



AUDITED FINANCIAL STATEMENTS

(As of the Years Ended December 31, 2021 and 2020)

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, 2021 and 2020

INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the 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, 2021 and 2020, 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.

Unmodified Opinion on Statutory Basis of Accounting

In our opinion, the accompanying statutory financial statements present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2021 and 2020, 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 (the Department) as described in Note 2.

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 section of our report, the statutory financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2021 and 2020, or the results of its operations and its cash flows for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Statutory Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Department, 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 and pervasive.

(Continued)

Responsibilities of Management 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 Department. 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.

In preparing the statutory financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the statutory financial statements are issued.

Auditor's Responsibilities for the Audit of the Statutory Financial Statements

Our objectives are to obtain reasonable assurance about whether the statutory financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the statutory financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the statutory financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the statutory financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the statutory financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

(Continued)

Supplementary Information

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 schedule of 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 and pervasive. 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, 2021 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.

A handwritten signature in black ink that reads "Crowe LLP". The letters are stylized and cursive.

Crowe LLP

West Hartford, Connecticut
May 2, 2022

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ADMITTED ASSETS		
Cash and invested assets		
Debt securities, at amortized cost or fair value	\$ 249,631,554	\$ 233,198,394
Equity securities, at fair value	45,768,089	32,416,327
Federal Home Loan Bank of Boston stock, at cost	219,300	343,800
Investment in affiliates and majority owned subsidiaries	61,197,237	59,287,083
Real estate occupied by the Company, net	10,946,999	11,280,711
Cash, cash equivalents and short-term investments	<u>6,218,351</u>	<u>13,055,745</u>
Total cash and invested assets	373,981,530	349,582,060
Investment income due and accrued	1,491,388	1,644,896
Premiums receivable	6,697,688	6,920,163
Reinsurance recoverable on paid losses	327,759	340,972
Funds held by or deposited with reinsured companies	400,000	400,000
EDP equipment, net	582,256	1,101,611
Due from affiliates	3,091,016	2,436,471
Deductible receivables	794,838	705,588
Other assets	<u>2,582,296</u>	<u>2,506,709</u>
Total admitted assets	<u>\$ 389,948,771</u>	<u>\$ 365,638,470</u>
LIABILITIES AND CAPITAL AND SURPLUS		
Unpaid losses and loss adjustment expenses	\$ 90,036,854	\$ 102,932,585
Taxes, licenses and fees	772,526	554,046
Borrowed money and interest	1,891,068	3,181,252
Unearned premiums	17,504,696	15,435,282
Reinsurance payable on paid losses	473,837	-
Advance premiums	237,483	29,059
Accrued dividends to policyholders	9,959,833	2,496,050
Ceded reinsurance premiums payable	794,955	751,617
Due to affiliates	547,072	611,258
Provision for reinsurance	22,129	-
Accrued expenses and other liabilities	<u>5,602,918</u>	<u>5,923,403</u>
Total liabilities	127,843,371	131,914,552
Capital and surplus		
Members' contributions	11,058,374	11,051,713
Unassigned funds	<u>251,047,026</u>	<u>222,672,205</u>
Total capital and surplus	<u>262,105,400</u>	<u>233,723,918</u>
Total liabilities and capital and surplus	<u>\$ 389,948,771</u>	<u>\$ 365,638,470</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Underwriting income		
Net premiums earned	\$ 39,832,679	\$ 37,459,621
Losses and expenses		
Net losses and loss adjustment expenses incurred	9,415,057	23,712,109
Other underwriting expenses incurred	<u>9,301,769</u>	<u>10,333,118</u>
Total losses and expenses	<u>18,716,826</u>	<u>34,045,227</u>
Net underwriting income	21,115,853	3,414,394
Investment income		
Net investment income earned	7,659,701	9,111,959
Net realized capital gains	<u>2,371,234</u>	<u>6,799,485</u>
Total investment gain	<u>10,030,935</u>	<u>15,911,444</u>
Other income	<u>71,971</u>	<u>-</u>
Income before policyholder dividends	31,218,759	19,325,838
Policyholder dividends	<u>(9,911,260)</u>	<u>(2,336,996)</u>
Net income	<u>\$ 21,307,499</u>	<u>\$ 16,988,842</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Capital and surplus, beginning of year	\$ 233,723,918	\$ 208,731,367
Net income	21,307,499	16,988,842
Net unrealized capital gains	6,601,226	7,972,944
Members' contributions	500	500
Member dividend withdrawals	(611,672)	(645,901)
Change in non-admitted assets	1,106,058	676,166
Change in provision for reinsurance	<u>(22,129)</u>	<u>-</u>
Capital and surplus, end of year	<u>\$ 262,105,400</u>	<u>\$ 233,723,918</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operations		
Premiums collected, net of reinsurance	\$ 42,541,774	\$ 37,108,151
Net investment income	8,871,716	10,182,362
Miscellaneous income	71,971	-
Losses and loss related payments, net	(13,869,696)	(12,404,874)
Commission, expenses paid and aggregate write-ins for deductions	(17,194,638)	(18,979,054)
Dividends paid to policyholders	<u>(2,447,477)</u>	<u>(4,218,863)</u>
Net cash from operations	17,973,650	11,687,722
Cash flows from investments		
Proceeds from investments sold, matured and repaid	171,012,465	207,958,526
Cost of investments acquired	(192,888,463)	(212,874,180)
Cost of real estate acquired	<u>(246,584)</u>	<u>(39,896)</u>
Net cash used in investments	(22,122,582)	(4,955,550)
Cash flows from financing and miscellaneous sources		
Capital and paid in surplus	(611,172)	(645,401)
Borrowed funds	(1,607,482)	(1,466,381)
Other cash (used) provided	<u>(469,808)</u>	<u>844,228</u>
Net cash used in financing and miscellaneous sources	<u>(2,688,462)</u>	<u>(1,267,554)</u>
Change in cash, cash equivalents and short-term investments	(6,837,394)	5,464,618
Cash, cash equivalents and short-term investments, beginning of year	<u>13,055,745</u>	<u>7,591,127</u>
Cash, cash equivalents and short-term investments, end of year	<u>\$ 6,218,351</u>	<u>\$ 13,055,745</u>

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 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 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 and as such, other-than-temporary impairments (OTTI) are not recorded. Under NAIC SAP, equities are assessed for declines in value that are other-than-temporary and are reported as realized capital losses in the statutory statements of operations.

(Continued)

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 requires 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 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.

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.

(Continued)

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. As of December 31, 2021, cash equivalents consist of money market instruments. As of December 31, 2020, cash equivalents consisted 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 using the scientific interest method. 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 have an ownership interest. The Company's ownership interest is 50% as of December 31, 2021 and 2020. No contributions were made during 2021 or 2020 to HIG. There were no dividends declared or paid by HIG during 2021. During 2020, the Company received a dividend payment from HIG of \$2,000,000.

In January 2001, HAPI formed Housing Enterprise Insurance Company, Inc. (HEIC), a licensed domestic stock insurance company domiciled in the State of Vermont. In 2003, the Company became an owner by purchasing shares of stock and contributing surplus to HEIC. Currently the Company owns 1,300 shares of voting common stock and HAPI owns 700 shares of voting common stock. No contributions were made during 2021 and 2020. As of December 31, 2021 and 2020, 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 own 100 shares of voting common stock. No contributions were made during 2021 or 2020 to HSIC. The Company owns 50% of HSIC as of December 31, 2021 and 2020.

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. The Company owns 50 shares of no par, \$10,000 stated value common stock in IHIC. The Company made no contributions during 2021 and paid an additional \$1,400,000 in contributed capital during 2020. 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 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, 2021 and 2020, 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 2021 or 2020.

Property and EDP Equipment: Real estate occupied by the Company (excluding land of \$2,580,836 in 2021 and 2020) 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 net of the related reinsurance recoverables represent estimated provisions for both reported and unreported claims incurred and related expenses. In determining unpaid losses and loss adjustment expense reserves and 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.

(Continued)

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 2021 and 2020.

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. As of December 31, 2021 and 2020, the Company recorded \$81,688 and \$150,929, respectively, in contingent liabilities.

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, 2021 and 2020. 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, capital and surplus, 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 May 2, 2022, which is the date the statutory financial statements were available to be issued.

(Continued)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risks and Uncertainties: Due to the ongoing concern of the novel strain of the coronavirus and resulting global pandemic, the operations and business results of the Company could be materially adversely affected in future years. 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. As of December 31, 2021, the Company has not been materially adversely impacted. Management continues to monitor any new information which may emerge concerning the severity, containment and treatment of the virus and the global impact of the pandemic relating to all components of the Company.

NOTE 3 - INVESTMENTS

Investments, carried at amortized cost and fair value, as of December 31, 2021, are as follows:

	Cost or Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	<u>Fair Value</u>
Debt securities, at amortized cost				
U.S. government	\$ 61,702,101	\$ 600,561	\$ (343,346)	\$ 61,959,316
All other governments	763,269	104,834	-	868,103
U.S. states, territories and possessions	4,450,582	1,589,630	-	6,040,212
U.S. special revenue and special assessment obligations	27,175,698	808,125	(188,827)	27,794,996
Industrial and miscellaneous	147,673,549	4,703,794	(461,150)	151,916,193
Hybrid securities	6,565,352	420,398	(1,644)	6,984,106
Other invested assets	<u>1,178,814</u>	<u>252,222</u>	<u>-</u>	<u>1,431,036</u>
Total debt securities, at amortized cost	249,509,365	8,479,564	(994,967)	256,993,962
Debt securities, at fair value				
Industrial and miscellaneous	<u>127,010</u>	<u>-</u>	<u>(4,821)</u>	<u>122,189</u>
Total debt securities, at fair value	127,010	-	(4,821)	122,189
Equity securities, at fair value				
Mutual funds	<u>31,672,274</u>	<u>14,095,815</u>	<u>-</u>	<u>45,768,089</u>
 Total	 <u>\$ 281,308,649</u>	 <u>\$ 22,575,379</u>	 <u>\$ (999,788)</u>	 <u>\$ 302,884,240</u>

(Continued)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 3 - INVESTMENTS (Continued)

Investments, carried at amortized cost and fair value, as of December 31, 2020, were as follows:

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Debt securities, at amortized cost				
U.S. government	\$ 27,564,293	\$ 1,697,735	\$ (21,386)	\$ 29,240,642
U.S. states, territories and possessions	100,475	11,336	-	111,811
U.S. political subdivisions of states, territories and possessions	4,494,012	1,456,660	-	5,950,672
U.S. special revenue and special assessment obligations	25,353,356	1,342,785	(15)	26,696,126
Industrial and miscellaneous	165,940,512	9,932,770	(205,401)	175,667,881
Hybrid securities	6,403,106	479,338	-	6,882,444
Other invested assets	<u>1,179,178</u>	<u>313,134</u>	<u>-</u>	<u>1,492,312</u>
Total debt securities, at amortized cost	231,034,932	15,233,758	(226,802)	246,041,888
Debt securities, at fair value				
Industrial and miscellaneous	<u>2,194,323</u>	<u>-</u>	<u>(30,861)</u>	<u>2,163,462</u>
Total debt securities, at fair value	2,194,323	-	(30,861)	2,163,462
Equity securities, at fair value				
Mutual funds	<u>23,789,753</u>	<u>8,626,574</u>	<u>-</u>	<u>32,416,327</u>
Total	<u>\$ 257,019,008</u>	<u>\$ 23,860,332</u>	<u>\$ (257,663)</u>	<u>\$ 280,621,677</u>

As of December 31, 2021 and 2020, the Company held \$219,300 and \$343,800, respectively, of FHLBB stock which is carried at cost as further described in Note 2.

