					
Debt securities	$ 57,225	$ -	$ 57,225	$ -	$ 57,225
Money market funds	339,704	339,704	-	-	339,704
Financial instruments (carried at amortized cost):					
Debt securities	65,594,753	-	64,787,917	-	64,787,917
Total	$ 65,991,682	$ 339,704	$ 64,845,142	$ -	$ 65,184,846

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.

NOTE 5 - INSURANCE ACTIVITY

The Company writes both property and casualty coverages on a direct basis. In 2019 and 2018, 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 limits up to $300,000,000 per occurrence for property in 2019 and 2018. Additionally, the Company secured reinsurance for amounts in excess of their retained limits up to $5,000,000 per occurrence for casualty as of July 1, 2019 and 2018, respectively. The property limit of $300,000,000 per occurrence in 2019 and 2018, is a shared aggregate limit with HAPI.

(Continued)

NOTE 5 - INSURANCE ACTIVITY (Continued)

In 2019 and 2018, 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 $20,000,000 in 2019 and $22,000,000 in 2018.

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 2019 and 2018, the Company assumed $46,145 and $35,775 of premiums, respectively, from HSIC related to this contract. There were no ceded losses recorded for the years ended December 31, 2019 and 2018 under this contract.

All the Company's 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 reauthorizations. The Terrorism Risk Insurance Program is a Federal program administered by the Department of the Treasury authorized through December 31, 2027 that provides for a system of shared public and private compensation for certain insured losses resulting from certified acts of terrorism.

In order for a loss to be covered under the program (subject losses), the loss must meet certain aggregate industry loss minimums and must be the result of an event that is certified as an act of terrorism. The annual aggregate industry loss minimum under the program is $180,000,000 for 2019 and will increase to $200,000,000 for 2020. Under the program, a participating insurer, in exchange for making terrorism insurance available, is entitled to be reimbursed by the Federal Government for 81% of subject losses in 2019, after an insurer deductible, subject to an annual cap. This reimbursement percentage will decrease to 80% of subject losses in 2020, and will remain at 80% through December 31, 2027.

The deductible for any calendar year is equal to 20% of the insurer's direct earned premiums for covered lines for the preceding calendar year. The annual cap limits the amount of aggregate subject losses for all participating insurers to $100,000,000,000. Once subject losses have reached the $100,000,000,000 aggregate during a program year, participating insurers will not be liable under the program for additional covered terrorism losses for that program year.

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 2019 and 2018, 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 5 - 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 A or better.

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

Direct, assumed and ceded premiums written and earned by the Company for the years ended December 31, 2019 and 2018, are summarized as follows:

	Premiums Written		Premiums Earned	
	2019	2018	2019	2018
Direct premiums	$ 49,033,478	$ 39,242,846	$ 44,235,723	$ 34,721,622
Assumed premiums	46,145	35,775	45,755	29,613
Premiums ceded	(13,206,849)	(10,248,719)	(12,018,358)	(8,929,322)
Net premiums	$ 35,872,774	$ 29,029,902	$ 32,263,120	$ 25,821,913

A reconciliation of changes in the Company's unpaid losses and loss adjustment expenses, for the years ended December 31, 2019 and 2018, is summarized as follows:

	2019	2018
Balance at beginning of year	$ 27,867,191	$ 28,878,665
Incurred related to:		
Current year	25,563,770	23,196,000
Prior years	(8,023,729)	(7,081,683)
Total incurred	17,540,041	16,114,317
Paid related to:		
Current year	(10,121,558)	(7,709,000)
Prior years	(7,397,864)	(9,416,791)
Total paid	(17,519,422)	(17,125,791)
Balance at end of year	$ 27,887,810	$ 27,867,191

(Continued)

NOTE 5 - INSURANCE ACTIVITY (Continued)

As a result of changes in loss development, the provision for loss and loss adjustment expenses decreased by $8,023,729 and $7,081,683 in 2019 and 2018, respectively. The decrease in 2019 is related to favorable loss development on property and casualty claims related to the 2016 through 2018 accident years. The decrease in 2018 is related to favorable loss development on property and casualty claims related to the 2014 through 2017 accident years.

The Company recorded net reinsurance recovery activity of $9,503,272 and $3,832,217 in 2019 and 2018, respectively, which is reflected as a decrease in losses and loss adjustment expenses incurred in the statutory statements of operations.

NOTE 6 - 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 $4,640,390 and $4,632,965 for the years ended December 31, 2019 and 2018, respectively. The amounts due to HARRG under this agreement, which are included in payable to affiliates, amounted to $454,932 and $400,144 as of December 31, 2019 and 2018, 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 to which they relate. The commission percentage varies based on several underlying factors. For the years ended December 31, 2019 and 2018, commission expense under this agreement amounted to $808,609 and $684,795, respectively, which is included within other underwriting expenses incurred on the statutory statements of operations. The Company has amounts due from HIS of $36,259 and $2,439 as of December 31, 2019 and 2018, respectively, which are included in due from affiliates and payable to affiliates, respectively.

The Company has amounts due to HAPI of $3,718 as of December 31, 2018, which is included in payable to affiliates. As of December 31, 2018, the Company has amounts due from HAPI of $51,071, which is included in due from affiliates. As of December 31, 2019, the Company had no amounts due to or from HAPI.

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 members and employees of HEIC. The Company recognized expenses of $9,600 for risk management services fees paid to HTI for the years ended December 31, 2019 and 2018. Also, as part of the agreement, HEIC pays HTI a sponsorship fee. The Company recognized expenses of $7,650 for fees paid to HTI for the years ended December 31, 2019 and 2018.

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 for the years ended December 31, 2019 and 2018.

The Company occupies office space in Cheshire, Connecticut, which is owned by HARRG. The cost of occupying the premises is part of the facilities agreement.

(Continued)

NOTE 7 - 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 $125,663 and $115,863 and 401(k) expenses of $81,938 and $72,641 for the years ended December 31, 2019 and 2018, respectively. In addition, the Company recorded incentive compensation expense of $330,901 and $289,743, as of December 31, 2019 and 2018, respectively, which is due to HARRG at each year end and included within accrued expenses and other liabilities on the statutory statements of admitted assets, liabilities and capital and surplus.

NOTE 8 - CAPITAL AND SURPLUS

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, 2019 and 2018.

No dividends were declared or paid in 2019 and 2018.

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

(Continued)

NOTE 9 - FEDERAL INCOME TAXES

The components of the net deferred tax asset recognized in the Company's statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2019 and 2018 are as follows:

	2019			2018		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets	$ 2,291,935	$ 7,377	$ 2,299,312	$ 3,757,038	$ 25,194	$ 3,782,232
Statutory valuation allowance adjustment	-	-	-	(2,379,953)	(16,796)	(2,396,749)
Adjusted gross deferred tax asset	2,291,935	7,377	2,299,312	1,377,085	8,398	1,385,483
Deferred tax asset non-admitted	(551,596)	-	(551,596)	-	-	-
Net deferred tax asset	1,740,339	7,377	1,747,716	1,377,085	8,398	1,385,483
Deferred tax liabilities	(136,127)	-	(136,127)	(187,108)	-	(187,108)
Net admitted deferred tax asset	$ 1,604,212	$ 7,377	$ 1,611,589	$ 1,189,977	$ 8,398	$ 1,198,375

The components of the admissibility calculation under paragraphs 11.a. 11.b. and 11.c. as of December 31, 2019 and 2018 are as follows:

	2019			2018		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Admitted pursuant to 11.a.	$ -	$ -	$ -	$ -	$ -	$ -
Admitted pursuant to 11.b.	1,604,212	7,377	1,611,589	1,223,287	8,398	1,231,685
Admitted pursuant to 11.c.	136,127	-	136,127	153,798	-	153,798
Admitted deferred tax asset	$ 1,740,339	$ 7,377	$ 1,747,716	$ 1,377,085	$ 8,398	$ 1,385,483

(Continued)

NOTE 9 - FEDERAL INCOME TAXES (Continued)

The change in the components of the net deferred tax asset recognized in the Company's statutory statements of admitted assets, liabilities, and capital and surplus from December 31, 2018 to December 31, 2019, are as follows:

	Change During 2019		
	Ordinary	Capital	Total
Gross deferred tax assets	$ (1,465,103)	$ (17,817)	$ (1,482,920)
Statutory valuation allowance adjustment	2,379,953	16,796	2,396,749
Adjusted gross deferred tax assets	914,850	(1,021)	913,829
Deferred tax asset non-admitted	(551,596)	-	(551,596)
Net deferred tax asset	363,254	(1,021)	362,233
Deferred tax liabilities	50,981	-	50,981
Net admitted deferred tax asset	$ 414,235	$ (1,021)	$ 413,214
Admitted pursuant to 11.a.	$ -	$ -	$ -
Admitted pursuant to 11.b.	380,925	(1,021)	379,904
Admitted pursuant to 11.c.	(17,671)	-	(17,671)
Admitted deferred tax asset	$ 363,254	$ (1,021)	$ 362,233

The threshold used by the Company for amounts admitted pursuant to 11.b. as of December 31, 2019 and 2018 is as follows:

	2019	2018
Ratio percentage used to determine recovery period and threshold limitation amount	939.34%	725.38%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	$ 43,201,419	$ 36,219,499

In 2019, the Company did not implement any tax planning strategies which would have an impact on adjusted gross and net admitted deferred tax assets.

(Continued)

NOTE 9 - FEDERAL INCOME TAXES (Continued)

The provisions for incurred taxes on earnings for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Federal	$ (20,615)	$ -
Foreign	-	-
Subtotal	(20,615)	-
Federal income tax on net capital gains	20,615	-
Federal income taxes incurred	$ -	$ -

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and the deferred tax liabilities as of December 31, 2019 and 2018, are as follows:

	2019	2018	Change
Deferred tax assets			
Ordinary:			
Unearned premiums	$ 866,475	$ 714,869	$ 151,606
Discounting of unpaid losses	481,221	492,228	(11,007)
Net operating loss carry-forward	857,757	2,506,469	(1,648,712)
Other	86,482	43,471	43,011
Subtotal	2,291,935	3,757,037	(1,465,102)
Statutory valuation allowance adjustment	-	(2,379,953)	2,379,953
Non-admitted deferred tax assets	(551,596)	-	(551,596)
Admitted ordinary deferred tax assets	1,740,339	1,377,084	363,255
Capital:			
Investments	515	-	515
Unrealized loss	88	2,683	(2,595)
Capital loss carry-forward	6,774	22,512	(15,738)
Subtotal	7,377	25,195	(17,818)
Statutory valuation allowance adjustment	-	(16,796)	16,796
Admitted deferred tax assets	$ 1,747,716	$ 1,385,483	$ 362,233
Deferred tax liabilities			
Ordinary:			
TCJA transition adjustment	$ (136,127)	$ (183,038)	$ 46,911
Other	-	(4,070)	4,070
Deferred tax liabilities	(136,127)	(187,108)	50,981
Net admitted deferred tax assets	$ 1,611,589	$ 1,198,375	$ 413,214

(Continued)

NOTE 9 - FEDERAL INCOME TAXES (Continued)

The Company has net operating loss carry-forwards as of December 31, 2019 of $4,084,557 that will begin to expire in 2031. The Company has capital loss carryovers available of $32,255 as of December 31, 2019 that will begin to expire in 2023. During the year ended December 31, 2019, the Company recovered $37,415 in refundable AMT credits.

The Company has no federal or foreign tax loss contingencies as determined in accordance with SSAP No. 5R, with the modifications provided in SSAP No. 101, for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date.

SSAP No. 101 requires that a valuation allowance be established to reduce gross deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. A valuation allowance on the deferred tax assets is evaluated based on management's assessment of the recoverability. During 2019, as a result of the Company's continued profitability, management determined that a full release of its valuation allowance against its deferred tax asset was warranted. Based on its projections of future taxable income, the Company eliminated its valuation allowance.

In 2019 and 2018, there were no temporary differences for which a deferred tax liability was not established.