As of December 31, 2021 and 2020, the Company pledged securities to FHLBB with an amortized cost of \$7,293,895 and \$7,288,571, respectively, that supports the outstanding collateralized borrowings as further described in Note 7.

(Continued)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 3 - INVESTMENTS (Continued)

The amortized cost and fair value of debt securities are shown by contractual maturity as of December 31, 2021. 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.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due to mature		
One year or less	\$ 3,245,547	\$ 3,279,555
After one year through five years	86,902,759	89,122,449
After five years through ten years	63,037,891	65,349,269
After ten years	27,074,720	29,636,468
Residential mortgage-backed securities	36,155,879	36,244,065
Commercial mortgage-backed securities	18,415,128	18,652,709
Collateralized debt obligations	<u>14,804,451</u>	<u>14,831,636</u>
 Total debt securities	 <u>\$ 249,636,375</u>	 <u>\$ 257,116,151</u>

Proceeds from sales of securities amounted to \$138,864,956 and \$177,954,297 in 2021 and 2020, respectively. Gross realized gains of \$2,996,650 and \$7,222,309, and gross realized losses of \$625,378 and \$422,824 were realized on those sales during 2021 and 2020, respectively.

The Company holds 133 securities that are in an unrealized loss position as of December 31, 2021, of which 23 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, 2021:

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Debt securities				
U.S. government	\$ 40,128,641	\$ (343,252)	\$ 1,973	\$ (94)
U.S. special revenue and special assessment obligations	8,363,121	(150,635)	1,042,076	(38,192)
Industrial and miscellaneous	36,539,096	(350,321)	8,171,376	(115,650)
Hybrid securities	<u>728,215</u>	<u>(1,644)</u>	<u>-</u>	<u>-</u>
 Total	 <u>\$ 85,759,073</u>	 <u>\$ (845,852)</u>	 <u>\$ 9,215,425</u>	 <u>\$ (153,936)</u>

(Continued)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 3 - INVESTMENTS (Continued)

The Company held 25 securities that were in an unrealized loss position as of December 31, 2020, of which 8 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, 2020:

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Debt securities				
U.S. government	\$ 853,509	\$ (21,374)	\$ 5,002	\$ (12)
U.S. special revenue and special assessment obligations	418,067	(15)	-	-
Industrial and miscellaneous	<u>8,704,108</u>	<u>(135,280)</u>	<u>5,846,053</u>	<u>(100,982)</u>
 Total	 <u>\$ 9,975,684</u>	 <u>\$ (156,669)</u>	 <u>\$ 5,851,055</u>	 <u>\$ (100,994)</u>

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.

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, 2021 and 2020.

(Continued)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

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, 2021:

	Admitted Assets	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial instruments (carried at fair value)					
Money market funds	\$ 1,449,311	\$ 1,449,311	\$ -	\$ -	\$ 1,449,311
Debt securities	122,189	-	122,189	-	122,189
Mutual funds	45,768,089	45,768,089	-	-	45,768,089
Total	47,339,589	47,217,400	122,189	-	47,339,589
Financial instruments (carried at amortized cost)					
Debt securities	249,509,365	-	256,993,962	-	256,993,962
Total	249,509,365	-	256,993,962	-	256,993,962
Total	<u>\$ 296,848,954</u>	<u>\$ 47,217,400</u>	<u>\$ 257,116,151</u>	<u>\$ -</u>	<u>\$ 304,333,551</u>

(Continued)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2020:

	Admitted Assets	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial instruments (carried at fair value)					
Money market funds	\$ 968,391	\$ 968,391	\$ -	\$ -	\$ 968,391
Repurchase agreements	2,099,832	-	2,099,832	-	2,099,832
Debt securities	2,163,462	-	2,163,462	-	2,163,462
Mutual funds	<u>32,416,327</u>	<u>32,416,327</u>	<u>-</u>	<u>-</u>	<u>32,416,327</u>
Total	37,648,012	33,384,718	4,263,294	-	37,648,012
Financial instruments (carried at amortized cost)					
Short-term investments	3,399,401	-	3,399,440	-	3,399,440
Debt securities	<u>231,034,932</u>	<u>-</u>	<u>246,041,888</u>	<u>-</u>	<u>246,041,888</u>
Total	234,434,333	-	249,441,328	-	249,441,328
Total	<u>\$ 272,082,345</u>	<u>\$ 33,384,718</u>	<u>\$ 253,704,622</u>	<u>\$ -</u>	<u>\$ 287,089,340</u>

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 and special revenue and special assessment obligations: 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, 2021 and 2020, the Company held no level 3 investments.

(Continued)

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, 2021 and 2020, 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 direct and assumed basis 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.

(Continued)

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 \$200,000,000 for 2021 and 2020. Under the program, a participating insurer, in exchange for making terrorism insurance available, is entitled to be reimbursed by the Federal Government for 80% of subject losses in 2021 and 2020, after an insurer deductible, subject to an annual cap. This reimbursement percentage 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, 2021 and 2020, 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 \$2,000,000 aggregate deductible relating to general liability, public officials liability and employment practice liability. In addition, effective July 1, 2021 and 2020, 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)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 5 - INSURANCE ACTIVITY (Continued)

Premiums written, assumed and ceded for the years ended December 31, 2021 and 2020 are summarized as follows:

	<u>Premiums Written</u>		<u>Premiums Earned</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Direct premiums	\$ 42,899,444	\$ 38,098,870	\$ 40,738,066	\$ 38,506,539
Assumed premiums	3,392,434	2,940,814	3,187,982	2,590,265
Ceded premiums	<u>(4,389,785)</u>	<u>(3,712,084)</u>	<u>(4,093,369)</u>	<u>(3,637,183)</u>
 Net premiums	 <u>\$ 41,902,093</u>	 <u>\$ 37,327,600</u>	 <u>\$ 39,832,679</u>	 <u>\$ 37,459,621</u>

A reconciliation of changes in unpaid losses and loss adjustment expenses as of and for the years ended December 31, 2021 and 2020, are summarized as follows:

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 102,932,585	\$ 99,540,482
Incurred related to		
Current year	31,444,571	33,389,339
Prior years	<u>(22,029,514)</u>	<u>(9,677,230)</u>
Total incurred	9,415,057	23,712,109
Paid related to		
Current year	(2,676,402)	(2,982,122)
Prior years	<u>(19,634,386)</u>	<u>(17,337,884)</u>
Total paid	<u>(22,310,788)</u>	<u>(20,320,006)</u>
 Balance at end of year	 <u>\$ 90,036,854</u>	 <u>\$ 102,932,585</u>

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by \$22,029,514 and \$9,677,230 in 2021 and 2020, respectively. The development during 2021 relates primarily to favorable department on HARRG's retained liability book of business for accident years 2016 through 2020. The development during 2020 relates primarily to favorable development on HARRG's retained liability book of business for accident years 2017 through 2019.

The Company recorded net reinsurance activity of \$(1,078,893) and \$(1,994,854) in 2021 and 2020, respectively, which is reflected as a decrease in net losses and loss adjustment expenses incurred in the statutory statements of operations.

(Continued)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 6 - PROPERTY AND EQUIPMENT

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

	<u>2021</u>	<u>2020</u>
Land	\$ 2,580,836	\$ 2,580,836
Building	15,072,057	14,829,103
Furniture and fixtures	<u>1,786,726</u>	<u>1,858,610</u>
	19,439,619	19,268,549
Less: accumulated depreciation	<u>(8,370,853)</u>	<u>(7,821,367)</u>
	11,068,766	11,447,182
Non-admitted assets	<u>(121,767)</u>	<u>(166,471)</u>
Total	<u>\$ 10,946,999</u>	<u>\$ 11,280,711</u>
EDP equipment	\$ 3,929,636	\$ 3,944,262
EDP software	<u>2,866,523</u>	<u>2,887,723</u>
	6,796,159	6,831,985
Less: accumulated depreciation	<u>(6,213,903)</u>	<u>(5,730,374)</u>
Total	<u>\$ 582,256</u>	<u>\$ 1,101,611</u>

Depreciation expense for the years ended December 31, 2021 and 2020 amounted to \$1,313,378 and \$1,391,225, respectively. Depreciation expense of \$1,065,675 and \$1,034,654 was allocated to affiliated entities per the management services agreement, as disclosed in Note 8, in 2021 and 2020, 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, 2021 and 2020, the term loan had an outstanding balance of \$1,891,068 and \$3,181,252, respectively. FHLBB 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, 2021 and 2020, the Company had pledged assets with a fair value of \$7,425,469 and \$7,588,578, respectively.

Interest expense related to the FHLBB term loans was \$73,115 and \$106,810 for the years ended December 31, 2021 and 2020, respectively, and is included within other underwriting expenses incurred on the statutory statements of operations.

(Continued)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 7 - BORROWED MONEY (Continued)

The aggregate scheduled principal repayments on the long-term debt of the Company are as follows as of December 31, 2021:

2022	\$ 1,327,031
2023	<u>564,037</u>
	<u>\$ 1,891,068</u>

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 also pays HAI fees for a program established during 2020 relating to public housing loss prevention efforts that would result in safer environment for their residents and prevent and mitigate losses. The Company recognized an expense for these services of \$669,300 and \$1,346,500 for the years ended December 31, 2021 and 2020, respectively.

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 \$159,399 and \$129,513 for the years ended December 31, 2021 and 2020, respectively.

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, 2021 and 2020. Also, as part of the agreement, HARRG pays HTI a sponsorship fee. This portion of the agreement was not renewed for the year ended December 31, 2021. The Company recognized expenses of \$51,645 for sponsorship fees paid to HTI for the year ended December 31, 2020.

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.

(Continued)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 8 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)

The amounts of allocated costs by company are as follows:

	<u>Allocated Costs</u>	
	<u>2021</u>	<u>2020</u>
HAPI	\$ 11,243,249	\$ 10,580,173
HIS	5,116,158	4,459,753
HEIC	10,563,085	6,666,957
HAI	524,442	705,428
HTI	1,303,308	1,485,347
HSIC	958,244	1,069,051
HIG	552,369	748,797
Public and Affordable Housing Research Corporation (PAHRC)	617,832	558,387
IHIC	<u>115,054</u>	<u>131,971</u>
 Total	 <u>\$ 30,993,741</u>	 <u>\$ 26,405,864</u>

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, 2021 and 2020, the Company had the following amounts receivable from and payable to affiliated entities:

	<u>2021</u>		<u>2020</u>	
	<u>Amounts receivable</u>	<u>Amounts payable</u>	<u>Amounts receivable</u>	<u>Amounts payable</u>
HAPI	\$ 1,037,836	\$ -	\$ 1,195,245	\$ -
HAI	-	525,742	-	318,085
HTI	72,145	-	119,719	-
HIG	-	21,330	66,178	-
HEIC	1,017,262	-	777,392	-
HIS	768,757	-	78,873	293,173
PAHRC	38,931	-	64,253	-
HSIC	78,396	-	117,975	-
IHIC	14,921	-	16,836	-
Affordable Housing Accreditation Board (AHAB)	<u>62,768</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total	 <u>\$ 3,091,016</u>	 <u>\$ 547,072</u>	 <u>\$ 2,436,471</u>	 <u>\$ 611,258</u>

(Continued)

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 \$595,464 and \$568,632 for the years ended December 31, 2021 and 2020, 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. After completion of 1 year of service, participants are also eligible to receive safe harbor matching contributions and are vested immediately. Vesting in discretionary profit sharing contributions is based on years of continuous service. Participants are fully vested in discretionary profit-sharing contributions upon the completion of three years of service. Participants are also fully vested upon reaching normal retirement age, death or total disability.

The Company was the sponsor of a supplemental executive retirement plan (the SERP) covering certain key employees. The purpose of the SERP was to reward the employees for their loyal and continuous service to 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, 2021 and 2020, the SERP's cash value associated with related life insurance amounted to \$2,580,038 and \$2,401,609, respectively. SERP benefits incurred amounted to \$178,429 and \$390,307 for the years ended December 31, 2021 and 2020, respectively, net of allocated amounts to affiliated companies. During 2021 and 2020, the Company recorded an expense of \$106,530 and \$107,136, respectively, 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 \$1,046,746 and \$1,164,426 as of December 31, 2021 and 2020, 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 \$883,481 and \$993,080 of incentive compensation for the years ended December 31, 2021 and 2020, 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 were discontinued and the OPEB Plan was 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 was established for eligible employees. The retiree medical account is credited by the Company until the employee retires or is terminated.

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 \$2,264,585 and \$2,420,983 as of December 31, 2021 and 2020, respectively. 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.

(Continued)

NOTE 10 - CAPITAL AND SURPLUS (Continued)

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 \$10,000,000 and \$1,300,000 for the years ended December 31, 2021 and 2020, respectively. For the years ended December 31, 2021 and 2020, \$9,900,000 and \$1,287,000 related to Class "A" members, respectively. During 2021 and 2020, dividends were declared to Class "B" members in the amount of \$100,000 and \$13,000, with \$28,126 and \$6,500 to be paid in cash and \$71,874 and \$6,500 to be recorded as members' recapitalization dividends within the statements of changes in capital and surplus, respectively. In total, policyholder dividends of \$9,911,260 and \$1,253,642 were expensed for the years ended December 31, 2021 and 2020, respectively, within the statutory statements of operations. Dividends were approved by the Vermont Department of Financial Regulation (the Department).

The Company may also provide its members with supplemental dividends, which are based upon a percentage of premium on policies with effective dates in the current calendar year. These dividends are paid to the members upon policy expiration. For the year ended December 31, 2021, the Company did not expense any supplemental dividends. For the year ended December 31 2020, the Company expensed \$1,083,354 of supplemental dividends.

The Company also provides its members with equity dividends for the purchase of HAI Group products and services. Equity dividends amounted to \$611,672 and \$645,901 in 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020.

The Company is required by the Department to maintain a minimum statutory surplus of \$1,000,000 in 2021 and 2020.

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, 2021 and 2020.

(Continued)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 11 - COMMITMENTS AND CONTINGENCIES

As of December 31, 2021 and 2020, 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, 2021 and 2020. 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 \$3,417,350 irrevocable letter of credit with BBH, related to the Company's fronted auto program as of December 31, 2021 and 2020. Travelers Indemnity Company is the beneficiary of the letter of credit. As of December 31, 2021 and 2020, the Company pledged \$3,759,085 as collateral to secure the letter of credit. There were no draw downs on this letter of credit as of December 31, 2021 and 2020.

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, 2021 and 2020, amounts reflected as non-admitted assets were as follows:

	<u>2021</u>	<u>2020</u>
Nonadmits on investment in affiliate	\$ 8,166	\$ 889,884
Premiums receivable over 90 days	5,746	171,192
Furniture and fixtures	121,767	166,470
Deductible receivable over 90 days	-	70,165
Prepaid expenses	<u>1,089,752</u>	<u>1,033,778</u>
	<u>\$ 1,225,431</u>	<u>\$ 2,331,489</u>

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, 2021 and 2020.

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY

STATUTORY FINANCIAL STATEMENTS

December 31, 2021 and 2020

INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the statutory financial statements of Housing Authority Property Insurance, A Mutual Company (the Company), which comprise the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2021 and 2020, 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.

Unmodified Opinion on Statutory Basis of Accounting

In our opinion, the accompanying statutory financial statements present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2021 and 2020, 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 (the Department) as described in Note 2.

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 section of our report, the statutory financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2021 and 2020, or the results of its operations and its cash flows for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Statutory Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Department, 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 and pervasive.

(Continued)

Responsibilities of Management 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 Department. 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.

In preparing the statutory financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the statutory financial statements are issued.

Auditor's Responsibilities for the Audit of the Statutory Financial Statements

Our objectives are to obtain reasonable assurance about whether the statutory financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the statutory financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the statutory financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the statutory financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the statutory financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

(Continued)

Supplementary Information

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 schedule of 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 and pervasive. 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, 2021 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.

A handwritten signature in black ink that reads "Crowe LLP". The letters are stylized and cursive.

Crowe LLP

West Hartford, Connecticut
May 2, 2022

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ADMITTED ASSETS		
Cash and invested assets		
Debt securities, at amortized cost or fair value	\$ 157,597,696	\$ 147,122,392
Equity securities, at fair value	24,487,581	17,336,594
Federal Home Loan Bank of Boston stock, at cost	86,500	239,500
Investment in affiliates	39,324,609	36,930,668
Cash, cash equivalents and short-term investments	<u>7,273,169</u>	<u>15,619,796</u>
Total cash and invested assets	228,769,555	217,248,950
Investment income due and accrued	929,577	1,023,364
Premiums receivable	18,324,037	16,872,038
Reinsurance recoverable on paid losses	1,412,335	2,861,287
Funds held by or deposited with reinsured companies	10,000	10,000
Due from affiliates	<u>16,094</u>	<u>12,476</u>
Total admitted assets	<u>\$ 249,461,598</u>	<u>\$ 238,028,115</u>
 LIABILITIES AND CAPITAL AND SURPLUS		
Unpaid losses and loss adjustment expenses	\$ 46,718,741	\$ 37,678,712
Taxes, licenses and fees	318,109	342,340
Unearned premiums	28,743,934	26,540,426
Accrued dividends	2,148,554	14,169,487
Ceded reinsurance premiums payable	957,835	846,172
Provision for reinsurance	5,705	427,000
Due to affiliates	1,618,731	1,584,003
Accrued expenses and other liabilities	<u>954,566</u>	<u>1,047,679</u>
Total liabilities	81,466,175	82,635,819
Capital and surplus		
Members' contributions	10,757,161	10,408,534
Unassigned funds	<u>157,238,262</u>	<u>144,983,762</u>
Total capital and surplus	<u>167,995,423</u>	<u>155,392,296</u>
Total liabilities and capital and surplus	<u>\$ 249,461,598</u>	<u>\$ 238,028,115</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Underwriting income		
Net premiums earned	\$ 59,008,641	\$ 57,129,743
Losses and expenses		
Net losses and loss adjustment expenses incurred	41,530,833	26,066,122
Other underwriting expenses incurred	<u>14,676,136</u>	<u>15,754,740</u>
Total losses and expenses	<u>56,206,969</u>	<u>41,820,862</u>
Net underwriting income	2,801,672	15,308,881
Investment income		
Net investment income earned	4,333,735	5,666,101
Net realized capital gain	<u>1,489,134</u>	<u>4,089,677</u>
Total investment gain	5,822,869	9,755,778
Other income	<u>165,642</u>	<u>84,435</u>
Net income before policyholder dividends	8,790,183	25,149,094
Policyholder dividends	<u>(1,886,205)</u>	<u>(14,147,737)</u>
Net income	<u>\$ 6,903,978</u>	<u>\$ 11,001,357</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Capital and surplus, beginning of year	\$ 155,392,296	\$ 141,013,211
Net income	6,903,978	11,001,357
Net unrealized capital gains	4,521,907	4,175,823
Equity dividends	(258,906)	(253,678)
Members' contributions, net	200	3,883
Change in non-admitted assets	1,014,653	(290,300)
Change in provision for reinsurance	<u>421,295</u>	<u>(258,000)</u>
Capital and surplus, end of year	<u>\$ 167,995,423</u>	<u>\$ 155,392,296</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operations		
Premiums collected, net of reinsurance	\$ 59,871,813	\$ 58,362,766
Net investment income	4,628,943	5,822,916
Miscellaneous income	165,644	84,435
Losses and loss related payments, net	(28,452,391)	(23,410,573)
Commissions, expenses paid and aggregate write-ins for deductions	(17,268,211)	(18,054,884)
Dividends paid to policyholders	<u>(13,907,139)</u>	<u>(4,765,816)</u>
Net cash from operations	5,038,659	18,038,844
Cash flows from investments		
Proceeds from investments sold, matured and repaid	113,823,390	124,248,847
Cost of investments acquired	<u>(126,996,787)</u>	<u>(131,386,352)</u>
Net cash from investments	(13,173,397)	(7,137,505)
Cash flows from financing and miscellaneous sources		
Members' contributions and distributions, net	(258,707)	(249,794)
Other cash provided	<u>46,818</u>	<u>288,661</u>
Net cash from financing and miscellaneous sources	<u>(211,889)</u>	<u>38,867</u>
Change in cash, cash equivalents and short-term investments	(8,346,627)	10,940,206
Cash, cash equivalents and short-term investments, beginning of year	<u>15,619,796</u>	<u>4,679,590</u>
Cash, cash equivalents and short-term investments, end of year	<u>\$ 7,273,169</u>	<u>\$ 15,619,796</u>

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

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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 accumulated other comprehensive income as a component of members' equity. 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 and as such, other-than-temporary impairments (OTTI) are not recorded. Under NAIC SAP, equities are assessed for declines in value that are other-than-temporary and are reported as realized capital losses in the statutory statements of operations.

(Continued)

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 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 statutory statement of operations.

Policy Acquisition Costs - For 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 NAIC SAP.

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 collected before year end be reported as advance premium and for all uncollected advance premium to be netted against the corresponding 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.

(Continued)

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."