The change in net deferred income taxes for the years ended December 31, 2019 and 2018, are comprised of the following:

	2019	2018	Change
Total deferred tax assets	$ 2,299,312	$ 3,782,232	$ (1,482,920)
Total deferred tax liabilities	(136,127)	(187,108)	50,981
Net deferred tax asset	2,163,185	3,595,124	(1,431,939)
Statutory valuation allowance adjustment allocation	-	(2,396,749)	2,396,749
Net deferred tax asset after statutory valuation allowance	2,163,185	1,198,375	964,810
Tax effect of unrealized losses	(89)	(2,683)	2,594
Statutory valuation allowance adjustment allocated to unrealized	-	1,788	(1,788)
Change in net deferred income tax	$ 2,163,096	$ 1,197,480	$ 965,616

NOTE 9 - FEDERAL INCOME TAXES (Continued)

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference are as follows for the years ended December 31, 2019 and 2018:

	2019		2018	
Provision computed at statutory rate	$ 1,442,970	21.00 %	$ 557,291	21.00 %
Meals and entertainment	618	0.01	546	0.02
Tax exempt interest	(32,822)	(0.48)	(24,659)	(0.93)
Proration	7,551	0.11	5,801	0.22
Tax exempt expenses	2,618	0.04	1,454	0.05
Valuation allowance	(2,394,961)	(34.82)	(1,723,525)	(64.92)
Change in nonadmitted assets	10,890	0.16	(14,394)	(0.54)
Other	(2,480)	(0.06)	6	-
Total federal income taxes incurred	$ (965,616)	(14.04) %	$ (1,197,480)	(45.10) %
Reconciliation:				
Federal income taxes	$ (20,615)	(0.30) %	$ -	- %
Federal income tax on net capital gains	20,615	0.30	-	-
Change in net deferred income taxes	(965,616)	(14.04)	(1,197,480)	(45.10)
Total statutory income taxes	$ (965,616)	(14.04) %	$ (1,197,480)	(45.10) %

The following are federal income taxes incurred in the current and prior years that will be available for recoupment in the event of future losses:

	Ordinary	Capital	Total
December 31, 2019 (current year)	$ -	$ -	$ -
December 31, 2018 (first preceding year)	-	-	-
December 31, 2017 (second preceding year)	-	-	-

The Company has not made any deposits regarding the suspension of running interest pursuant to Internal Revenue Code Section 6603.

The Company does not file as part of a consolidated return and is not a party to any tax sharing agreement.

(Continued)

NOTE 10 - NON-ADMITTED ASSETS

Certain assets designated as non-admitted, have been excluded from admitted assets and charged against capital and surplus. As of December 31, 2019 and 2018, deferred tax assets, prepaid expenses and prepaid insurance of $573,974 and $74,237, respectively, was reflected as non-admitted assets.

NOTE 11 - RECONCILIATION TO THE STATUTORY ANNUAL STATEMENT

There are no material differences between admitted assets, liabilities, net income, and capital and surplus as reported herein and the Annual Statement as filed with the Department for the years ended December 31, 2019 and 2018.

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 SSAP No. 35 "*Guaranty Fund and Other Assessments*." As of December 31, 2019 and 2018, the Company has not accrued for or been assessed by any state insurance department.

As of December 31, 2019 and 2018, 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, 2019 and 2018. 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 guaranty that the Company maintain capital and surplus at the greater of the regulatory action level risk-based capital or the minimum required capital and surplus each in the amount of $2,500,000 as required by Maine. On April 18, 2019, the Maine Bureau of Insurance determined that the Unconditional Financial Guaranty was no longer required between the Company and its parent, HAPI, in order for the Company to obtain licensure in the State of Maine.

HOUSING SPECIALTY INSURANCE COMPANY, INC.

STATUTORY FINANCIAL STATEMENTS
December 31, 2019 and 2018

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

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

Report on the Statutory Financial Statements

We have audited the accompanying statutory financial statements of Housing Specialty Insurance Company, Inc. (the "Company"), which comprise the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2019 and 2018, and the related statutory statements of operations, changes in capital and surplus, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in conformity with accounting practices prescribed or permitted by the Vermont Department of Financial Regulation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory 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 statutory 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 statutory financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory 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 statutory 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 statutory financial statements.

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

(Continued)

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in Note 2 to the statutory financial statements, the statutory financial statements are prepared by the Company in accordance with accounting practices prescribed or permitted by the Vermont Department of Financial Regulation, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the statutory financial statements of the variances between statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America" paragraph, the statutory financial statements referred to above, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2019 and 2018, and results of its operations and its cash flows for the years then ended in accordance with accounting practices prescribed or permitted by the Vermont Department of Financial Regulation as described in Note 2.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the statutory financial statements as a whole. The supplemental schedules which include the investment risks interrogatories and the summary investment schedule, are presented for purposes of additional analysis and are not required parts of the statutory financial statements. The effects on the supplemental schedules of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the supplemental schedules do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2019 and for the year ended. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the statutory financial statements as a whole.

Crowe LLP

Crowe LLP

Simsbury, Connecticut
April 22, 2020

HOUSING SPECIALTY INSURANCE COMPANY, INC.
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS
December 31, 2019 and 2018

	2019	2018
ADMITTED ASSETS		
Cash and invested assets:		
Investments, at amortized cost or fair value	$ 22,965,715	$ 22,658,419
Cash, cash equivalents and short-term investments	1,085,178	538,313
Total cash and invested assets	24,050,893	23,196,732
Investment income due and accrued	163,179	131,268
Reinsurance recoverable on paid losses	85,033	77,833
Premiums receivable	374,759	350,338
Deferred tax asset	23,812	-
Total admitted assets	$ 24,697,676	$ 23,756,171
LIABILITIES AND CAPITAL AND SURPLUS		
Unpaid losses and loss adjustment expenses	$ 487,061	$ 616,619
Unearned premiums	473,074	441,890
Ceded reinsurance premiums payable	111,313	98,210
Due to affiliates	99,468	64,230
Federal income taxes payable	138,690	-
Accrued expenses and other liabilities	111,723	70,588
Total liabilities	1,421,329	1,291,537
Capital and surplus:		
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	20,800,000
Unassigned funds	476,347	(335,366)
Total capital and surplus	23,276,347	22,464,634
Total liabilities and capital and surplus	$ 24,697,676	$ 23,756,171

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

HOUSING SPECIALTY INSURANCE COMPANY, INC.
STATUTORY STATEMENTS OF OPERATIONS
Years Ended December 31, 2019 and 2018

	2019	2018
Underwriting income		
Net premiums earned	$ 1,550,794	$ 1,421,091
Losses and expenses		
Net losses and loss adjustment expenses incurred	572,148	821,981
Other underwriting expenses incurred	1,086,197	860,138
Total losses and expenses	1,658,345	1,682,119
Net underwriting loss	(107,551)	(261,028)
Investment income		
Net investment income earned	616,901	496,293
Net realized capital gains (losses), net of taxes of $84,029 and $0 in 2019 and 2018, respectively	316,110	(85,392)
Total investment gain	933,011	410,901
Net income before provision for federal income taxes	825,460	149,873
Federal income taxes expense	54,661	-
Net income	$ 770,799	$ 149,873

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

HOUSING SPECIALTY INSURANCE COMPANY, INC.
STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS
Years Ended December 31, 2019 and 2018

	2019	2018
Capital and surplus, beginning of year	$ 22,464,634	$ 16,319,493
Net income	770,799	149,873
Change in net unrealized capital gains (losses)	17,253	(5,126)
Change in non-admitted assets	(14)	394
Change in net deferred income tax	23,675	-
Additional paid in capital and surplus	-	6,000,000
Capital and surplus, end of year	$ 23,276,347	$ 22,464,634

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

HOUSING SPECIALTY INSURANCE COMPANY, INC.
STATUTORY STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
Cash from operations		
Premiums collected, net of reinsurance	$ 1,570,659	$ 1,450,575
Net investment income	528,477	377,163
Losses and loss related payments, net	(532,496)	(949,244)
Commissions, expenses paid and aggregate write-ins for deductions	(1,244,315)	(995,524)
Net cash from operations	322,325	(117,030)
Cash from investments		
Proceeds from investments sold, matured and repaid	14,657,705	8,393,291
Costs of investments acquired	(14,488,168)	(14,856,336)
Net cash from investments	169,537	(6,463,045)
Cash from financing and miscellaneous sources		
Capital and paid in surplus	-	6,000,000
Other cash provided (applied)	55,003	(266,750)
Net cash from financing and miscellaneous sources	55,003	5,733,250
Change in cash, cash equivalents and short-term investments	546,865	(846,825)
Cash, cash equivalents and short-term investments, beginning of year	538,313	1,385,138
Cash, cash equivalents and short-term investments, end of year	$ 1,085,178	$ 538,313

The accompanying notes are an integral part of these statutory 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, 2019 and 2018, HARRG and HAPI owned 100 shares of common stock in the amount of $1,000,000 each. During 2019, HARRG and HAPI did not contribute any surplus to the Company. During 2018, HARRG and HAPI contributed surplus in the amount of $6,000,000 to the Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Vermont Department of Financial Regulation (the Department), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The Department has adopted the National Association of Insurance Commissioners' (NAIC) statutory accounting practices (SAP) as the basis of its statutory accounting practices.

Significant differences between SAP and GAAP as they apply to the Company are as follows:

Investments - Investments in debt securities are reported at amortized cost or market value, if lower, based on their NAIC rating; for GAAP, debt securities would be designated at purchase as held-to-maturity, trading, or available for sale under FASB ASC 320 *"Investments - Debt Securities"* or accounted for under FASB ASC 825, "*Financial Instruments"*. For GAAP, held-to-maturity debt securities would be reported at amortized cost. For debt securities classified as trading, unrealized holding gains and losses are reported in operations. For debt securities classified as available for sale, unrealized holding gains and losses would be reported as a component of capital and surplus as a component of accumulated other comprehensive income. Under FASB ASC 825 election, all investments would be reported at fair value with unrealized holding gains and losses reported in operations.

Policy Acquisition Costs - For NAIC SAP the costs of acquiring and renewing business is expensed when incurred. Under GAAP, such costs related to the successful placement of business, to the extent recoverable, would be deferred and amortized over the effective period of the related insurance policy.

Non-Admitted Assets - Certain assets designated as "non-admitted," principally premiums receivable over 90 days old, prepaid expenses and other assets not specifically identified as an admitted asset within the NAIC Accounting Practices and Procedures Manual are excluded from the accompanying statutory statements of admitted assets, liabilities and capital and surplus and are charged directly to capital and surplus. Under GAAP, such assets are included in the balance sheets, net of any valuation allowance.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statements of Cash Flows - Cash and cash equivalents in the statutory statements of cash flows represent cash balances, money market funds and investments with initial maturities of three months or less. Short-term investments in the statutory statements of cash flows represent investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and certain investments with maturities of three months or less from the date of purchase. In addition, under NAIC SAP the use of a direct method cash flow does not require a reconciliation of net income to cash flows from operating activities as required under GAAP.

Unpaid Losses, Loss Adjustment Expenses and Reinsurance Recoverables - For GAAP reporting purposes these amounts are presented on a gross basis rather than being presented net of related reinsurance recoverables, as required by statutory reporting practices.

Income Taxes - For statutory purposes, net deferred income taxes are admitted following the application of certain criteria, with the resulting admitted tax asset being credited directly to unassigned surplus. The changes in deferred income taxes relating to temporary differences between net income for financial reporting purposes and taxable income are recognized as a separate component of gains and losses in surplus rather than included in income tax expense or benefit. Under GAAP, deferred income tax assets and liabilities are recorded for temporary differences between the reported amounts of assets and liabilities and those in the Company's income tax return. Charges to deferred income tax assets and liabilities are recorded in current operations under GAAP.

Income Tax Contingencies - Under Statement of Statutory Accounting Principle (SSAP) No. 101 *"Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10,"* federal income tax contingencies are established pursuant to the same "more likely than not" recognition standard as GAAP. For those tax positions with a probability of loss that is greater than the "more likely than not" level, a "best estimate" of the tax contingency is performed, as opposed to the probability analysis under GAAP. If the "best estimate" results in a tax loss contingency that is greater than 50 percent of the tax benefit originally recognized, the tax loss contingency recognized is equal to 100 percent. Unlike GAAP, tax loss contingencies associated with temporary differences are required to be grossed-up only when a triggering event occurs. Grossed up tax loss contingencies associated with temporary differences would be subject to an admissibility test. Under statutory accounting, interest and penalties related to federal income tax are included in income taxes only. State tax contingencies are recognized to the extent that it is estimable and probable in accordance with SSAP No. 5R, "*Liabilities, Contingencies and Impairments of Assets - Revised*."