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. As of December 31, 2021, cash equivalents consist of money market instruments. As of December 31, 2020, cash equivalents consisted 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 is adjusted for amortization of premiums and accretion of discounts using the scientific interest method. 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)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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 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, 2021 and 2020. No contributions were made during 2021 and 2020 to HIG. There were no dividends declared or paid by HIG during 2021. During 2020, the Company received a dividend payment from HIG of \$2,000,000.

In January 2001, the Company formed Housing Enterprise Insurance Company, Inc. (HEIC), a licensed domestic stock insurance company domiciled in the State of Vermont. In 2003, HARRG became an owner by purchasing shares of stock and contributing surplus to HEIC. Currently, the Company owns 700 shares of voting common stock and HARRG owns 1,300 shares of voting common stock. No contributions were made during 2021 and 2020. As of December 31, 2021 and 2020, the Company owns 35% of HEIC.

In December 2013, the Company and HARRG jointly formed Housing Specialty Insurance Company, Inc. (HSIC), a licensed domestic stock insurance company domiciled in the State of Vermont, which was formed to provide surplus lines coverages to specific risks. The Company and HARRG each own 100 shares of voting common stock. No contributions were made during 2021 and 2020 to HSIC. The Company owns 50% of HSIC as of December 31, 2021 and 2020.

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.*"

Federal Home Loan Bank of Boston Stock: The Company, which is a member of the Federal Home Loan Bank, is required to maintain an investment in capital stock of the Federal Home Loan Bank of Boston (FHLBB). Based on redemption provisions of the FHLBB, the fair value of the stock is not readily determinable and is carried at cost. At its discretion, the FHLBB may declare dividends on the stock. The Company reviews for impairment based on the ultimate recoverability of the cost basis in the FHLBB stock. As of December 31, 2021 and 2020, no impairment has been recognized.

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.

(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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 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 2021 or 2020.

Unpaid Losses and Loss Adjustment Expense Reserves: Unpaid losses and loss adjustment expense reserves net of the related reinsurance recoverables represent estimated provisions for both reported and unreported claims incurred and related expenses. In determining unpaid losses and loss adjustment expense reserves and 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 period of reinsurance protection provided. 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2021 and 2020. 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.

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 2021 and 2020.

Use of Estimates: The preparation of the statutory financial statements in conformity with NAIC SAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, capital and surplus, 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 May 2, 2022, which is the date the statutory financial statements were available to be issued.

Risks and Uncertainties: Due to the ongoing concern of the novel strain of the coronavirus and resulting global pandemic, the operations and business results of the Company could be materially adversely affected in future years. 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. As of December 31, 2021, the Company has not been materially adversely impacted. Management continues to monitor any new information which may emerge concerning the severity, containment and treatment of the virus and the global impact of the pandemic relating to all components of the Company.

(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 3 - INVESTMENTS

Investments, carried at amortized cost and fair value, as of December 31, 2021, are as follows:

	<u>Cost or</u> <u>Amortized Cost</u>	<u>Gross</u> <u>Unrealized</u> <u>Gains</u>	<u>Gross</u> <u>Unrealized</u> <u>Losses</u>	<u>Fair Value</u>
Debt securities, at amortized cost:				
U.S. government	\$ 37,576,133	\$ 552,604	\$ (251,826)	\$ 37,876,911
All other governments	386,591	53,098	-	439,689
U.S. states, territories and possessions	344,273	123,295	-	467,568
U.S. political subdivisions of states, territories and possessions	1,080,008	332,348	-	1,412,356
U.S. special revenue and special assessment obligations	20,457,476	446,332	(218,584)	20,685,224
Industrial and miscellaneous	92,964,848	2,816,352	(313,718)	95,467,482
Hybrid securities	3,845,224	216,985	(2,236)	4,059,973
Other invested assets	<u>832,061</u>	<u>105,068</u>	<u>-</u>	<u>937,129</u>
Total debt securities, at amortized cost	157,486,614	4,646,082	(786,364)	161,346,332
Debt securities, at fair value:				
Industrial and miscellaneous	<u>115,464</u>	<u>-</u>	<u>(4,382)</u>	<u>111,082</u>
Total debt securities, at fair value	115,464	-	(4,382)	111,082
Equity securities, at fair value:				
Mutual funds	<u>16,950,620</u>	<u>7,536,961</u>	<u>-</u>	<u>24,487,581</u>
Total equity securities, at fair value	<u>16,950,620</u>	<u>7,536,961</u>	<u>-</u>	<u>24,487,581</u>
Total	<u>\$ 174,552,698</u>	<u>\$ 12,183,043</u>	<u>\$ (790,746)</u>	<u>\$ 185,944,995</u>

(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 3 - INVESTMENTS (Continued)

Investments, carried at amortized cost and fair value, as of December 31, 2020, were as follows:

	<u>Cost or</u> <u>Amortized Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	<u>Fair Value</u>
Debt securities, at amortized cost:				
U.S. government	\$ 26,254,266	\$ 1,645,205	\$ (534)	\$ 27,898,937
U.S. states, territories and possessions	345,291	144,831	-	490,122
U.S. political subdivisions of states, territories and possessions	1,095,415	321,993	-	1,417,408
U.S. special revenue and special assessment obligations	17,165,887	855,855	(15)	18,021,727
Industrial and miscellaneous	96,813,048	5,727,524	(101,771)	102,438,801
Hybrid securities	3,478,530	242,445	-	3,720,975
Other invested assets	<u>832,124</u>	<u>149,588</u>	<u>-</u>	<u>981,712</u>
Total debt securities, at amortized cost	145,984,561	9,087,441	(102,320)	154,969,682
Debt securities, at fair value:				
Industrial and miscellaneous	<u>1,154,474</u>	<u>-</u>	<u>(16,643)</u>	<u>1,137,831</u>
Total debt securities, at fair value	1,154,474	-	(16,643)	1,137,831
Equity securities, at fair value:				
Mutual funds	<u>12,721,886</u>	<u>4,614,708</u>	<u>-</u>	<u>17,336,594</u>
Total equity securities, at fair value	12,721,886	4,614,708	-	17,336,594
 Total	 <u>\$ 159,860,921</u>	 <u>\$ 13,702,149</u>	 <u>\$ (118,963)</u>	 <u>\$ 173,444,107</u>

As of December 31, 2021 and 2020, respectively, the Company held \$86,500 and \$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, 2021. 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 <u>Cost</u>	<u>Fair Value</u>
Due to mature		
One year or less	\$ 2,736,870	\$ 2,768,038
After one year through five years	51,251,661	52,662,021
After five years through ten years	40,836,398	42,024,275
After ten years	16,082,480	17,147,889
Collateralized debt obligations	23,076,258	23,140,095
Residential mortgage-backed securities	16,018,772	16,105,948
Commercial mortgage-backed securities	<u>7,599,639</u>	<u>7,609,148</u>
 Total fixed income securities	 <u>\$ 157,602,078</u>	 <u>\$ 161,457,414</u>

(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 3 - INVESTMENTS (Continued)

Proceeds from sales of securities amounted to \$93,087,902 and \$106,199,723 in 2021 and 2020, respectively. Gross realized gains amounted to \$1,957,454 and \$4,255,501 on the sale of securities in 2021 and 2020, respectively. Gross realized losses amounted to \$468,463 and \$165,824 in 2021 and 2020, respectively.

The Company holds 134 securities that are in an unrealized loss position as of December 31, 2021, of which 23 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, 2021:

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
U.S. government	\$ 23,299,477	\$ (228,546)	\$ 464,431	\$ (23,280)
U.S. special revenue and special assessment obligations	6,628,351	(118,352)	2,680,079	(100,232)
Industrial and miscellaneous	24,186,466	(256,039)	4,253,599	(62,061)
Hybrid securities	<u>672,198</u>	<u>(2,236)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 54,786,492</u>	<u>\$ (605,173)</u>	<u>\$ 7,398,109</u>	<u>\$ (185,573)</u>

The Company held 21 securities that were in an unrealized loss position as of December 31, 2020, of which 7 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 were in a continuous unrealized loss position, as of December 31, 2020:

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
U.S. government	\$ 199,313	\$ (534)	\$ -	\$ -
U.S. special revenue and special assessment obligations	401,461	(15)	-	-
Industrial and miscellaneous	<u>4,933,543</u>	<u>(76,008)</u>	<u>2,564,610</u>	<u>(42,406)</u>
Total	<u>\$ 5,534,317</u>	<u>\$ (76,557)</u>	<u>\$ 2,564,610</u>	<u>\$ (42,406)</u>

The Company had debt securities with amortized costs of \$5,313,548 and \$5,442,427 as of December 31, 2021 and 2020, 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 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.

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, 2021 and 2020.

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.

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2021:

	Admitted Assets	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial instruments (carried at fair value)					
Money market funds	\$ 1,060,285	\$ 1,060,285	\$ -	\$ -	\$ 1,060,285
Mutual funds	24,487,581	24,487,581	-	-	24,487,581
Debt securities	111,082	-	111,082	-	111,082
Total	25,658,948	25,547,866	111,082	-	25,658,948
Financial instruments (carried at amortized cost)					
Debt securities	157,486,614	-	161,346,332	-	161,346,332
Total	157,486,614	-	161,346,332	-	161,346,332
Total	<u>\$ 183,145,562</u>	<u>\$ 25,547,866</u>	<u>\$ 161,457,414</u>	<u>\$ -</u>	<u>\$ 187,005,280</u>

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, 2020:

	Admitted Assets	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial instruments (carried at fair value)					
Money market funds	\$ 7,593,459	\$ 7,593,459	\$ -	\$ -	\$ 7,593,459
Mutual funds	17,336,594	17,336,594	-	-	17,336,594
Debt securities	1,137,831	-	1,137,831	-	1,137,831
Total	26,067,884	24,930,053	1,137,831	-	26,067,884
Financial instruments (carried at amortized cost)					
Short-term investments	2,149,638	2,149,657	-	-	2,149,657
Debt securities	145,984,561	-	154,969,682	-	154,969,682
Total	148,134,199	2,149,657	154,969,682	-	157,119,339
Total	<u>\$ 174,202,083</u>	<u>\$ 27,079,710</u>	<u>\$ 156,107,513</u>	<u>\$ -</u>	<u>\$ 183,187,223</u>

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

(Continued)

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

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

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

State and political subdivisions and special revenue and special assessments obligations - 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, 2021 and 2020, 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 2021 and 2020, 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.

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

Effective January 1, 2015, the Company began providing reinsurance coverage to HSIC, for commercial property coverage on public housing units insured by HSIC. In accordance with the reinsurance agreement, the Company assumes 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 2021 and 2020, the Company assumed \$394,013 and \$570,888, 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.

(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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 \$200,000,000 for 2021 and 2020. Under the program, a participating insurer, in exchange for making terrorism insurance available, is entitled to be reimbursed by the Federal Government for 80% of subject losses in 2021 and 2020, after an insurer deductible, subject to an annual cap. This reimbursement percentage 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, 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.

(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 5 - INSURANCE ACTIVITY (Continued)

Premiums direct written, assumed and ceded for the years ended December 31, 2021 and 2020, are summarized as follows:

	<u>Premiums Written</u>		<u>Premiums Earned</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Direct premiums	\$ 77,764,022	\$ 72,845,139	\$ 75,094,388	\$ 71,357,995
Assumed premiums	2,190,879	2,157,319	2,143,750	2,091,922
Ceded premiums	<u>(18,742,752)</u>	<u>(16,469,290)</u>	<u>(18,229,497)</u>	<u>(16,320,174)</u>
Net premiums	<u>\$ 61,212,149</u>	<u>\$ 58,533,168</u>	<u>\$ 59,008,641</u>	<u>\$ 57,129,743</u>

A reconciliation of changes in unpaid losses and loss adjustment expenses for the years ended December 31, 2021 and 2020, are summarized as follows:

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 37,678,712	\$ 39,397,318
Incurred related to:		
Current year	56,871,275	41,137,227
Prior years	<u>(15,340,442)</u>	<u>(15,071,105)</u>
Total incurred	41,530,833	26,066,122
Paid related to:		
Current year	(19,930,836)	(15,125,550)
Prior years	<u>(12,559,968)</u>	<u>(12,659,178)</u>
Total paid	<u>(32,490,804)</u>	<u>(27,784,728)</u>
Balance at end of year	<u>\$ 46,718,741</u>	<u>\$ 37,678,712</u>

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by \$15,340,442 and \$15,071,105 in 2021 and 2020, respectively. The development during 2021 relates primarily to favorable development of accident year 2020. The development during 2020 relates primarily to favorable development of accident year 2019.

The Company recorded net reinsurance recovery activity of \$9,479,101 and \$6,861,731 in 2021 and 2020, respectively, which are reflected as a decrease in net losses and loss adjustment expenses incurred in the statutory statements of operations.

(Continued)

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 \$11,243,249 and \$10,580,173 for the years ended December 31, 2021 and 2020, respectively. The amounts due to HARRG under these agreements, which are included in due to affiliates, amounted to \$1,037,836 and \$1,195,245 as of December 31, 2021 and 2020, 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 \$85,520 and \$75,188 for the years ended December 31, 2021 and 2020, respectively. The amount due from HIS, which is included in due from affiliates, amounted to \$16,094 and \$12,476 as of December 31, 2021 and 2020, 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.

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, 2021 and 2020, commission expense under this agreement amounted to \$3,754,777 and \$3,568,118, 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. The Company also pays HAI fees for a program established during 2020 relating to public housing loss prevention efforts that would result in a safer environment for their residents and prevent and mitigate losses. HAPI recognized expenses for these services of \$789,750 and \$1,948,750 for the years ended December 31, 2021 and 2020, respectively. The amount due to HAI amounted to \$570,472 and \$378,866 as of December 31, 2021 and 2020, respectively, which is included in due to affiliates on the statutory statements of admitted assets, liabilities and capital and surplus.

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, 2021 and 2020. Also, as part of the agreement, HAPI pays HTI a sponsorship fee. This portion of the agreement was not renewed for the year ended December 31, 2021. The Company recognized expenses of \$88,410 for sponsorship fees paid to HTI for the year ended December 31, 2020. The Company has amounts due to HTI of \$8,549 and \$8,431 as of December 31, 2021 and 2020, respectively, which are included in due to affiliates on the statutory statements of admitted assets, liabilities and capital and surplus.

As of December 31, 2021 and 2020, there was \$1,238 and \$870 due to HEIC included in due to affiliates on the statutory statements of admitted assets, liabilities and capital and surplus.

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)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 7 - EMPLOYEE BENEFITS

HAPI does not maintain a retirement plan, deferred compensation or other postretirement 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 \$282,540 and \$285,935 and 401(k) expenses of \$209,831 and \$195,179, for the years ended December 31, 2021 and 2020, respectively. In addition, the Company recorded an expense for incentive compensation of \$717,733 and \$825,213, for the years ended December 31, 2021 and 2020, 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, 2021, policyholder dividends of \$2,000,000 were declared by the Company with \$1,880,000 related to Class "A" members. Dividends declared to Class "B" members amounted to \$120,000, with \$30,804 to be paid in cash and \$89,196 to be recorded as members' recapitalization dividends within the statements of changes in capital and surplus. For the year ended December 31, 2020, policyholder dividends of \$12,000,000 were declared by the Company with \$11,280,000 related to Class "A" members. Dividends declared to Class "B" members amounted to \$720,000, with \$360,000 to be paid in cash and \$360,000 to be recorded as members' recapitalization dividends within the statements of changes in capital and surplus. In total, policyholder dividends of \$1,886,205 and \$11,618,250 were expensed for the years ended December 31, 2021 and 2020, respectively, within the statutory statements of operations. Dividends were approved by the Board of Directors.

The Company may also provide its members with supplemental dividends, which are based upon a percentage of premium on policies with effective dates in the calendar year in which the dividend is declared. For the year ended December 31, 2021, the Company did not expense any supplemental dividends. For the year ended December 31, 2020, the Company expensed \$2,529,487 of supplemental dividends.

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

(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 8 - CAPITAL AND SURPLUS (Continued)

During 2021 and 2020, 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 \$258,906 and \$253,678 in 2021 and 2020, 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.

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, 2021 and 2020.

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, 2021 and 2020, the Company has not accrued for or been assessed by any state insurance department.

As of December 31, 2021 and 2020, 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, 2021 and 2020. 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, 2021 and 2020, the Company has an irrevocable standby letter of credit from BBH of \$1,247,669 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, 2021 and 2020.

(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)

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. During 2021 and 2020, such credit protection was not considered necessary as amounts due from HEIC are current.

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, 2021 and 2020, amounts reflected as non-admitted assets were as follows:

	<u>2021</u>	<u>2020</u>
Non admitted assets of investment in affiliate	\$ 8,166	\$ 889,883
Prepaid expenses	<u>12,021</u>	<u>144,957</u>
	<u>\$ 20,187</u>	<u>\$ 1,034,840</u>

NOTE 11 - 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 for the years ended December 31, 2021 and 2020.

HOUSING ENTERPRISE INSURANCE COMPANY, INC.

STATUTORY FINANCIAL STATEMENTS

December 31, 2021 and 2020



INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the 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, 2021 and 2020, 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.

Unmodified Opinion on Statutory Basis of Accounting

In our opinion, the accompanying statutory financial statements present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2021 and 2020, 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 (the Department) as described in Note 2.

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 section of our report, the statutory financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2021 and 2020, or the results of its operations and its cash flows for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Statutory Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Department, 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 and pervasive.

(Continued)

Responsibilities of Management 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 Department. 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.

In preparing the statutory financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the statutory financial statements are issued.

Auditor's Responsibilities for the Audit of the Statutory Financial Statements

Our objectives are to obtain reasonable assurance about whether the statutory financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the statutory financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the statutory financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the statutory financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the statutory financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

(Continued)

Supplementary Information

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 schedule of 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 and pervasive. 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, 2021 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

West Hartford, Connecticut
May 2, 2022

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ADMITTED ASSETS		
Cash and invested assets:		
Debt securities, at amortized cost	\$ 98,236,856	\$ 89,464,141
Cash, cash equivalents and short-term investments	<u>5,316,921</u>	<u>5,213,631</u>
Total cash and invested assets	103,553,777	94,677,772
Investment income due and accrued	561,263	592,406
Premiums receivable	22,620,187	18,049,588
Reinsurance recoverable on paid losses	1,254,453	2,226,479
Deferred tax asset	1,561,248	1,510,992
Federal income tax receivable	431,939	-
Due from affiliates	7,401	33,793
Other assets	<u>8,202</u>	<u>-</u>
Total admitted assets	<u>\$ 129,998,470</u>	<u>\$ 117,091,030</u>
LIABILITIES AND CAPITAL AND SURPLUS		
Unpaid losses and loss adjustment expenses	\$ 43,521,026	\$ 33,911,423
Taxes, licenses and fees	591,598	543,535
Federal income tax payable	-	621,368
Unearned premiums	29,172,911	23,020,173
Ceded reinsurance premium payable	2,062,161	3,495,454
Provision for unauthorized reinsurance	289,708	-
Funds held under reinsurance treaties	28,765	31,236
Due to affiliates	1,017,262	777,392
Accrued expenses and other liabilities	<u>1,044,368</u>	<u>897,096</u>
Total liabilities	77,727,799	63,297,677
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	<u>3,270,671</u>	<u>4,793,353</u>
Total capital and surplus	<u>52,270,671</u>	<u>53,793,353</u>
Total liabilities and capital and surplus	<u>\$ 129,998,470</u>	<u>\$ 117,091,030</u>

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

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
 STATUTORY STATEMENTS OF OPERATIONS
 Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Underwriting income		
Net premiums earned	\$ 47,053,493	\$ 40,326,498
Losses and expenses		
Net losses and loss adjustment expenses incurred	35,285,304	20,775,528
Other underwriting expenses incurred	<u>15,812,561</u>	<u>12,581,831</u>
Total losses and expenses	<u>51,097,865</u>	<u>33,357,359</u>
Net underwriting (loss) gain	(4,044,372)	6,969,139
Investment income		
Net investment income earned	1,380,932	1,565,781
Net realized capital gains, (net of taxes of \$119,033 and \$418,908 in 2021 and 2020, respectively)	<u>447,789</u>	<u>1,609,266</u>
Total investment gain	1,828,721	3,175,047
Other income	<u>97,354</u>	<u>43,915</u>
Net (loss) income before all other federal income taxes	(2,118,297)	10,188,101
Federal income taxes incurred	<u>(152,340)</u>	<u>1,141,204</u>
Net (loss) income	<u>\$ (1,965,957)</u>	<u>\$ 9,046,897</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Capital and surplus, beginning of year	\$ 53,793,353	\$ 44,813,008
Net (loss) income	(1,965,957)	9,046,897
Change in net unrealized capital gains	264,294	37,195
Change in net deferred income taxes	392,965	(627,862)
Change in non-admitted assets	(260,932)	454,115
Change in provision for reinsurance	(289,708)	70,000
Cumulative effect of changes in accounting error	<u>336,656</u>	<u>-</u>
Capital and surplus, end of year	<u>\$ 52,270,671</u>	<u>\$ 53,793,353</u>

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

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
 STATUTORY STATEMENTS OF CASH FLOWS
 Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash from operations		
Premiums collected, net of reinsurance	\$ 47,202,340	\$ 41,150,402
Net investment income	1,967,898	1,908,791
Miscellaneous income	97,354	43,915
Losses and loss related payments, net	(19,867,293)	(9,129,269)
Commissions, expenses paid and aggregate write-ins for deductions	(20,565,084)	(15,553,003)
Federal income taxes paid	<u>(1,020,000)</u>	<u>(850,000)</u>
Net cash from operations	7,815,215	17,570,836
Cash from investments		
Proceeds from investments sold, matured and repaid	40,136,333	39,847,826
Cost of investments acquired	(48,637,046)	(58,965,351)
Miscellaneous proceeds (applications)	<u>-</u>	<u>405</u>
Net cash from investments	(8,500,713)	(19,117,120)
Cash from financing and miscellaneous sources		
Other cash provided	<u>788,788</u>	<u>409,573</u>
Net cash from financing and miscellaneous sources	<u>788,788</u>	<u>409,573</u>
Change in cash, cash equivalents and short-term investments	103,290	(1,136,711)
Cash, cash equivalents and short-term investments, beginning of year	<u>5,213,631</u>	<u>6,350,342</u>
Cash, cash equivalents and short-term investments, end of year	<u>\$ 5,316,921</u>	<u>\$ 5,213,631</u>

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, 2021 and 2020, HAPI owned 700 shares of voting common stock and HARRG owned 1,300 shares of voting common stock.