Comprehensive Income - Comprehensive income and its components are not presented in the statutory financial statements.

Provision for Reinsurance - Under GAAP, reinsurance recoverables would be evaluated for collectability. Under NAIC SAP, a liability must be established with a corresponding reduction in surplus based upon specific formulas contained within Schedule F of the Annual Statement.

Ceded Premium - GAAP requires that the unexpired portion of reinsurance premiums be reported on a gross basis, whereas statutory accounting practices require these unexpired reinsurance premiums be netted against unearned premium.

The effects of the foregoing variances from GAAP on the accompanying statutory financial statements have not been determined, but are presumed to be material.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents and Short-term Investments: For statutory financial statement purposes, the Company considers cash to be cash on hand and cash on deposit. Cash equivalents consist of repurchase agreements and money market instruments. Short-term investments include investments with initial maturities of one year or less at date of purchase and valued under the guidance provided by the Purposes and Procedures Manual prepared by the Securities Valuation Office (SVO).

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: Debt securities are valued and reported in accordance with SSAP No. 26, *"Bonds, Excluding Loan-backed and Structured Securities"* and SSAP No. 43R, *"Loan-backed and Structured Securities-Revised"* under the guidance provided by the Purposes and Procedures Manual prepared by the SVO. Investment grade debt securities are stated at amortized cost. Non-investment grade debt securities with NAIC designations of three through six are reported at the lower of amortized cost or fair value. The amortized cost of debt securities are adjusted for amortization of premiums and accretion of discounts. Such amortization and accretion are included in net investment income.

Within the mortgage-backed securities portfolio, the Company invests in commercial 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. Acceleration or deceleration of prepayments of the underlying mortgages can be caused by interest rate changes. Assumptions for collateralized mortgage obligations are reviewed annually and amortized cost is adjusted for unamortized premiums and discounts, which are amortized using the scientific interest method.

Investment income is recorded when earned. Realized investment gains and losses, determined on a specific identification basis, are included in investment income.

Other-Than-Temporary Impairments of Investments: The Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other-than-temporary. Some factors considered in evaluating whether or not a decline in fair value is other-than-temporary include the Company's ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value, the Company's intent to sell the investment at the reporting date, and the financial condition and prospects of the issuer. The Company recognizes other-than-temporary impairments (OTTI) on bonds not backed by loans when it is either probable that the Company will not collect all amounts due according to the contractual terms of the bond in effect at the date of acquisition or when the Company has made a decision to sell the bond prior to its maturity at an amount below its amortized cost. When an OTTI is recognized, the bond is written down to fair value and the amount of the write down is recorded as a realized capital loss in the statutory statements of operations.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For loan-backed securities, OTTI are recognized when the fair value is less than the amortized cost basis and the Company has the intent to sell or lacks the intent and ability to retain the investment until recovery. When an OTTI is recognized because the Company has the intent to sell or lacks the intent and ability to retain the investment until recovery, the amortized cost basis of the loan-backed security is written down to the fair value and the amount of the write-down is recorded as a realized capital loss. If the Company does not have the intent to sell and has the intent and ability to retain the investment until recovery, OTTI are recognized when the present value of future cash flows discounted at the security's effective interest rate is less than the amortized cost basis as of the balance sheet date. When an OTTI is recognized, the loan-backed security is written down to the discounted estimated future cash flows and is recorded as a realized capital loss.

The Company recognized no OTTI losses during 2019 or 2018.

<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.

<u>Premium Deficiency</u>: 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 and maintenance costs exceed unearned premiums and anticipated investment income. There were no premium deficiencies recognized as of December 31, 2019 and 2018.

<u>Unpaid Losses and Loss Adjustment Expense Reserves</u>: Unpaid losses and loss adjustment expense reserves, including 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 and recoverables represent the estimated ultimate cost of all incurred losses and loss adjustment expenses including related recoverables less amounts paid. 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>Income Taxes</u>: Federal income taxes are recorded in accordance with SSAP No. 101. This guidance provides that the deferred tax asset reversal and surplus limitation parameters of the admissibility test are based on the risk-based capital level or other surplus limitation as defined under paragraph 11.b. It also requires gross deferred tax assets to be reduced by a statutory valuation allowance if it is more likely than not that some portion or all of the gross deferred tax assets will not be realized. Finally, the guidance sets a more likely than not threshold for the recording of contingent tax liabilities.

The provision for federal income taxes is based on amounts estimated to be currently payable as a result of operations in the current period. A provision has been made for deferred federal income taxes on temporary differences in the basis of assets and liabilities for tax and financial reporting purposes, as required by the NAIC, and is presented as a change in capital and surplus. All tax years from 2016 forward are open and subject to examination by the Internal Revenue Service.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 H.R.1, commonly known as the Tax Cuts and Jobs Act (the Act), for use in computing the loss reserve discounts retroactively and prospectively, as well as a requirement to amortize the impact of the retroactive re-measurement over eight years within taxable income. As a result of retroactively applying the changes to loss discount factors within the tax provision, the Company will incur an additional taxable income; however, the Company will amortize this impact over eight years through net income.

During August 2019, the IRS updated these discount factors by issuing Revenue Procedure 2019-31 (RP 2019-31); all other provisions outlined in RP 2019-31 remain consistent with RP 2019-06. The Company applied provisions of RP 2019-31 in the December 31, 2019 financial statements. As a result of retroactively applying the changes to loss discount factors within the tax provision, the Company recognized a reduction of taxable income in the amount of $2,461. As of December 31, 2019, the Company has recorded a deferred tax liability in the amount of $3,115, which represents the remaining amount to be amortized under provisions of RP-2019-06 and RP-2019-31.

Income Tax Contingencies: Federal and foreign income tax contingencies are established pursuant to SSAP No. 5R with some modifications. The term probable under SSAP No. 5R is replaced by the term “more likely than not” for federal and foreign income tax contingencies only; it shall be assumed that the reporting entity will be examined by the tax authority that has full knowledge of all relevant information; if the estimated tax loss contingency is greater than 50 percent of the tax benefit originally recognized, the tax loss contingency reported shall be equal to 100 percent of the original tax benefit recognized; and if a tax loss contingency is grossed up for a temporary item due to a triggering event, the deferred tax asset would be subject to the admissibility test under SSAP No. 101.

Interest and penalties related to foreign or federal income tax positions are included in income taxes. State tax contingencies are recognized to the extent that it can be estimated and is probable in accordance with SSAP No. 5R.

The Company did not record any income tax contingencies or interest and penalties related to any income tax contingencies as of December 31, 2019 and 2018. The Company does not believe it is reasonably possible that the total liability for income tax contingencies would materially change in the next twelve months.

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 SSAP No. 62R, “*Property and Casualty Reinsurance*.” 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 netted against unpaid losses.

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

Use of Estimates: The preparation of financial statements in conformity with NAIC SAP 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 statutory financial statements. Actual results could differ from those estimates.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: Subsequent events have been evaluated through April 22, 2020, which is the date the statutory financial statements were available to be issued. The Company determined there were no such events that warrant recognition or disclosure in the financial statements, except for the event described below.

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Company could be materially adversely affected in 2020 and beyond. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

NOTE 3 - INVESTMENTS

Investments, carried at amortized cost, as of December 31, 2019, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments (amortized cost):				
U.S. government	$ 10,589,648	$ 162,680	$ (10,019)	$ 10,742,309
U.S. political subdivisions of states, territories and possessions	518,358	48,306	-	566,664
U.S. special revenue and special assessment obligations	539,096	16,642	(1,582)	554,156
Industrial and miscellaneous	10,961,445	377,482	(10,910)	11,328,017
Hybrid securities	285,472	24,188	-	309,660
Other invested asset	71,696	14,781	-	86,477
Total	$ 22,965,715	$ 644,079	$ (22,511)	$ 23,587,283

NOTE 3 - INVESTMENTS (Continued)

Investments, carried at amortized cost and fair value, as of December 31, 2018, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments (amortized cost):				
U.S. government	$ 14,484,764	$ 60,809	$ (89,031)	$ 14,456,542
U.S. political subdivisions of states, territories and possessions	925,258	38,014	-	963,272
U.S. special revenue and special assessment obligations	282,364	-	(5,264)	277,100
Industrial and miscellaneous	6,581,762	32,600	(38,173)	6,576,189
Other invested asset	71,733	553	-	72,286
Total	22,345,881	131,976	(132,468)	22,345,389
Investments (fair value):				
Industrial and miscellaneous	320,810	-	(8,272)	312,538
Total	$ 22,666,691	$ 131,976	$ (140,740)	$ 22,657,927

The amortized cost and fair value of debt securities are shown by contractual maturity as of December 31, 2019. 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	$ 166,006	$ 167,749
After one year through five years	13,460,228	13,686,403
After five years through ten years	4,902,782	5,168,007
After ten years	1,988,349	2,108,885
Collateralized debt obligations	1,979,170	1,983,781
Commercial mortgage-backed securities	469,180	472,458
Total	$ 22,965,715	$ 23,587,283

Proceeds from sales of securities amounted to $13,605,813 and $6,123,166 in 2019 and 2018, respectively. Gross realized gains amounted to $419,216 and $23,616 on the sale of securities in 2019 and 2018, respectively. Gross realized losses amounted to $19,077 and $109,008 in 2019 and 2018, respectively.

NOTE 3 - INVESTMENTS (Continued)

The Company holds 23 securities that are in an unrealized loss position as of December 31, 2019, of which 2 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 the individual securities have been in a continuous unrealized loss position, as of December 31, 2019:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government	$ 1,044,716	$ (10,019)	$ -	$ -
U.S. special revenue and special assessment obligations	183,418	(1,582)	-	-
Industrial and miscellaneous	1,862,968	(10,737)	132,325	(173)
Total	$ 3,091,102	$ (22,338)	$ 132,325	$ (173)

The Company held 48 securities that were in an unrealized loss position as of December 31, 2018, of which 22 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 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. government	$ 234,953	$ (3,505)	$ 3,286,326	$ (85,526)
U.S. special revenue and special assessment obligations	277,100	(5,264)	-	-
Industrial and miscellaneous	2,059,314	(17,323)	1,533,171	(29,122)
Total	$ 2,571,367	$ (26,092)	$ 4,819,497	$ (114,648)

NOTE 4 - FAIR VALUE MEASUREMENTS

The Company measures fair value in accordance with SSAP No. 100, "*Fair Value Measurement,*" which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. 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 SSAP No. 100 are described as follows:

(Continued)

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities 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 or liabilities in active markets; (ii) Quoted prices for identical or similar assets or liabilities in inactive markets; (iii) Inputs other than quoted prices that are observable for the asset or liability; (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 is a description of the valuation methodologies used to measure financial instruments at fair value. The same methodologies were used as of December 31, 2019 and 2018.

The Company's valuation techniques used to measure the fair value of investments, including money market funds and short-term investments, 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 driven valuations using significant inputs derived from or corroborated by observable market data.

The following table presents the financial instruments, measured at fair value, by valuation hierarchy, as well as the carrying value of those instruments in the statutory statements of admitted assets, liabilities and surplus as of December 31, 2019:

		Fair Value			
	Admitted Assets	Level 1	Level 2	Level 3	Total
Financial instruments (carried at fair value)					
Money market funds	$ 91,303	$ 91,303	$ -	$ -	$ 91,303
Financial instruments (carried at amortized cost)					
Debt securities	22,965,715	-	23,587,283	-	23,587,283
Total	$ 23,057,018	$ 91,303	$ 23,587,283	$ -	$ 23,678,586

(Continued)

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents the financial instruments, measured at fair value, by valuation hierarchy, as well as the carrying value of those instruments in the statutory statements of admitted assets, liabilities and surplus as of December 31, 2018:

		Fair Value			
	Admitted Assets	Level 1	Level 2	Level 3	Total
Financial instruments (carried at fair value)					
Money market funds	$ 96,529	$ 96,529	$ -	$ -	$ 96,529
Debt securities	312,538	-	312,538	-	312,538
Total	409,067	96,529	312,538	-	409,067
Financial instruments (carried at amortized cost)					
Debt securities	22,345,881	-	22,345,389	-	22,345,389
Total	$ 22,754,948	$ 96,529	$ 22,657,927	$ -	$ 22,754,456

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.

As of December 31, 2019 and 2018, the Company held no level 3 investments.

NOTE 5 - 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.

(Continued)

NOTE 5 - INSURANCE ACTIVITY (Continued)

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 2019, the Company ceded $565,967 and $46,145 of premium to HAPI and HEIC, respectively, related to this contract. During 2018, the Company ceded $531,032 and $35,775 of premium to HAPI and HEIC, respectively, related to this contract.

All the Company's 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 reauthorizations. The Terrorism Risk Insurance Program is a Federal program administered by the Department of the Treasury authorized through December 31, 2027 that provides for a system of shared public and private compensation for certain insured losses resulting from certified acts of terrorism.

In order for a loss to be covered under the program (subject losses), the loss must meet certain aggregate industry loss minimums and must be the result of an event that is certified as an act of terrorism. The annual aggregate industry loss minimum under the program is $180,000,000 for 2019 and will increase to $200,000,000 for 2020. Under the program, a participating insurer, in exchange for making terrorism insurance available, is entitled to be reimbursed by the Federal Government for 81% of subject losses in 2019, after an insurer deductible, subject to an annual cap. This reimbursement percentage will decrease to 80% of subject losses in 2020, and will remain at 80% through December 31, 2027.

The deductible for any calendar year is equal to 20% of the insurer's direct earned premiums for covered lines for the preceding calendar year. The annual cap limits the amount of aggregate subject losses for all participating insurers to $100,000,000,000. Once subject losses have reached the $100,000,000,000 aggregate during a program year, participating insurers will not be liable under the program for additional covered terrorism losses for that program year.

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 2019 and 2018, 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.

(Continued)

NOTE 5 - INSURANCE ACTIVITY (Continued)

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

Premiums direct written and ceded for the years ended December 31, 2019 and 2018, are summarized as follows:

	Premiums Written		Premiums Earned	
	2019	2018	2019	2018
Direct premiums	$ 2,209,213	$ 2,046,169	$ 2,166,082	$ 1,983,411
Ceded premiums	(627,235)	(579,828)	(615,288)	(562,320)
	$ 1,581,978	$ 1,466,341	$ 1,550,794	$ 1,421,091

A reconciliation of changes in the Company's unpaid losses and loss adjustment expenses, for the years ended December 31, 2019 and 2018, is summarized as follows:

	2019	2018
Balance at beginning of year	$ 616,619	$ 881,279
Incurred related to:		
Current year	717,199	1,211,000
Prior years	(145,051)	(389,019)
Total incurred	572,148	821,981
Paid related to:		
Current year	(292,000)	(734,000)
Prior years	(409,706)	(352,641)
Total paid	(701,706)	(1,086,641)
Balance at end of year	$ 487,061	$ 616,619

As a result of changes in loss development, the provision for losses and loss adjustment expenses decreased by $145,051 and $389,019 in 2019 and 2018, respectively, due to favorable development on property claims.

The Company recorded net reinsurance recovery activity of $552,885 in 2019 which is reflected as a increase in losses and loss adjustment expenses incurred in the statutory statements of operations. The Company recorded net reinsurance recovery activity of $864,261 in 2018 which is reflected as a decrease in losses and loss adjustment expenses incurred in the statutory statements of operations. All reinsurance ceded for the years ended December 31, 2019 and 2018, related to the Company's reinsurance contract with HAPI.

(Continued)

NOTE 5 - INSURANCE ACTIVITY (Continued)

For the years ended December 31, 2019 and 2018, the Company recorded reinsurance recoverables on paid losses of $85,033 and $77,833, respectively, on the statutory statements of admitted assets, liabilities and capital and surplus, which are due from HAPI.

NOTE 6 - 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 $956,689 and $755,557 for the years ended December 31, 2019 and 2018, respectively. The amounts due to HARRG under this agreement, which are included in due to affiliates, amounted to $97,715 and $61,275 as of December 31, 2019 and 2018, 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 incurred expense of $37,500 under this agreement for the years ended December 31, 2019 and 2018.

The Company entered into an agreement with Housing Telecommunications, Inc. (HTI) to support the delivery of risk management training to members and employees of HSIC. The Company recognized expenses of $1,000 for risk management services fees paid to HTI for the years ended December 31, 2019 and 2018. Also, as part of the agreement, HSIC pays HTI a sponsorship fee. The Company recognized expenses of $2,295 for sponsorship fees paid to HTI for the years ended December 31, 2019 and 2018.

As of December 31, 2019 and 2018, there was $1,753 and $2,955, respectively, due to Housing Insurance Services, Inc. (HIS).

The Company occupies office space located at Cheshire, Connecticut, which is owned by HARRG. The cost of occupying the premises is part of the facilities agreement.

NOTE 7 - 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 $29,840 and $21,360 and 401(k) expenses of $20,192 and $14,256, for the years ended December 31, 2019 and 2018, respectively. In addition, the Company recorded an expense for incentive compensation of $74,412 and $52,405, for the years ended December 31, 2019 and 2018, respectively, which is included within other underwriting expenses incurred on the statutory statements of operations.

(Continued)

NOTE 8 - CAPITAL AND SURPLUS

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, 2019 and 2018.

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

No dividends were declared or paid in 2019 or 2018.

NOTE 9 - FEDERAL INCOME TAXES

The components of the net deferred tax asset recognized in the Company's statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2019 and 2018 are as follows:

	2019			2018		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets	$ 26,790	$ 137	$ 26,927	$ 60,667	$ 18,765	$ 79,432
Statutory valuation allowance adjustment	-	-	-	(56,581)	(18,765)	(75,346)
Adjusted gross deferred tax assets	26,790	137	26,927	4,086	-	4,086
Deferred tax asset non-admitted	-	-	-	-	-	-
Net deferred tax asset	26,790	137	26,927	4,086	-	4,086
Deferred tax liabilities	(3,115)	-	(3,115)	(4,086)	-	(4,086)
Net admitted deferred tax asset	$ 23,675	$ 137	$ 23,812	$ -	$ -	$ -

The components of the admissibility calculation under paragraphs 11.a., 11.b. and 11.c. as of December 31, 2019 and 2018 are as follows:

	2019			2018		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Admitted pursuant to 11.a.	$ 24,001	$ 137	$ 24,138	$ -	$ -	$ -
Admitted pursuant to 11.b.	-	-	-	-	-	-
Admitted pursuant to 11.c.	2,789	-	2,789	-	-	-
Admitted deferred tax asset	$ 26,790	$ 137	$ 26,927	$ -	$ -	$ -

(Continued)

NOTE 9 - FEDERAL INCOME TAXES (Continued)

The change in the components of the net deferred tax asset recognized in the Company's statutory statements of admitted assets, liabilities, and capital and surplus from December 31, 2018 to December 31, 2019, are as follows:

	Change During 2019		
	Ordinary	Capital	Total
Gross deferred tax assets	$ (33,877)	$ (18,628)	$ (52,505)
Statutory valuation allowance adjustment	56,581	18,765	75,346
Adjusted gross deferred tax assets	22,704	137	22,841
Deferred tax asset non-admitted	-	-	-
Net deferred tax asset	22,704	137	22,841
Deferred tax liabilities	971	-	971
Net admitted deferred tax asset	$ 23,675	$ 137	$ 23,812

In 2019 and 2018, the Company did not implement any tax planning strategies which would have an impact on adjusted gross and net admitted deferred tax assets.

The threshold used by the Company for amounts admitted pursuant to 11.b. as of December 31, 2019 and 2018 is as follows:

	2019	2018
Ratio percentage used to determine recovery period and threshold limitation amount	1769%	1789%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	$ 23,252,535	$ 22,464,634

The provisions for incurred taxes on earnings for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018	Change
Federal	$ 72,593	$ (17,932)	$ 90,525
Foreign	-	-	-
Subtotal	72,593	(17,932)	90,525
Federal income tax on net capital gains	84,029	17,932	66,097
Utilization of capital loss carry-forwards	(17,932)	-	(17,932)
Federal income taxes incurred	$ 138,690	$ -	$ 138,690

(Continued)

NOTE 9 - FEDERAL INCOME TAXES (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets as of December 31, 2019 and 2018 are as follows:

	2019	2018	Change
Deferred tax assets:			
Ordinary:			
Discounting of unpaid losses	$ 5,210	$ 6,902	$ (1,692)
Unearned premium reserves	19,869	18,559	1,310
Other	3	4	(1)
Retiree medical	955	1,998	(1,043)
Accrued severance	184	21	163
Accrued contingency	-	10,571	(10,571)
Organization costs	569	633	(64)
Net operating loss carry-forward	-	21,979	(21,979)
Subtotal	26,790	60,667	(33,877)
Statutory valuation allowance adjustment	-	(56,581)	56,581
Non-admitted deferred tax assets	-	-	-
Admitted ordinary deferred tax assets	26,790	4,086	22,704
Capital:			
Unrealized loss	137	1,737	(1,600)
Capital loss carry-forward	-	17,028	(17,028)
Subtotal	137	18,765	(18,628)
Statutory valuation allowance adjustment	-	(18,765)	18,765
Admitted deferred tax assets	$ 26,927	$ 4,086	$ 22,841
Deferred tax liabilities:			
Ordinary:			
TCJA transition adjustment	$ (3,115)	$ (4,086)	$ 971
Deferred tax liabilities	$ (3,115)	$ (4,086)	$ 971
Net admitted deferred tax assets	$ 23,812	$ -	$ 23,812

In 2019 and 2018, there were no temporary differences for which a deferred tax liability was not established.

The Company has no net operating loss carry-forwards as of December 31, 2019. The Company has no capital loss carry-forwards as of December 31, 2019. The Company has no AMT Credits available.

(Continued)

NOTE 9 - FEDERAL INCOME TAXES (Continued)

The Company has no federal or foreign tax loss contingencies as determined in accordance with SSAP No. 5R, with the modifications provided in SSAP No. 101, for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date.

SSAP No. 101 requires that a valuation allowance be established to reduce gross deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. A valuation allowance on the deferred tax assets is evaluated based on management's assessment of the recoverability. Based on its projections of future taxable income, the Company has decreased its valuation allowance to $0. As of December 31, 2018, management determined that a full valuation allowance was necessary, as management anticipated that it was more likely than not that the Company will not be able to recover these deferred tax assets.

The change in net deferred income taxes for the years ended December 31, 2019 and 2018, are comprised of the following:

	2019	2018	Change
Total deferred tax assets	$ 26,927	$ 79,432	$ (52,505)
Total deferred tax liabilities	(3,115)	(4,086)	971
Net deferred tax asset	23,812	75,346	(51,534)
Statutory valuation allowance adjustment allocation	-	(75,346)	75,346
Net deferred tax asset after statutory valuation allowance	23,812	-	23,812
Tax effect of unrealized (losses) gains	(137)	1,737	(1,874)
Statutory valuation allowance adjustment allocated to unrealized	-	(1,737)	1,737
Change in net deferred income tax	$ 23,675	$ -	$ 23,675

(Continued)

NOTE 9 - FEDERAL INCOME TAXES (Continued)

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to net income (loss) before income taxes. The significant items causing this difference are as follows for the years ended December 31, 2019 and 2018:

	2019		2018	
Provision computed at statutory rate	$ 190,993	21.00%	$ 31,473	21.00%
Meals and entertainment	168	0.02%	134	0.09%
Tax exempt interest	(2,777)	(0.30)%	(3,771)	(2.52)%
Tax exempt expenses	178	0.02%	191	0.13%
Proration	650	0.07%	895	0.60%
Valuation allowance	(73,609)	(7.85)%	(31,792)	(21.21)%
Change in nonadmitted assets	(3)	0.00%	83	0.05%
State taxes	(724)	(0.71)%	-	0.00%
True up	139	0.01%	2,787	1.86%
Total federal income taxes incurred	$ 115,015	12.26%	$ -	0.00%
Reconciliation				
Federal income taxes	$ 54,661	5.83%	$ -	0.00%
Federal income tax on net capital losses	84,029	8.96%	-	0.00%
Change in net deferred income taxes exclusive of impacts of tax reform	(23,675)	(2.52)%	-	0.00%
Total statutory income taxes	$ 115,015	12.26%	$ -	0.00%

The following are federal income taxes incurred in the current year that will be available for recoupment in the event of future losses:

	Ordinary	Capital	Total
December 31, 2019 (current year)	$ 72,605	$ 66,085	$ 138,690
December 31, 2018 (first preceding period)	-	-	-
December 31, 2017 (second preceding period)	-	-	-

The Company has not made any deposits regarding the suspension of running interest pursuant to Internal Revenue Code Section 6603.