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 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 accumulated other comprehensive income as a component of equity. 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.

Policy Acquisition Costs - For 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.

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 (loss) 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 NAIC SAP.

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. 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."

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 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 be reported as advance premium and for all uncollected advance premium to be netted against the corresponding premium receivable.

(Continued)

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 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 using the scientific interest method. Such amortization and accretion are included in 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.

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 OTTI losses during 2021 or 2020.

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.

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 2021 and 2020.

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. The Company can admit deferred tax assets subject to the provisions under paragraphs 11.a, 11.b, and 11.c of SSAP 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 2018 forward are open and subject to examination by the Internal Revenue Service.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of December 31, 2021 and 2020, the Company has recorded a deferred tax liability of \$90,752 and \$113,439, respectively, referred to as the Tax Cut and Jobs Act (TCJA) transition adjustment within the net deferred tax asset related to the re-measurement of the Company's discounted loss reserves as a result of IRS Revenue Procedure 2019-06 (RP 2019-06) and Revenue Procedure 2019-31 (RP 2019-31), which were issued in December 2018 and August 2019, respectively, and required the Company to amortize the impact of the retroactive change in discounting over eight years within taxable income. The additional loss reserve discount has been recorded as a deferred tax asset with an offsetting deferred tax liability representing the portion of the retroactive re-measurement of the tax discount to be amortized to income in future years.

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, 2021 and 2020. 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 period of reinsurance protection provided. 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. As of December 31, 2021 and 2020, the Company recorded \$159,802 and \$196,643, respectively.

Use of Estimates: The preparation of statutory financial statements in conformity with NAIC SAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, capital and surplus, 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 May 2, 2022, which is the date the statutory financial statements were available to be issued.

(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risks and Uncertainties: Due to the ongoing concern of the novel strain of the coronavirus and resulting global pandemic, the operations and business results of the Company could be materially adversely affected in future years. 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. As of December 31, 2021, the Company has not been materially adversely impacted. Management continues to monitor any new information which may emerge concerning the severity, containment and treatment of the virus and the global impact of the pandemic relating to all components of the Company.

NOTE 3 - INVESTMENTS

Investments, carried at amortized cost, as of December 31, 2021, are as follows:

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
Investments (amortized cost):				
U.S. government	\$ 27,078,027	\$ 374,444	\$ (179,613)	\$ 27,272,858
All other governments	55,503	15,624	-	71,127
U.S. states, territories and possessions	427,625	121,959	-	549,584
U.S. political subdivisions of states, territories and possessions	523,574	49,596	-	573,170
U.S. special revenue and special assessment obligations	17,973,402	438,338	(185,060)	18,226,680
Industrial and miscellaneous	51,715,483	1,152,101	(410,169)	52,457,415
Hybrid securities	<u>463,242</u>	<u>24,858</u>	<u>-</u>	<u>488,100</u>
Total	<u>\$ 98,236,856</u>	<u>\$ 2,176,920</u>	<u>\$ (774,842)</u>	<u>\$ 99,638,934</u>

Investments, carried at amortized cost, as of December 31, 2020, are as follows:

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
Investments (amortized cost):				
U.S. government	\$ 20,220,759	\$ 706,421	\$ -	\$ 20,927,180
All other governments	55,833	16,601	-	72,434
U.S. states, territories and possessions	685,876	164,027	-	849,903
U.S. political subdivisions of states, territories and possessions	1,330,444	113,128	-	1,443,572
U.S. special revenue and special assessment obligations	16,332,161	772,180	(2,459)	17,101,882
Industrial and miscellaneous	50,802,818	2,935,981	(7,572)	53,731,227
Hybrid securities	<u>36,250</u>	<u>9,650</u>	<u>-</u>	<u>45,900</u>
Total	<u>\$ 89,464,141</u>	<u>\$ 4,717,988</u>	<u>\$ (10,031)</u>	<u>\$ 94,172,098</u>

(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 3 - INVESTMENTS (Continued)

The amortized cost and fair value of debt securities are shown by contractual maturity as of December 31, 2021. 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	\$ 807,536	\$ 817,734
After one year through five years	32,241,405	31,311,723
After five years through ten years	32,257,017	31,588,474
After ten years	4,389,690	7,315,942
Collateralized debt obligations	9,273,203	9,251,917
Residential mortgage-backed securities	17,770,345	17,807,533
Commercial mortgage-backed securities	<u>1,497,660</u>	<u>1,545,611</u>
 Total	 <u>\$ 98,236,856</u>	 <u>\$ 99,638,934</u>

Proceeds from sales of securities amounted to \$24,418,634 and \$26,944,439 in 2021 and 2020, respectively. Gross realized gains amounted to \$691,086 and \$2,036,312 on the sale of securities in 2021 and 2020, respectively. Gross realized losses amounted to \$124,263 and \$8,138 in 2021 and 2020, respectively.

The Company holds 100 securities that are in an unrealized loss position as of December 31, 2021, of which 14 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, 2021:

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
U.S. government	\$ 7,441,666	\$ (179,613)	\$ -	\$ -
U.S. special revenue and special assessment obligations	7,603,556	(143,006)	1,093,995	(42,054)
Industrial and miscellaneous	<u>22,475,037</u>	<u>(317,081)</u>	<u>2,779,893</u>	<u>(93,088)</u>
 Total	 <u>\$ 37,520,259</u>	 <u>\$ (639,700)</u>	 <u>\$ 3,873,888</u>	 <u>\$ (135,142)</u>

(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 3 - INVESTMENTS (Continued)

The Company held 8 securities that were in an unrealized loss position as of December 31, 2020, of which 1 of these securities was 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 were in a continuous unrealized loss position as of December 31, 2020:

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>	
	<u>Fair</u> <u>Value</u>	<u>Unrealized</u> <u>Loss</u>	<u>Fair</u> <u>Value</u>	<u>Unrealized</u> <u>Loss</u>
U.S. special revenue and special assessment obligations	\$ 545,050	\$ (20)	\$ 5,149	\$ (2,439)
Industrial and miscellaneous	<u>1,780,829</u>	<u>(7,572)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,325,879</u>	<u>\$ (7,592)</u>	<u>\$ 5,149</u>	<u>\$ (2,439)</u>

The Company had debt securities with amortized costs of \$4,841,413 and \$4,952,761 as of December 31, 2021 and 2020, 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 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 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)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2021 and 2020.

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 (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, 2021:

	Admitted Assets	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial instruments (carried at fair value):					
Money market funds	\$ 2,170,275	\$ 2,170,275	\$ -	\$ -	\$ 2,170,275
Financial instruments (carried at amortized cost):					
Debt securities	98,236,856	-	99,638,934	-	99,638,934
Total	\$ 100,407,131	\$ 2,170,275	\$ 99,638,934	\$ -	\$ 101,809,209

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, 2020:

	Admitted Assets	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial instruments (carried at fair value):					
Money market funds	\$ 1,770,165	\$ 1,770,165	\$ -	\$ -	\$ 1,770,165
Financial instruments (carried at amortized cost):					
Debt securities	89,464,141	-	94,172,098	-	94,172,098
Total	\$ 91,234,306	\$ 1,770,165	\$ 94,172,098	\$ -	\$ 95,942,263

(Continued)

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

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

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

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

State and political subdivisions and special revenue and special assessment obligations - 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 obligations and residential mortgage-backed securities, estimated prepayment rates.

As of December 31, 2021 and 2020, the Company held no level 3 investments.

NOTE 5 - INSURANCE ACTIVITY

The Company writes both property and casualty coverages on a direct basis. In 2021 and 2020, the retained limits were \$250,000 per loss occurrence for property coverage and \$500,000 per loss occurrence for casualty coverage. In 2021, the Company began to write umbrella liability coverage with retained limits of \$1,000,000 per occurrence.

The Company secured reinsurance for amounts in excess of their retained limits up to \$300,000,000 per occurrence for property in 2021 and 2020. During 2021, in addition to the Company's retained per occurrence limit, the Company retained \$3,000,000 of aggregate excess losses for losses occurring during the term of the contract. 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, 2021 and 2020. The property limit of \$300,000,000 per occurrence in 2021 and 2020, is a shared aggregate limit with HAPI.

In 2021, the Company secured quota share reinsurance for losses covered under umbrella liability policies. The reinsurer retains an 85% quota share up to \$5,000,000 in losses per policy. In addition to the coverage above, the Company cedes 90% of extra contractual obligations, as defined within the contract, and 90% of losses in excess of policy limits, as defined within the contract. The reinsurer retains an 85% quota share up to \$5,000,000 of such losses.

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NOTE 5 - INSURANCE ACTIVITY (Continued)

Effective January 1, 2015 the Company began providing reinsurance coverage to Housing Specialty Insurance Company, Inc. (HSIC), an affiliate through common management, for commercial property coverage on affordable housing units insured by HSIC. In accordance with the reinsurance agreement, the Company assumes losses in excess of \$250,000 each loss, each policy. Additionally, the Company provides coverage which limits HSIC's liability for losses arising out of any one loss occurrence to \$750,000, exclusive of loss adjustment expenses. Loss adjustment expenses are shared on a pro-rata basis and are in addition to the per occurrence limits. During 2021 and 2020, the Company assumed \$28,443 and \$48,802 of premiums, respectively, from HSIC related to this contract. There were no ceded losses recorded for the years ended December 31, 2021 and 2020 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 \$200,000,000 for 2021 and 2020. Under the program, a participating insurer, in exchange for making terrorism insurance available, is entitled to be reimbursed by the Federal Government for 80% of subject losses in 2021 and 2020, after an insurer deductible, subject to an annual cap. This reimbursement percentage 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, per loss occurrence. With respect to business interruption and extra expense losses arising from nuclear, chemical or biological terrorism, the agreement provides reinsurance for all losses and loss adjustment expenses in excess of \$250,000 up to an aggregate limit of \$5,000,000 per loss occurrence. If a loss occurrence involves more than one of the Companies, the limits and retentions mentioned above will be divided between each of the Companies in the proportion of their individual losses to the total loss sustained by the Companies.