The Company does not file as part of a consolidated return and is not a party to any tax sharing agreement.

NOTE 10 - NON-ADMITTED ASSETS

Certain assets designated as non-admitted, have been excluded from admitted assets and charged against capital and surplus. As of December 31, 2019 and 2018, prepaid insurance of $16 and $2, respectively, was reflected as non-admitted assets.

NOTE 11 - RECONCILIATION TO THE STATUTORY ANNUAL STATEMENT

There are no material differences between admitted assets, liabilities, capital and surplus, and net income as reported herein and the Annual Statement as filed with the Department as of and for the years ended December 31, 2019 and 2018.

INNOVATIVE HOUSING INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS

December 31, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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
April 22, 2020

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
BALANCE SHEETS
December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 3,366,626	$ 3,320,571
Investment, available for sale, at fair value	2,045,882	2,028,877
Other assets	303	4,948
Total assets	$ 5,412,811	$ 5,354,396
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities:		
Unearned premiums	$ 287,653	$ 219,944
Advance premiums	-	64,635
Accounts payable and other liabilities	1,266	52
Due to affiliate	8,913	10,501
Total liabilities	297,832	295,132
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	4,750,000
Accumulated other comprehensive income	-	13,969
Retained deficit	(135,021)	(204,705)
Total shareholder's equity	5,114,979	5,059,264
Total liabilities and shareholder's equity	$ 5,412,811	$ 5,354,396

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

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2019 and 2018

	2019	2018
Revenues		
Premiums earned	$ 34,261	$ 65,666
Investment income	100,839	11,991
Total revenues	135,100	77,657
Expenses		
Salaries and benefits	13,316	(707)
General and administrative expenses	66,069	50,476
Total expenses	79,385	49,769
Net income before federal income tax benefit	55,715	27,888
Federal income tax benefit	-	(3,713)
Net income	55,715	31,601
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	$ 55,715	$ 45,570

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, 2019 and 2018

	Common Stock Shares	Common Stock Amount	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Deficit	Total Shareholder's Equity
Balance as of January 1, 2018	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
Impact of ASU 2016-01 adoption	-	-	-	(13,969)	13,969	-
Net income	-	-	-	-	55,715	55,715
Balance as of December 31, 2019	50	$ 500,000	$ 4,750,000	$ -	$ (135,021)	$ 5,114,979

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

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Net income	$ 55,715	$ 31,601
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred federal income taxes	-	(3,713)
Unrealized holding gains on investments	(28,256)	-
Change in assets and liabilities:		
Premiums receivable	-	25,000
Other assets	4,645	(4,944)
Unearned premiums	67,709	124,649
Advance premiums	(64,635)	(8,580)
Accounts payable and other liabilities	1,214	(8,673)
Due to affiliate	(1,588)	(6,930)
Net cash provided by operating activities	34,804	148,410
Cash flows from investing activities		
Purchases of investments	(1,999,944)	(2,011,195)
Proceeds from investments sold	2,011,195	-
Net cash provided by (used in) financing activities	11,251	(2,011,195)
Cash flows from financing activities		
Contributed surplus	-	1,400,000
Net cash provided by financing activities	-	1,400,000
Net change in cash and cash equivalents	46,055	(462,785)
Cash and cash equivalents, beginning of year	3,320,571	3,783,356
Cash and cash equivalents, end of year	$ 3,366,626	$ 3,320,571

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, HARRG paid in an additional $1,400,000 in contributed capital. No additional contributions to capital were made in 2019.

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).

Adoption of New Accounting Pronouncement: During January 2016, the FASB issued Accounting Standard Update 2016-01, "*Recognition and Measurement of Financial Assets and Financial Liabilities*" (ASU 2016-01). Upon adoption of ASU 2016-01, the Company is required to measure equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) at fair value with changes in fair value recognized in net income. The Company adopted the amendments of ASU 2016-01 effective January 1, 2019.

Adoption of this standard requires a modified retrospective transition adjustment as of the beginning of the period of adoption related to equity instruments with readily determinable fair values. As a result of this adoption, the Company was required to record a transition adjustment as of January 1, 2019, which reclassified the cumulative impacts of unrealized gains and losses, net of tax, from accumulated other comprehensive income (AOCI) to retained deficit in the amount of $13,969. Further, beginning on January 1, 2019, the gross change in unrealized investment holding gains and losses on equity securities are recorded within the statement of comprehensive income, and is no longer included in AOCI on the balance sheet as of December 31, 2019.

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 its equity investments in accordance with FASB ASC 321, *Investments - Equity Securities*. Under FASB ASC 321, equity securities are carried at fair value, with changes in fair value reported in net income.

Prior to the adoption of ASU 2016-01, the Company accounted for investments in accordance with FASB ASC 320, *Investments - Debt and Equity Securities* under which unrealized gains and losses on the Company's equity investment portfolio were recognized within other comprehensive income. Unrealized gains and losses relating to investments were reported as a separate component of shareholder's equity as accumulated other comprehensive income.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Realized investment gains and losses are determined on a specific identification basis. Interest and dividend income is recorded when earned.

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, 2019 and 2018.

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, 2019 and 2018, management's best estimate of unpaid losses and loss adjustment expenses on its claims made written policies is zero. As of December 31, 2019 and 2018, the Company obtained a waiver from the Vermont Department of Financial Regulation (the Department) for the actuarial review and certification of reserves.

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

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

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bad Debts: The Company uses the allowance method to record bad debts. The Company records an allowance for doubtful accounts against its outstanding accounts receivable, which is based on its estimation of bad debts in the near term. This estimate is based on the Company's past experience with collecting its receivables and an analysis of current accounts receivable. No allowance has been recorded as of December 31, 2019 and 2018, 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, 2019 and 2018. 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, 2019 and 2018, the Company did not record any penalties or interest associated with unrecognized tax benefits. Tax years from 2016 forward are open and subject to examination by the Internal Revenue Service.

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

Subsequent Events: Subsequent events have been evaluated through April 22, 2020, which is the date the financial statements were available to be issued. The Company determined there were no such events that warrant recognition or disclosure in the financial statements, except for the event described below.

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Company could be materially adversely affected in 2020 and beyond. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

(Continued)

NOTE 3 - INVESTMENTS

Investments classified as available for sale and carried at fair value as of December 31, 2019, are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Exchange traded fund	$ 1,999,944	$ 45,938	$ -	$ 2,045,882
Total	$ 1,999,944	$ 45,938	$ -	$ 2,045,882

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

Proceeds from sales of securities amounted to $2,011,195 in 2019. There were no gains or losses realized on those sales during 2019. There were no investment sales during 2018 and as such, no gains or losses were realized.

Investment income for the years ended December 31, 2019 and 2018 consists of the following:

	2019	2018
Interest and investment income	$ 72,583	$ 11,991
Holding gains on investments	28,256	-
Investment income	$ 100,839	$ 11,991

NOTE 4 - 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).

(Continued)

NOTE 4 - 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.

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, 2019 and 2018:

2019	Level 1	Level 2	Level 3
Exchange traded fund	$ 2,045,882	$ -	$ -
Total	$ 2,045,882	$ -	$ -
2018	**Level 1**	**Level 2**	**Level 3**
Mutual fund	$ 2,028,877	$ -	$ -
Total	$ 2,028,877	$ -	$ -

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument. For the year ended December 31, 2019 and 2018, there were no significant transfer in or out of levels 1, 2, or 3.

NOTE 5 - 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.

(Continued)

NOTE 5 - INSURANCE ACTIVITY (Continued)

Premiums written and earned for the years ended December 31, 2019 and 2018 are summarized as follows:

	Premiums Written		Premiums Earned	
	2019	2018	2019	2018
Direct premiums	$ 101,970	$ 190,315	$ 34,261	$ 65,666

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, 2019, the required disclosures were not included within these financial statements as they would not be meaningful.

NOTE 6 - 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 $63,027 and $55,527 for the years ended December 31, 2019 and 2018, respectively. The amounts due to HARRG under this agreement, which are included in due to affiliate, amounted to $8,913 and $10,501 as of December 31, 2019 and 2018, respectively.

The Company occupies office space in Cheshire, Connecticut, which is owned by HARRG. The cost of occupying the premises is part of the facilities agreement.

NOTE 7 - 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 $677 and $(23) and 401(k) expenses of $503 and $(17) for the years ended December 31, 2019 and 2018, respectively.

NOTE 8 - SURPLUS

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

(Continued)

NOTE 9 - 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 as follows:

	2019		2018	
Federal income taxes computed at the statutory rate	$ 11,700	21.00%	$ 5,856	21.00%
Valuation allowance	(11,715)	(21.03%)	(9,569)	(34.31%)
Other	15	0.03%	-	0.00%
Total	$ -	0.00%	$ (3,713)	(13.31%)

Federal income tax benefit consists of the following for the years ended December 31, 2019 and 2018:

	2019	2018
Current	$ -	$ -
Deferred	-	(3,713)
Total	$ -	$ (3,713)

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

	2019	2018
Deferred tax assets		
Net operating loss carry-forward	$ 25,873	$ 31,770
Unearned premiums	12,081	11,952
Accrued severance	3	1
Retiree medical expense	-	9
Gross deferred tax assets	37,957	43,732
Deferred tax liabilities		
Unrealized gains on investments	(9,647)	(3,713)
Retiree medical expense	(6)	-
Gross deferred tax liabilities	(9,653)	(3,713)
Valuation allowance	(28,304)	(40,019)
Total deferred tax asset, net	$ -	$ -

The Company has net operating loss carry-forwards as of December 31, 2019 of $123,205, which will begin to expire in 2035. The Company has no capital loss or AMT Credit carryovers available.

(Continued)

NOTE 9 - FEDERAL INCOME TAXES (Continued)

As of December 31, 2019 and 2018, the Company recorded a valuation allowance against the deferred tax asset of $28,304 and $40,019, 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 changes in the estimate of future taxable income.

NOTE 10 - 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, 2019 and 2018, to the amounts shown in the accompanying financial statements.

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Company has adopted ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*." Our opinion is not modified with respect to this matter.

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

Simsbury, Connecticut
April 22, 2020

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2019 and 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 25,111,024	$ 22,995,035
Agency and commission accounts receivables	25,784,898	27,437,775
Due from related parties	406,494	281,886
Income taxes receivable	5,803	17,955
Prepaid contractual liability insurance (Note 2)	287,653	284,579
Other assets	255,177	489,566
Total current assets	51,851,049	51,506,796
Deferred tax asset	1,083,200	1,195,178
Total assets	$ 52,934,249	$ 52,701,974
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Commission payable and accounts current	$ 34,976,405	$ 35,814,049
Deferred commissions and other revenues	1,518,904	3,686,067
Accounts payable and accrued expenses	945,897	513,007
Due to related parties	553,450	858,103
Total current liabilities	37,994,656	40,871,226
Stockholders' equity		
Common stock, Class A, no par value, $5,000 per share stated value, 2 shares authorized, issued and outstanding in 2019 and 2018	10,000	10,000
Common stock, Class B, no par value, various stated values, 300,000 shares authorized in 2019 and 2018, 198,700 shares issued and outstanding in 2019 and 2018	39,400,000	39,400,000
Additional paid-in capital	482,234	482,234
Retained deficit	(24,952,641)	(28,061,486)
Total stockholders' equity	14,939,593	11,830,748
Total liabilities and stockholders' equity	$ 52,934,249	$ 52,701,974

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, 2019 and 2018

	2019	2018
Net revenues		
Commission income	$ 6,258,297	$ 5,916,933
Insurance management services	153,506	140,703
Program fees	62,335	255,000
Other income	256,511	342,726
Total revenues	6,730,649	6,655,362
Costs and expenses		
Salaries and benefits	3,350,242	2,739,845
General and administrative	1,790,353	1,516,796
Amortization	-	11,805
Total costs and expenses	5,140,595	4,268,446
Income before provision for income taxes	1,590,054	2,386,916
Income tax benefit	(124,194)	(1,094,368)
Net income	$ 1,714,248	$ 3,481,284

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, 2019 and 2018

	Common Stock Class A		Common Stock Class B (1)		Additional Paid-In	Retained	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance as of January 1, 2018	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
Adoption of Topic 606 at January 1, 2019	-	-	-	-	-	1,394,597	1,394,597
Balance as of January 1, 2019	2	10,000	198,700	39,400,000	482,234	(26,666,889)	13,225,345
Net income	-	-	-	-	-	1,714,248	1,714,248
Balance as of December 31, 2019	2	$ 10,000	198,700	$ 39,400,000	$ 482,234	$ (24,952,641)	$ 14,939,593

(1) 182,000 shares issued and outstanding at $100 per share stated value as of December 31, 2019 and 2018, 500 shares issued and outstanding at $10,000 per share stated value as of December 31, 2019 and 2018, 16,200 shares issued and outstanding at $1,000 per share stated value as of December 31, 2019 and 2018

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, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Net income	$ 1,714,248	$ 3,481,284
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization	-	11,805
Deferred federal income taxes	(258,738)	(1,195,178)
Changes in assets and liabilities		
Agency and commissions accounts receivables	1,652,877	(8,656,687)
Due from related parties	(124,608)	(3,068)
Income taxes receivable	12,152	(50,880)
Prepaid contractual liability insurance (Note 2)	(3,074)	(141,069)
Other assets	234,389	(477,748)
Commission payable and accounts current	(837,644)	5,024,957
Deferred commissions and other revenues	(401,850)	288,650
Accounts payable and accrued expenses	432,890	(178,750)
Due to related parties	(304,653)	266,423
Net cash provided by (used in) operating activities	2,115,989	(1,630,261)
Net change in cash and cash equivalents	2,115,989	(1,630,261)
Cash and cash equivalents, beginning of year	22,995,035	24,625,296
Cash and cash equivalents, end of year	$ 25,111,024	$ 22,995,035
Supplemental cash flow disclosure:		
Income taxes paid during the year	$ 122,392	$ 151,690

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 two wholly owned subsidiaries as of December 31, 2019: Housing Insurance Services, Inc. (HIS) 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.

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.

Housing Systems Solutions, Inc. (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 and transferred its remaining assets to HIG.

There were no dividends paid or declared during 2019 or 2018 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.

(Continued)

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 accompanying consolidated financial statements include the accounts of HIG and its wholly owned subsidiaries HIS and HAGL as of December 31, 2019 and HIS, HAGL, and HSS during 2018. 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.

Recently Adopted Accounting Pronouncements: In May 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers (Topic 606)*" ("Topic 606"), which provides guidance for revenue recognition. Topic 606 affects any entity that either enters into contracts with customers to transfer goods or services. It supersedes the revenue recognition requirements in Topic 605, "*Revenue Recognition*," and most industry-specific guidance. The standard's core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. Effective as of January 1, 2019, the Company adopted ASU 2014-09, and all related amendments, which established ASC Topic 606. The Company adopted these standards by recognizing the cumulative effect as an adjustment to opening retained earnings at January 1, 2019, under the modified retrospective method for contracts not completed as of the day of adoption. The cumulative impact of adopting Topic 606 on January 1, 2019 was an increase in retained earnings within stockholders' equity of $1,394,597. Under the modified retrospective method, the Company was not required to restate comparative financial information prior to the adoption of these standards and, therefore, such information presented prior to January 1, 2019 continues to be reported under the Company's previous accounting policies.

Prior to the adoption of Topic 606, commission revenues and insurance management services, which are more fully described in Note 3, were recognized on a pro-rata basis over the term of the underlying policy to which the commission related. As a result of the adoption of Topic 606, commission revenues, paid by insurance carriers for the binding of insurance coverage, are now recognized as performance obligations are satisfied. Typically, the Company earns a percentage of commission income upon the effective date of the policy with the remaining amount earned on a pro-rata basis over the life of the underlying policy to which it relates. The amount earned at effective date varies by line of business based on the performance obligations associated with that line of business and the performance obligations agreed to with the insurance carriers. Payments are due within 30 days of invoice date, which typically coincides with the binding of coverage, certain insured may elect for payments to be made on an installment basis.

There were no changes to the revenue recognition policies for program fees or other income as a result of the adoption of Topic 606.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The cumulative effect of the changes made to the consolidated balance sheet as of January 1, 2019 for the adoption of Topic 606 is as follows:

	Balance at December 31, 2018	Adjustments Due to Adoption of Topic 606	Balance at January 1, 2019
Balance Sheet			
Assets:			
Deferred tax asset	$ 1,195,178	$ (370,716)	$ 824,462
Liabilities:			
Deferred commissions and other revenues	$ 3,686,067	$ 1,765,313	$ 5,451,380
Stockholders' Equity:			
Retained deficit	$ (28,061,486)	$ 1,394,597	$ (26,666,889)

The following table illustrates the impact of adopting Topic 606 on the Company's results within the consolidated statement of operations:

	Balances Prior to Adoption of Topic 606	Impact of Adopting Topic 606	As Reported
Statement of Operations			
Revenues:			
Commission income	$ 6,151,047	$ 107,250	$ 6,258,297
Insurance management services	$ 150,195	$ 3,311	$ 153,506
Expenses:			
Income tax benefit	$ 147,412	$ (23,218)	$ 124,194
Net income	$ 1,626,905	$ 87,343	$ 1,714,248

Cash and Cash Equivalents: Cash is comprised of cash on hand and cash on deposit with financial institutions. Cash equivalents consist of 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 limits 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.

Prepaid Contractual Liability Insurance: HAGL entered into a contractual liability insurance agreement with Innovative Housing Insurance Company, Inc. (IHIC), an affiliated company through common management. HAGL is indemnified against losses arising out of the payment of contractual reimbursement benefits to any associates in accordance with the certificate of benefits issued to such associates. The portion of unexpired insurance premiums paid by HAGL is deferred and reported as prepaid contractual liability insurance within the consolidated balance sheets.

(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, 2019 and 2018. 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, 2019 and 2018, the Company did not record any penalties or interest associated with unrecognized tax benefits. All tax years from 2016 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.

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.

Reclassifications: Certain reclassifications to the 2018 consolidated financial statements have been made in order to conform with the 2019 presentation. Such reclassifications did not have a material effect on the consolidated financial statements.

Subsequent Events: Subsequent events have been evaluated through April 22, 2020, which is the date the consolidated financial statements were available to be issued. The Company determined there were no such events that warrant recognition or disclosure in the consolidated financial statements, except for the event described below.

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Company could be materially adversely affected in 2020 and beyond. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

(Continued)

NOTE 3 - REVENUES

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. The commission percentage varies based on several underlying factors. During 2019 and 2018, commission income under these agreements amounted to $4,395,264 and $3,975,421, respectively, and the Company has recorded deferred commission income of $886,710 and $2,359,663, respectively, as of December 31, 2019 and 2018.

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, 2019 and 2018, commission income related to unaffiliated carriers amounted to $1,863,033 and $1,941,512, respectively, and the Company has deferred $242,618 and $985,915, respectively.

HIS entered into a program administration agreement with The Travelers Indemnity Company, Inc. (Travelers), a fronting company, as 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.

HIS has insurance management services agreements with HAPI and HARRG to provide various insurance agency activities. Fees for these services in 2019 and 2018 amounted to $153,506 and $140,703, respectively, and the Company has recorded deferred management fee revenues of $41,973 and $55,983, respectively, as of December 31, 2019 and 2018. These fees are calculated based upon a percentage of gross written premium for the years ended December 31, 2019 and 2018. All business associated with these insurance management service agreements originates from the service agreement as discussed in the previous paragraph.

Commission, agency and brokerage services, program administration and management services revenue are recorded on the effective date of the policy based off of direct written premium. Income is earned as performance obligations are satisfied over the underlying policy to which it attaches. The portion of income that will be earned in the future is deferred and reported as deferred commissions and other revenues on the consolidated balance sheets.

HAGL maintains a program agreement with RBC Tax Credit Equity (RBC) to issue Certificates of Association Benefits (CAB) for multifamily residential rental projects seeking to enhance credit for development purposes. HAGL program fees are recorded upon finalization and approval of the anticipated project investment and no amounts are deferred. For the years ended December 31, 2019 and 2018, revenue from program fees amounted to $62,335 and $255,000, respectively.

Other income, which consists of primarily 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. For the years ended December 31, 2019 and 2018, other income amounted to $256,511 and $342,726, respectively, and the Company has deferred revenue of $347,603 and $284,506, respectively.

(Continued)

NOTE 4 - INCOME TAXES

The provision for income tax benefit consists of the following for the years ended December 31, 2019 and 2018:

	2019	2018
Current federal and state tax	$ 134,544	$ 100,810
Deferred federal and state tax:		
Deferred tax expense exclusive of the effects of other components listed below	(258,738)	79,247
Decrease in beginning of year deferred tax asset valuation allowance	-	(1,274,425)
Total	$ (124,194)	$(1,094,368)

The tax effect of temporary differences, which result in deferred tax assets, as of December 31, 2019 and 2018, are as follows:

	2019	2018
Deferred tax assets:		
Net operating loss	$ 6,194,913	$ 6,588,725
Charitable carry forward	18	18
Accrued severance	1,034	231
State taxes	613,481	683,092
Accrued retirement benefits	47,667	53,532
Research and development	642,256	642,256
Gross deferred tax asset	7,499,369	7,967,854
Deferred tax liabilities:		
481(a) Adjustment	(278,036)	-
Gross deferred tax liability	(278,036)	-
Valuation allowance	(6,138,133)	(6,772,676)
Net deferred tax asset	$ 1,083,200	$ 1,195,178

(Continued)

NOTE 4 - INCOME TAXES (Continued)

The 2019 and 2018 provision for income taxes differs from the amount of income tax benefit determined by applying the 21% U.S. statutory federal income tax rate, as follows:

	2019		2018	
	Amount	Percent	Amount	Percent
Federal tax at statutory rate	$ 333,911	21.00%	$ 501,252	21.00%
State taxes	175,744	11.05%	129,654	5.43%
Valuation allowance	(634,543)	(39.91%)	(1,723,486)	(72.21%)
Meals and entertainment	1,120	0.07%	748	0.03%
Other	(426)	(0.03%)	(2,536)	(0.11%)
Income tax expense	$ (124,194)	(7.82%)	$ (1,094,368)	(45.86%)

The Company has a net operating loss carry-forward as of December 31, 2019 of $29,499,586 that will begin to expire in 2033. The Company has no AMT credits available and no capital loss carryovers available. The Company has $642,256 of research and development credit carry-forwards that will begin to expire in 2032. The Company has $84 of charitable contribution carry forwards that will begin to expire in 2037.

As of December 31, 2019, the Company recorded a valuation allowance against the deferred tax asset of $6,138,133 as the Company believes it is more likely than not that all of the deferred tax asset will not be realized based on management's projections of taxable income. The amount of the valuation allowance, however, could change in the near term, should management's projections of future taxable income change.