Reinsurance contracts do not discharge the primary liability of the Company as insurer of those risks reinsured. The failure of the reinsurers to honor their obligations could result in significant losses to the Company. The Company evaluates the financial condition of potential reinsurers, and continually monitors the financial condition of present reinsurers, which all have an A.M. Best rating of A or better.

(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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.

Direct, assumed and ceded premiums written and earned by the Company for the years ended December 31, 2021 and 2020, are summarized as follows:

	<u>Premiums Written</u>		<u>Premiums Earned</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Direct premiums	\$ 74,241,955	\$ 60,017,981	\$ 66,604,159	\$ 56,258,285
Assumed premiums	28,443	48,802	35,161	47,283
Premiums ceded	<u>(21,064,167)</u>	<u>(17,350,462)</u>	<u>(19,585,827)</u>	<u>(15,979,070)</u>
Net premiums	<u>\$ 53,206,231</u>	<u>\$ 42,716,321</u>	<u>\$ 47,053,493</u>	<u>\$ 40,326,498</u>

A reconciliation of changes in the Company's unpaid losses and loss adjustment expenses, for the years ended December 31, 2021 and 2020, is summarized as follows:

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 33,911,423	\$ 27,887,810
Incurred related to:		
Current year	41,325,778	26,010,033
Prior years	<u>(6,040,474)</u>	<u>(5,234,505)</u>
Total incurred	35,285,304	20,775,528
Paid related to:		
Current year	(15,471,230)	(8,194,477)
Prior years	<u>(10,204,471)</u>	<u>(6,557,438)</u>
Total paid	<u>(25,675,701)</u>	<u>(14,751,915)</u>
Balance at end of year	<u>\$ 43,521,026</u>	<u>\$ 33,911,423</u>

As a result of changes in loss development, the provision for loss and loss adjustment expenses decreased by \$6,040,474 and \$5,234,505 in 2021 and 2020, respectively. The decrease in 2021 is related to favorable loss development on property claims related to the 2019 through 2020 accident years. The decrease in 2020 is related to favorable loss development on property and casualty claims related to the 2016 through 2019 accident years.

The Company recorded net reinsurance recovery activity of \$11,350,132 and \$11,265,212 in 2021 and 2020, respectively, which is reflected as a decrease in losses and loss adjustment expenses incurred in the statutory statements of operations.

(Continued)

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 \$10,563,085 and \$6,666,957 for the years ended December 31, 2021 and 2020, respectively. The amounts due to HARRG under these agreements, which are included in due to affiliates, amounted to \$1,017,262 and \$777,392 as of December 31, 2021 and 2020, 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, 2021 and 2020, commission expense under this agreement amounted to \$1,205,563 and \$1,012,665, respectively, which is included within other underwriting expenses incurred on the statutory statements of operations. The Company has amounts due from HIS of \$6,164 and \$32,924 as of December 31, 2021 and 2020, respectively, which are included in due from affiliates.

The Company has amounts due from HAPI of \$1,238 and \$869 as of December 31, 2021 and 2020, respectively, which is included in due from affiliates.

The Company entered into an agreement with Housing Telecommunications, Inc. (HTI), an affiliated entity through common management, to support the delivery of risk management training to 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, 2021 and 2020. Also, as part of the agreement, HEIC pays HTI a sponsorship fee. This portion of the agreement was not renewed for the year ended December 31, 2021. The Company recognized expenses of \$7,650 for fees paid to HTI for the year ended December 31, 2020.

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 \$33,450 and \$167,250 for the years ended December 31, 2021 and 2020, 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

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 of its employees. The Company recorded profit sharing expenses of \$254,401 and \$186,423 and 401(k) expenses of \$191,280 and \$126,096 for the years ended December 31, 2021 and 2020, respectively. In addition, the Company recorded an expense for incentive compensation of \$663,299 and \$541,797, for the years ended December 31, 2021 and 2020, respectively, which is included within other underwriting expenses incurred on the statutory statements of operations.

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, 2021 and 2020.

No dividends were declared or paid in 2021 and 2020.

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

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2021 and 2020 are as follows:

	2021			2020		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Gross deferred tax assets	\$ 2,018,657	\$ 6,294	\$ 2,024,951	\$ 1,648,268	\$ 1,485	\$ 1,649,753
Statutory valuation allowance adjustment	-	-	-	-	-	-
Adjusted gross deferred tax asset	2,018,657	6,294	2,024,951	1,648,268	1,485	1,649,753
Deferred tax asset non-admitted	<u>372,951</u>	<u>-</u>	<u>372,951</u>	<u>25,322</u>	<u>-</u>	<u>25,322</u>
Net deferred tax asset	1,645,706	6,294	1,652,000	1,622,946	1,485	1,624,431
Deferred tax liabilities	<u>90,752</u>	<u>-</u>	<u>90,752</u>	<u>113,439</u>	<u>-</u>	<u>113,439</u>
Net admitted deferred tax asset	<u>\$ 1,554,954</u>	<u>\$ 6,294</u>	<u>\$ 1,561,248</u>	<u>\$ 1,509,507</u>	<u>\$ 1,485</u>	<u>\$ 1,510,992</u>

The components of the admissibility calculation under paragraphs 11.a., 11.b. and 11.c. as of December 31, 2021 and 2020 are as follows:

	2021			2020		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Admitted pursuant to 11.a.	\$ 1,554,954	\$ -	\$ 1,554,954	\$ 1,509,507	\$ -	\$ 1,509,507
Admitted pursuant to 11.b.	-	6,294	6,294	-	1,485	1,485
Admitted pursuant to 11.c.	<u>90,752</u>	<u>-</u>	<u>90,752</u>	<u>113,439</u>	<u>-</u>	<u>113,439</u>
Admitted deferred tax asset	<u>\$ 1,645,706</u>	<u>\$ 6,294</u>	<u>\$ 1,652,000</u>	<u>\$ 1,622,946</u>	<u>\$ 1,485</u>	<u>\$ 1,624,431</u>

(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2020 to December 31, 2021, are as follows:

	Change During 2021		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Gross deferred tax assets	\$ 370,389	\$ 4,809	\$ 375,198
Statutory valuation allowance adjustment	-	-	-
Adjusted gross deferred tax assets	370,389	4,809	375,198
Deferred tax asset non-admitted	<u>347,629</u>	-	<u>347,629</u>
Net deferred tax asset	22,760	4,809	27,569
Deferred tax liabilities	<u>(22,687)</u>	-	<u>(22,687)</u>
Net admitted deferred tax asset	<u>\$ 45,447</u>	<u>\$ 4,809</u>	<u>\$ 50,256</u>
Admitted pursuant to 11.a.	\$ 45,447	\$ -	\$ 45,447
Admitted pursuant to 11.b.	-	4,809	4,809
Admitted pursuant to 11.c.	<u>(22,687)</u>	-	<u>(22,687)</u>
Admitted deferred tax asset	<u>\$ 22,760</u>	<u>\$ 4,809</u>	<u>\$ 27,569</u>

The threshold used by the Company for amounts admitted pursuant to 11.b. as of December 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Ratio percentage used to determine recovery period and threshold limitation amount	780.65%	954.06%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	\$ 50,709,423	\$ 52,282,361

In 2021, the Company did not implement any tax planning strategies which would have an impact on adjusted gross and net admitted deferred tax assets.

(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 9 - FEDERAL INCOME TAXES (Continued)

The provisions for incurred taxes on earnings for the years ended December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Federal	\$ (152,340)	\$ 1,141,204
Foreign	<u>-</u>	<u>-</u>
Subtotal	(152,340)	1,141,204
Federal income tax on net capital gains	119,033	425,917
Utilization of capital loss carry-forwards	<u>-</u>	<u>(7,009)</u>
Federal income taxes incurred	<u>\$ (33,307)</u>	<u>\$ 1,560,112</u>

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, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Deferred tax assets			
Ordinary:			
Unearned premiums	\$ 1,225,262	\$ 966,847	\$ 258,415
Discounting of unpaid losses	684,850	595,249	89,601
Treasury inflation protected securities	59,672	-	59,672
Other	<u>48,873</u>	<u>86,172</u>	<u>(37,299)</u>
Subtotal	2,018,657	1,648,268	370,389
Statutory valuation allowance adjustment	-	-	-
Non-admitted deferred tax assets	<u>(372,951)</u>	<u>(25,322)</u>	<u>(347,629)</u>
Admitted ordinary deferred tax assets	1,645,706	1,622,946	22,760
Capital:			
Investments	294	405	(111)
Unrealized loss	<u>6,000</u>	<u>1,080</u>	<u>4,920</u>
Subtotal	6,294	1,485	4,809
Statutory valuation allowance adjustment	<u>-</u>	<u>-</u>	<u>-</u>
Admitted deferred tax assets	<u>\$ 1,652,000</u>	<u>\$ 1,624,431</u>	<u>\$ 27,569</u>
Deferred tax liabilities			
Ordinary:			
TCJA transition adjustment	<u>\$ (90,752)</u>	<u>\$ (113,439)</u>	<u>\$ 22,687</u>
Deferred tax liabilities	<u>(90,752)</u>	<u>(113,439)</u>	<u>22,687</u>
Net admitted deferred tax assets	<u>\$ 1,561,248</u>	<u>\$ 1,510,992</u>	<u>\$ 50,256</u>

(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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 not recorded a valuation allowance against its net deferred tax asset, as management anticipates that it is more likely than not that the Company will be able to recover these deferred tax assets.

In 2021 and 2020, 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, 2021 and 2020, are comprised of the following:

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Total deferred tax assets	\$ 2,024,951	\$ 1,649,753	\$ 375,198
Total deferred tax liabilities	<u>(90,752)</u>	<u>(113,439)</u>	<u>22,687</u>
Net deferred tax asset	1,934,199	1,536,314	397,885
Statutory valuation allowance adjustment allocation	<u>-</u>	<u>-</u>	<u>-</u>
Net deferred tax asset after statutory valuation allowance	1,934,199	1,536,314	397,885
Tax effect of unrealized losses	(6,000)	(1,080)	(4,920)
Statutory valuation allowance adjustment allocated to unrealized	<u>-</u>	<u>-</u>	<u>-</u>
Change in net deferred income tax	<u>\$ 1,928,199</u>	<u>\$ 1,535,234</u>	<u>\$ 392,965</u>

(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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 (loss) income before income taxes. The significant items causing this difference are as follows for the years ended December 31, 2021 and 2020:

	<u>2021</u>		<u>2020</u>	
Provision computed at statutory rate	\$ (419,845)	(21.00) %	\$ 2,227,472	21.00 %
Meals and entertainment	123	0.01	63	0.01
Tax exempt interest	(24,232)	(1.21)	(33,750)	(0.32)
Proration	5,562	0.28	7,780	0.07
Tax exempt expenses	1,983	0.10	2,629	0.02
Change in nonadmitted assets	18,206	0.91	(15,153)	(0.14)
Other	<u>(8,069)</u>	<u>(0.41)</u>	<u>(1,067)</u>	<u>(0.01)</u>
Total federal income taxes incurred	<u>\$ (426,272)</u>	<u>(21.32) %</u>	<u>\$ 2,187,974</u>	<u>20.63 %</u>
Reconciliation:				
Federal income taxes	\$ (152,340)	(7.62) %	\$ 1,141,204	10.76 %
Federal income tax on net capital gains	119,033	5.95	418,908	3.95
Change in net deferred income taxes	<u>(392,965)</u>	<u>(19.65)</u>	<u>627,862</u>	<u>5.92</u>
Total statutory income taxes	<u>\$ (426,272)</u>	<u>(21.32) %</u>	<u>\$ 2,187,974</u>	<u>20.63 %</u>

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:

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
December 31, 2021 (current year)	\$ -	\$ -	\$ -
December 31, 2020 (first preceding year)	\$ 1,142,340	\$ 418,908	\$ 1,561,248
December 31, 2019 (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)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2021 and 2020, amounts reflected as non-admitted assets were as follows:

	<u>2021</u>	<u>2020</u>
Prepaid insurance	\$ 7,840	\$ 94,537
Deferred tax assets	<u>372,951</u>	<u>25,322</u>
	<u>\$ 380,791</u>	<u>\$ 119,859</u>

NOTE 11 - RECONCILIATION TO THE 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 for the years ended December 31, 2021 and 2020.