NOTE 5 - RELATED PARTY TRANSACTIONS

The Company is party to 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:

	2019	2018
HIS	$3,847,516	$3,718,084
HIG	546,985	461,671
HSS	-	121,002
Total	$4,394,501	$4,300,757

(Continued)

NOTE 5 - 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, 2019 and 2018, the Company had the following amounts receivable from and payable to affiliated entities:

	2019		2018	
	Amounts Receivable	Amounts Payable	Amounts Receivable	Amounts Payable
HARRG	$ 404,657	$ 465,824	$ 276,823	$ 857,258
HAPI	84	51,366	2,108	245
HEIC	-	36,260	-	-
HSIC	1,753	-	2,955	-
HTI	-	-	-	600
Total	$ 406,494	$ 553,450	$ 281,886	$ 858,103

The Company occupies office space located at Cheshire, Connecticut, which is owned by HARRG. The cost of occupying the premises is part of the facilities agreement.

NOTE 6 - 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, 2019 and 2018, the Company recorded profit sharing expenses of $167,133 and $161,400, respectively, and 401(k) expenses of $114,587 and $101,880, respectively. In addition, the Company recorded incentive compensation expenses of $418,124 and $344,449, for the years ended December 31, 2019 and 2018, respectively, which is included within salaries and benefits within the consolidated statements of operations.

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2019

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	$ 60,500	$ 25,036,799	$ 13,725	$ -	$ 25,111,024
Agency and commission accounts receivables	-	25,784,898	-	-	25,784,898
Due from related parties	31,740	406,494	-	(31,740)	406,494
Income taxes receivable (payable)	1,390,795	(1,433,839)	48,847	-	5,803
Prepaid contractual liability insurance (Note 2)	-	-	287,653	-	287,653
Other assets	-	15,113	240,064	-	255,177
Total current assets	1,483,035	49,809,465	590,289	(31,740)	51,851,049
Deferred tax asset	1,123,558	(42,010)	1,652	-	1,083,200
Investment in HIS	12,372,747	-	-	(12,372,747)	-
Investment in HAG	28,848	-	-	(28,848)	-
Total assets	$ 15,008,188	$ 49,767,455	$ 591,941	$ (12,433,335)	$ 52,934,249
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities					
Commission payable and accounts current	$ -	$ 34,976,405	$ -	$ -	$ 34,976,405
Deferred commissions and other revenues	-	1,171,301	347,603	-	1,518,904
Accounts payable and accrued expenses	16,452	745,695	183,750	-	945,897
Due to related parties	52,143	501,307	31,740	(31,740)	553,450
Total current liabilities	68,595	37,394,708	563,093	(31,740)	37,994,656
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	(24,740,071)	12,347,747	(671,152)	(11,889,165)	(24,952,641)
Total stockholders' equity	14,939,593	12,372,747	28,848	(12,401,595)	14,939,593
Total liabilities and stockholders' equity	$ 15,008,188	$ 49,767,455	$ 591,941	$ (12,433,335)	$ 52,934,249

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

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	$ 185,992	$ 22,575,165	$ 233,878	$ -	$ 22,995,035
Agency and commission accounts receivables	-	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)	(34,480)	-	17,955
Prepaid contractual liability insurance (Note 2)	-	-	284,579	-	284,579
Other assets	11	253,893	235,662	-	489,566
Total current assets	1,247,397	49,627,531	719,639	(87,771)	51,506,796
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	$ 721,417	$ (9,621,424)	$ 52,701,974
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities					
Commission payable and accounts current	$ -	$ 35,814,049	$ -	$ -	$ 35,814,049
Deferred commissions and other revenues	-	3,401,561	284,506	-	3,686,067
Accounts payable and accrued expenses	22,741	480,208	10,058	-	513,007
Due to related parties	116,200	741,903	87,771	(87,771)	858,103
Total current liabilities	138,941	40,437,721	382,335	(87,771)	40,871,226
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	-	-	-	-	-
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	$ 721,417	$ (9,621,424)	$ 52,701,974

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2019

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
Net revenues					
Commission income	$ -	$ 6,258,297	$ -	$ -	$ 6,258,297
Insurance management services	-	153,506	-	-	153,506
Program fees	-	-	62,335	-	62,335
Other income	265,000	3,823	252,688	(265,000)	256,511
Gain on investment in subsidiaries	1,473,345	-	-	(1,473,345)	-
Total revenues	1,738,345	6,415,626	315,023	(1,738,345)	6,730,649
Costs and expenses					
Salaries and benefits	121,809	3,091,140	137,293	-	3,350,242
General and administrative	224,667	1,259,521	571,165	(265,000)	1,790,353
Amortization	-	-	-	-	-
Total costs and expenses	346,476	4,350,661	708,458	(265,000)	5,140,595
Income (loss) before income taxes	1,391,869	2,064,965	(393,435)	(1,473,345)	1,590,054
Income tax (benefit) expense	(322,379)	281,386	(83,201)	-	(124,194)
Net income (loss)	$ 1,714,248	$ 1,783,579	$ (310,234)	$ (1,473,345)	$ 1,714,248

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended 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
Loss 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 CASH FLOWS
Year Ended December 31, 2019

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
Cash flows from operating activities					
Net income (loss)	$ 1,714,248	$ 1,783,579	$ (310,234)	$ (1,473,345)	$ 1,714,248
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:					
Deferred federal income taxes	65,081	(323,945)	126	-	(258,738)
Gain on investment in subsidiaries	(1,473,345)	-	-	1,473,345	-
Changes in assets and liabilities					
Agency and commissions accounts receivables	-	1,652,877	-	-	1,652,877
Due from related parties	56,031	(124,608)	-	(56,031)	(124,608)
Income taxes receivable	(417,172)	512,651	(83,327)	-	12,152
Prepaid contractual liability insurance (Note 2)	-	-	(3,074)	-	(3,074)
Other assets	11	238,780	(4,402)	-	234,389
Commission payable and accounts current	-	(837,644)	-	-	(837,644)
Deferred commissions and other revenues	-	(464,947)	63,097	-	(401,850)
Accounts payable and accrued expenses	(6,289)	265,487	173,692	-	432,890
Due to related parties	(64,057)	(240,596)	(56,031)	56,031	(304,653)
Net cash (used in) provided by operating activities	(125,492)	2,461,634	(220,153)	-	2,115,989
Net change in cash and cash equivalents	(125,492)	2,461,634	(220,153)	-	2,115,989
Cash and cash equivalents, beginning of year	185,992	22,575,165	233,878	-	22,995,035
Cash and cash equivalents, end of year	$ 60,500	$ 25,036,799	$ 13,725	$ -	$ 25,111,024

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended 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 federal income taxes	(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)
Prepaid contractual liability insurance (Note 2)	-	-	-	(141,069)	-	(141,069)
Other assets	(7)	(248,077)	5,273	(234,937)	-	(477,748)
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 and cash equivalents	(70,011)	(1,448,817)	(153,668)	42,235	-	(1,630,261)
Cash and cash equivalents, beginning of year	256,003	24,023,982	153,668	191,643	-	24,625,296
Cash and cash equivalents, end of year	$ 185,992	$ 22,575,165	$ -	$ 233,878	$ -	$ 22,995,035

HOUSING TELECOMMUNICATIONS, INC.

FINANCIAL STATEMENTS
December 31, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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
April 22, 2020

HOUSING TELECOMMUNICATIONS, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash	$ 2,596,689	$ 2,028,114
Accounts receivable	32,173	82,071
Prepaid expenses	6,042	77,941
Due from affiliates	27,354	28,274
Total assets	$ 2,662,258	$ 2,216,400
LIABILITIES AND NET ASSETS		
Accounts payable	$ 162,408	$ 207,670
Due to affiliates	174,443	59,439
Unearned subscription fees	532,942	517,128
Total liabilities	869,793	784,237
Net assets without donor restrictions	1,792,465	1,432,163
Total liabilities and net assets	$ 2,662,258	$ 2,216,400

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, 2019 and 2018

	2019	2018
Revenue without donor restrictions:		
Subscription fees	$ 1,075,356	$ 1,059,182
Risk management service fees	100,000	100,000
Sponsorship fees	150,000	150,000
Pay per view fees	717,003	599,269
Producer content development fees	-	88,843
Other income	46,700	10,250
Total revenue without donor restrictions	2,089,059	2,007,544
Expenses:		
Salaries and benefits	873,910	777,515
Program acquisition	422,427	346,838
General and administrative expenses	432,420	458,150
Total expenses	1,728,757	1,582,503
Change in net assets without donor restrictions	360,302	425,041
Net assets without donor restrictions, beginning of year	1,432,163	1,007,122
Net assets without donor restrictions, end of year	$ 1,792,465	$ 1,432,163

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

HOUSING TELECOMMUNICATIONS, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 360,302	$ 425,041
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	49,898	(51,816)
Prepaid expenses	71,899	(3,357)
Due from affiliates	920	50,064
Accounts payable	(45,262)	(31,344)
Due to affiliates	115,004	59,439
Unearned subscription fees	15,814	(46,282)
Net cash provided by operating activities	568,575	401,745
Net change in cash	568,575	401,745
Cash, beginning of year	2,028,114	1,626,369
Cash, end of year	$ 2,596,689	$ 2,028,114

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 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).

Recently Adopted Accounting Pronouncements: In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*" (ASC 606), which provides guidance for revenue recognition. ASC 606 affects any entity that enters into contracts with customers to transfer goods or services. It supersedes the revenue recognition requirements in Topic 605, "*Revenue Recognition*" and most industry specific guidance. The standard's core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services.

The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such no cumulative effect adjustment was recorded. The adoption of ASC 606 did result in changes to the disclosure of revenue, with no impact on the statements of activities and changes in net assets or statements of financial position.

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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

As of December 31, 2019 and 2018, all of the Company's net assets are classified as net assets without donor restrictions.

Revenue Recognition: Revenue is recognized in the period services are rendered and performance obligations are met. 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. Other income consists of professional services fees, which are recorded as revenue when the certification courses are completed.

Cash: Cash is comprised of three cash accounts as of December 31, 2019 and two cash accounts as of December 31, 2018. 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.

Reclassifications: Certain reclassifications to the 2018 financial statements have been made in order to conform with the 2019 presentation. Such reclassifications did not have a material effect on the financial statements.

Subsequent Events: Subsequent events have been evaluated through April 22, 2020, which is the date the financial statements were available to be issued. The Company determined there were no such events that warrant recognition or disclosure in the financial statements, except for the event described below.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Company could be materially adversely affected in 2020 and beyond. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

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, 2019 and 2018. 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 2016 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, 2019 and 2018, 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 $1,377,610 and $1,223,356 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, $174,443 and $59,439, respectively, 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, 2019 and 2018, 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 for the years ended December 31, 2019 and 2018.

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.

(Continued)

NOTE 4 - AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

As of December 31, 2019 and 2018, on the statements of financial position within due from affiliates, are receivables from HARRG in the amount $21,408 and $23,121, respectively, and from HAPI in the amount of $5,946 and $4,553, respectively, related to equity dividends declared by HARRG and HAPI that have been applied to the PHAs' current subscription fees.

The Company occupies office space located at Cheshire, Connecticut, which is owned by HARRG. The cost of occupying the premises is part of the facilities agreement.

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, 2019 and 2018, the Company recorded profit sharing plan expenses of $43,714 and $37,777, respectively, and 401(k) expenses of $29,627 and $25,128, respectively. In addition, the Company recorded incentive compensation expenses of $118,568 and $106,545 for the years ended December 31, 2019 and 2018, respectively, which is included within salaries and benefits within the statements of activities and changes in net assets.

NOTE 6 - 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 consists of cash and accounts receivable.

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 plans to operate 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.

(Continued)

NOTE 7 - FUNCTIONAL EXPENSES

The Company provides education through a variety of media to employees and residents of public and low income and affordable housing throughout the United States. The table below presents expenses by both their nature and their function for the year ended December 31, 2019.

	Program Activities	Supporting Activities	Total Expenses
Salaries and benefits	$ 383,342	$ 490,568	$ 873,910
Program acquisition	422,427	-	422,427
Services and professional fees	3,047	52,199	55,246
Travel, meetings and professional development	9,334	18,482	27,816
Office and occupancy	1,089	297,623	298,712
Depreciation	-	27,137	27,137
Event support	-	9,672	9,672
Other	-	13,837	13,837
Total expenses	$ 819,239	$ 909,518	$ 1,728,757

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	$ 429,978	$ 347,537	$ 777,515
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	-	4,299	4,299
Total expenses	$ 785,525	$ 796,978	$ 1,582,503

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, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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
April 22, 2020

HOUSING AUTHORITY INSURANCE, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash	$ 2,173,553	$ 1,313,205
Refundable advance	272,144	619,504
Prepaid expenses and other assets	19,081	20,212
Total assets	$ 2,464,778	$ 1,952,921
LIABILITIES AND NET ASSETS		
Accounts payable	$ 100,933	$ 82,169
Due to affiliates	67,397	55,935
Deferred revenue	4,310	-
Total liabilities	172,640	138,104
Net assets without donor restrictions	2,292,138	1,814,817
Total liabilities and net assets	$ 2,464,778	$ 1,952,921

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, 2019 and 2018

	2019	2018
Revenues without donor restrictions:		
Membership fees	$ 2,500,000	$ 2,500,000
Sponsorship revenue	20,250	-
Participant registration fees	71,252	-
Other income	-	1,769
Total revenues without donor restrictions	2,591,502	2,501,769
Expenses:		
Salaries and benefits	563,696	570,344
General and administrative expenses	233,352	352,982
Grants and donations	939,495	894,935
Event support	84,838	5,020
Member benefits	292,800	295,324
Total expenses	2,114,181	2,118,605
Change in net assets without donor restrictions	477,321	383,164
Net assets without donor restrictions, beginning of year	1,814,817	1,431,653
Net assets without donor restrictions, end of year	$ 2,292,138	$ 1,814,817

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

HOUSING AUTHORITY INSURANCE, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 477,321	$ 383,164
Adjustments to reconcile changes in net assets		
to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Refundable advance	347,360	47,167
Due from affiliates	-	13,661
Prepaid expenses and other assets	1,131	1,355
Accounts payable	18,764	(85,198)
Due to affiliates	11,462	(76,655)
Deferred revenue	4,310	(741,298)
Net cash provided by (used in) operating activities	860,348	(457,804)
Net change in cash	860,348	(457,804)
Cash, beginning of year	1,313,205	1,771,009
Cash, end of year	$ 2,173,553	$ 1,313,205

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).

Recently Adopted Accounting Pronouncements: In May 2014, the FASB issued ASU 2014-09 *"Revenue from Contracts with Customers (Topic 606)"* (ASC 606), which provides guidance for revenue recognition. ASC 606 affects any entity that enters into contracts with customers to transfer goods or services. It supersedes the revenue recognition requirements in Topic 605 *"Revenue Recognition"* and most industry-specific guidance. The standard's core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services.

The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such no cumulative effect adjustment was recorded. The adoption of ASC 606 did result in changes to the disclosure of revenue, with no impact on the statements of activities and changes in net assets or statements of financial position.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

As of December 31, 2019 and 2018, all of the Company's net assets are classified as net assets without donor restrictions.

Revenue Recognition: Revenue is recognized in the period services are rendered and performance obligations met. Membership fees are recorded as revenue based on the underlying contractual agreements and earned over their respective periods. Sponsorship fees related to conferences are recorded as revenue based upon the underlying agreement per sponsor and earned upon completion of the conference. Participant registration fees are recorded as revenue per conference participant and earned upon completion of the conference.

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

Cash: Cash is comprised of two cash accounts as of December 31, 2019 and one cash account as of December 31, 2018. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Company's policy to monitor the financial strength of the bank that holds its deposits on an ongoing basis. During the normal course of business, the Company may maintain cash balances in excess of the FDIC insurance limit.

Subsequent Events: Subsequent events have been evaluated through April 22, 2020, which is the date the financial statements were available to be issued. The Company determined there were no such events that warrant recognition or disclosure in the financial statements, except for the event described below.

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Company could be materially adversely affected in 2020 and beyond. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

(Continued)

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, 2019 and 2018. 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 2016 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, 2019 and 2018, the Company did not record any penalties or interest associated with unrecognized tax benefits.

NOTE 4 - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company earned membership fees of $846,500 from HARRG, $1,448,750 from HAPI, $167,250 from HEIC and $37,500 from HSIC for each of the years ended December 31, 2019 and 2018.

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 $857,403 and $1,392,650 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, $67,397 and $55,935, respectively, was due to HARRG under this agreement and is reflected within due to affiliates on the statements of financial position.

During 2019 and 2018, the Company recorded grant expenditures in the amount of $347,975 and $318,787, 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, 2019 and 2018, the Company was owed $246,438 and $175,413, respectively, from PAHRC related to grant activities. These amounts are included in refundable advance on the statements of financial position.

During 2019 and 2018, the Company recorded grant expenditures in the amount of $453,386 and $428,380, 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, 2019 and 2018, AHAB had unspent grant funds of $25,706 and $444,091, respectively, which is recorded as a refundable advance within the statements of financial position.

The Company occupies office space located at Cheshire, Connecticut, which is owned by HARRG. The cost of occupying the premises is part of the facilities agreement.

(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, 2019 and 2018, the Company recorded profit sharing plan expenses of $27,457 and $29,831, respectively, and 401(k) expenses of $18,117 and $19,661, respectively. In addition, the Company recorded incentive compensation expense of $68,961 and $64,798 for the years ended December 31, 2019 and 2018, respectively, which is included within salaries and benefits within the statements of activities and changes in net assets.

NOTE 6 - 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. At December 31, 2019 and 2018, the Company has financial assets available within one year of the statement of financial position date for general expenditure of $2,173,553 and $1,313,205, respectively.

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.

(Continued)

NOTE 7 - 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, 2019.

	Program Activities	Supporting Activities	Total Expenses
Salaries and benefits	$ 11,083	$ 552,613	$ 563,696
Member benefits	-	292,800	292,800
Grants and donations	939,495	-	939,495
Services and professional fees	564	67,391	67,955
Travel, meetings and professional development	3,898	15,915	19,813
Office and occupancy	-	88,389	88,389
Depreciation	-	54,274	54,274
Event support	-	84,838	84,838
Other	-	2,921	2,921
Total expenses	$ 955,040	$ 1,159,141	$ 2,114,181

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 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, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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
April 22, 2020

PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash	$ 372,944	$ 258,372
Prepaid expenses	1,811	6,367
Total assets	$ 374,755	$ 264,739
LIABILITIES AND NET ASSETS		
Accounts payable	$ 53,793	$ 45,592
Unearned subscription revenue	41,347	10,947
Due to affiliate	79,584	22,475
Deferred grant revenue	246,438	175,413
Total liabilities	421,162	254,427
Net (deficit) assets without donor restrictions	(46,407)	10,312
Total liabilities and net assets	$ 374,755	$ 264,739

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, 2019 and 2018

	2019	2018
Revenue without donor restrictions:		
Grant revenue	$ 347,975	$ 318,787
Other revenue	77,765	37,185
Total revenue without donor restrictions	425,740	355,972
Expenses:		
Salaries and benefits	366,794	258,749
General and administrative expenses	115,665	94,523
Total expenses	482,459	353,272
Change in net (deficit) assets without donor restrictions	(56,719)	2,700
Net assets without donor restrictions, beginning of year	10,312	7,612
Net (deficit) assets without donor restrictions, end of year	$ (46,407)	$ 10,312

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, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ (56,719)	$ 2,700
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Changes in assets and liabilities:		
Prepaid expenses	4,556	(6,058)
Accounts payable	8,201	4,686
Unearned subscription revenue	30,400	9,059
Due to affiliate	57,109	(23,050)
Deferred grant revenue	71,025	131,213
Net cash provided by operating activities	114,572	118,550
Net change in cash	114,572	118,550
Cash, beginning of year	258,372	139,822
Cash, end of year	$ 372,944	$ 258,372

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).

Recently Adopted Accounting Pronouncements: In May 2014, the FASB issued ASU 2014-09, *"Revenue from Contracts with Customers (Topic 606)"* (ASC 606), which provides guidance for revenue recognition. ASC 606 affects any entity that enters into contracts with customers to transfer goods or services. It supersedes the revenue recognition requirements in Topic 606, *"Revenue Recognition"* and most industry-specific guidance. The standard's core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. Effective as of January 1, 2019, the Company adopted ASU 2014–09, and all related amendments, which established ASC Topic 606. The adoption of ASC 606 resulted in a change to the Company's accounting for sponsorship revenue. There was no effect on any other in-scope revenue stream.

Prior to the adoption of Topic 606, sponsorship revenue, which is more fully described below, was recognized upon the completion of the performance obligation. As a result of the adoption of Topic 606, sponsorship revenue is now recognized pro-rata over the term of the agreement. The adoption of ASC 606 resulted in changes to the disclosure of revenue, with no impact on prior year net assets as all performance obligations were met prior to year end.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019 or 2018.

As of December 31, 2019 and 2018, all of the Company's net assets are classified as net assets without donor restrictions.

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 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 2019 and 2018. 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. In 2019, sponsorship revenue, which related to the National Housing Preservation Database, is recorded as revenue pro-rata over the term of the agreement. In 2018, sponsorship revenue, which related to conferences held, was recorded as revenue based upon the underlying agreement with the sponsor and earned upon completion of the conference.

Cash: Cash is comprised of a single cash account as of December 31, 2019 and 2018. 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.

Reclassifications: Certain reclassifications to the 2018 financial statements have been made in order to conform with the 2019 presentation. Such reclassifications did not have a material effect on the financial statements.

Subsequent Events: Subsequent events have been evaluated through April 22, 2020, which is the date the financial statements were available to be issued. The Company determined there were no such events that warrant recognition or disclosure in the financial statements, except for the event described below.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Company could be materially adversely affected in 2020 and beyond. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

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, 2019 and 2018. 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 2016 forward are open and subject to examination by the Internal Revenue Service.

It is the Company's policy to include interest and penalties related to unrecognized tax benefits as a component of its provision for income taxes. As of December 31, 2019 and 2018, the Company did not record any penalties or interest associated with unrecognized tax benefits.

NOTE 4 - CONTRIBUTION INCOME

During 2019 and 2018, the Company received contributions from several donors amounting to $21,265 and $20,544, 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 $464,405 and $353,303 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, $79,584 and $22,475, respectively, was due to HARRG under this agreement and is reflected within due to affiliates on the statements of financial position.

(Continued)

NOTE 5 - AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

For the years ended December 31, 2019 and 2018, the Company recorded grant revenue in the amount of $347,975 and $318,787, 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, 2019 and 2018, the Company had deferred grant revenue of $246,438 and $175,413, respectively. These amounts are included within deferred grant revenue on the statements of financial position.

The Company occupies office space located at Cheshire, Connecticut, which is owned by HARRG. The cost of occupying the premises is part of the facilities agreement.

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, 2019 and 2018, the Company recorded profit sharing plan expenses of $16,832 and $11,689, respectively, and 401(k) expenses of $12,647 and $9,467, respectively. In addition, the Company recorded incentive compensation expenses of $40,341 and $33,386, respectively, for the years ended December 31, 2019 and 2018, which is included within salaries and benefits within the statements of activities and changes in net assets.

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. At December 31, 2019 and 2018, the Company has financial assets available within one year of the statement of financial position date for general expenditure of $372,944 and $258,372, respectively.

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 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, 2019.

(Continued)

NOTE 8 - FUNCTIONAL EXPENSES (Continued)

	Program Activities	Supporting Activities	Total Expenses
Salaries and benefits	$ 204,229	$ 162,565	$ 366,794
Services and professional fees	499	41,790	42,289
Travel, meetings and professional development	6,214	9,807	16,021
Office and occupancy	-	52,071	52,071
Event support	-	1,898	1,898
Other	-	3,386	3,386
Total expenses	$ 210,942	$ 271,517	$ 482,459

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	$ 196,242	$ 62,507	$ 258,749
Services and professional fees	3,638	30,077	33,715
Travel, meetings and professional development	3,985	1,881	5,866
Office and occupancy	550	35,305	35,855
Depreciation	-	17,635	17,635
Event support	-	1,249	1,249
Other	-	203	203
Total expenses	$ 204,415	$ 148,857	$ 353,272

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.