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, 2021 and 2020, the Company has not accrued for or been assessed by any state insurance department.

As of December 31, 2021 and 2020, 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, 2021 and 2020. 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.

HOUSING SPECIALTY INSURANCE COMPANY, INC.

STATUTORY FINANCIAL STATEMENTS

December 31, 2021 and 2020

INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the 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, 2021 and 2020, 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.

Unmodified Opinion on Statutory Basis of Accounting

In our opinion, the accompanying statutory financial statements present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2021 and 2020, 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 (the Department) as described in Note 2.

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 section of our report, the statutory financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2021 and 2020, or the results of its operations and its cash flows for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Statutory Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Department, 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 and pervasive.

(Continued)

Responsibilities of Management 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 Department. 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.

In preparing the statutory financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the statutory financial statements are issued.

Auditor's Responsibilities for the Audit of the Statutory Financial Statements

Our objectives are to obtain reasonable assurance about whether the statutory financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the statutory financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the statutory financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the statutory financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the statutory financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

(Continued)

Supplementary Information

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 schedule of 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 and pervasive. 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, 2021 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.

A handwritten signature in black ink that reads "Crowe LLP". The letters are stylized and cursive.

Crowe LLP

West Hartford, Connecticut
May 2, 2022

HOUSING SPECIALTY INSURANCE COMPANY, INC.
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ADMITTED ASSETS		
Cash and invested assets:		
Investments, at amortized cost or fair value	\$ 25,530,995	\$ 23,827,713
Cash, cash equivalents and short-term investments	<u>741,340</u>	<u>1,227,992</u>
Total cash and invested assets	26,272,335	25,055,705
Investment income due and accrued	153,865	188,243
Premiums receivable	355,615	376,254
State tax receivable	26,192	-
Deferred tax asset	<u>32,672</u>	<u>24,323</u>
Total admitted assets	<u>\$ 26,840,679</u>	<u>\$ 25,644,525</u>
LIABILITIES AND CAPITAL AND SURPLUS		
Unpaid losses and loss adjustment expenses	\$ 689,336	\$ 608,098
Unearned premiums	621,332	431,811
Ceded reinsurance premiums payable	59,055	109,781
Due to affiliates	77,972	118,651
Federal income taxes payable	79,650	3,473
Accrued expenses and other liabilities	<u>93,479</u>	<u>119,801</u>
Total liabilities	1,620,824	1,391,615
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	<u>2,419,855</u>	<u>1,452,910</u>
Total capital and surplus	<u>25,219,855</u>	<u>24,252,910</u>
Total liabilities and capital and surplus	<u>\$ 26,840,679</u>	<u>\$ 25,644,525</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Underwriting income		
Net premiums earned	\$ 1,992,055	\$ 1,646,212
Losses and expenses		
Net losses and loss adjustment expenses incurred	678,033	635,932
Other underwriting expenses incurred	<u>1,055,643</u>	<u>1,167,782</u>
Total losses and expenses	<u>1,733,676</u>	<u>1,803,714</u>
Net underwriting gain (loss)	258,379	(157,502)
Investment income		
Net investment income earned	617,265	575,603
Net realized capital gains, net of taxes of \$72,908 and \$173,385 in 2021 and 2020, respectively	<u>274,274</u>	<u>652,259</u>
Total investment gain	<u>891,539</u>	<u>1,227,862</u>
Net income before provision for federal income taxes	1,149,918	1,070,360
Federal income taxes incurred	<u>188,269</u>	<u>89,398</u>
Net income	<u>\$ 961,649</u>	<u>\$ 980,962</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Capital and surplus, beginning of year	\$ 24,252,910	\$ 23,276,347
Net income	961,649	980,962
Change in net unrealized capital gains	(9,489)	2,326
Change in non-admitted assets	9,941	(10,448)
Change in net deferred income tax	<u>4,844</u>	<u>3,723</u>
Capital and surplus, end of year	<u>\$ 25,219,855</u>	<u>\$ 24,252,910</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash from operations		
Premiums collected, net of reinsurance	\$ 2,151,489	\$ 1,601,924
Net investment income	639,156	570,542
Losses and loss related payments, net	(421,535)	(206,318)
Commissions, expenses paid and aggregate write-ins for deductions	(1,242,369)	(1,405,210)
Federal and foreign income taxes paid	<u>(185,000)</u>	<u>(398,000)</u>
Net cash from operations	941,741	162,938
Cash from investments		
Proceeds from investments sold, matured and repaid	25,673,601	25,114,314
Costs of investments acquired	<u>(27,023,355)</u>	<u>(25,171,985)</u>
Net cash from investments	(1,349,754)	(57,671)
Cash from financing and miscellaneous sources		
Other cash (used) provided	<u>(78,639)</u>	<u>37,547</u>
Net cash from financing and miscellaneous sources	<u>(78,639)</u>	<u>37,547</u>
Change in cash, cash equivalents and short-term investments	(486,652)	142,814
Cash, cash equivalents and short-term investments, beginning of year	<u>1,227,992</u>	<u>1,085,178</u>
Cash, cash equivalents and short-term investments, end of year	<u>\$ 741,340</u>	<u>\$ 1,227,992</u>

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

HOUSING SPECIALTY INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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 commenced business on December 9, 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, 2021 and 2020, HARRG and HAPI owned 100 shares of common stock in the amount of \$1,000,000 each.

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, 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 accumulated other comprehensive income as a component of equity. 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 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.

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.

(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 NAIC SAP.

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. 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.

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 NAIC SAP requires unexpired reinsurance premiums be netted against unearned premiums.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 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 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 is adjusted for amortization of premiums and accretion of discounts using the scientific interest method. Such amortization and accretion are included in 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 2021 or 2020.

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.

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 2021 and 2020.

Unpaid Losses and Loss Adjustment Expense Reserves: Unpaid losses and loss adjustment expense reserves net of the related reinsurance recoverables represent estimated provisions for both reported and unreported claims incurred and related expenses. In determining unpaid losses and loss adjustment expense reserves and 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. The Company can admit deferred tax assets subject to the provisions under paragraphs 11.a, 11.b, and 11.c of SSAP 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 2018 forward are open and subject to examination by the Internal Revenue Service.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of December 31, 2021 and 2020, the Company has recorded a deferred tax liability of \$2,077 and \$2,596, respectively, referred to as the Tax Cut and Jobs Act (TCJA) transition adjustment, within the net deferred tax asset related to the re-measurement of the Company's discounted loss reserves as a result of IRS Revenue Procedure 2019-06 (RP 2019-06) and Revenue Procedure 2019-31 (RP 2019-31), which were issued in December 2018 and August 2019, respectively, and required the Company to amortize the impact of the retroactive change in discounting over eight years within taxable income. The additional loss reserve discount has been recorded as a deferred tax asset with an offsetting deferred tax liability representing the portion of the retroactive re-measurement of the tax discount to be amortized to income in future years.

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, 2021 and 2020. 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 period of reinsurance protection provided. 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.

Use of Estimates: The preparation of statutory financial statements in conformity with NAIC SAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, capital and surplus, 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 May 2, 2022, which is the date the statutory financial statements were available to be issued.

(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risks and Uncertainties: Due to the ongoing concern of the novel strain of the coronavirus and resulting global pandemic, the operations and business results of the Company could be materially adversely affected in future years. 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. As of December 31, 2021, the Company has not been materially adversely impacted. Management continues to monitor any new information which may emerge concerning the severity, containment and treatment of the virus and the global impact of the pandemic relating to all components of the Company.

NOTE 3 - INVESTMENTS

Investments, carried at amortized cost, as of December 31, 2021, are as follows:

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
Investments (amortized cost):				
U.S. government	\$ 8,107,992	\$ 1,972	\$ (83,880)	\$ 8,026,084
All other governments	198,252	27,230	-	225,482
U.S. political subdivisions of states, territories and possessions	416,188	63,356	-	479,544
U.S. special revenue and special assessment obligations	1,335,579	38,443	(3,864)	1,370,158
Industrial and miscellaneous	14,844,529	555,525	(21,949)	15,378,105
Hybrid securities	442,285	31,479	(22)	473,742
Other invested assets	186,170	30,072	-	216,242
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 25,530,995</u>	<u>\$ 748,077</u>	<u>\$ (109,715)</u>	<u>\$ 26,169,357</u>

(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 3 - INVESTMENTS (Continued)

Investments, carried at amortized cost and fair value, as of December 31, 2020, were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Investments (amortized cost):				
U.S. government	\$ 4,732,098	\$ 163,015	\$ (3,507)	\$ 4,891,606
U.S. political subdivisions of states, territories and possessions	419,637	54,293	-	473,930
U.S. special revenue and special assessment obligations	916,548	57,569	-	974,117
Industrial and miscellaneous	16,764,646	1,079,900	(18,882)	17,825,664
Hybrid securities	528,083	47,941	-	576,024
Other invested assets	<u>186,201</u>	<u>39,903</u>	<u>-</u>	<u>226,104</u>
 Total	 23,547,213	 1,442,621	 (22,389)	 24,967,445
Investments (fair value):				
Industrial and miscellaneous	<u>284,937</u>	<u>-</u>	<u>(4,437)</u>	<u>280,500</u>
 Total	 <u>\$ 23,832,150</u>	 <u>\$ 1,442,621</u>	 <u>\$ (26,826)</u>	 <u>\$ 25,247,945</u>

The amortized cost and fair value of debt securities are shown by contractual maturity as of December 31, 2021. 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.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due to mature		
One year or less	\$ 521,773	\$ 527,458
After one year through five years	10,302,418	10,540,720
After five years through ten years	6,677,124	6,872,975
After ten years	2,894,709	3,075,114
Collateralized debt obligations	3,957,413	3,976,003
Commercial mortgage-backed securities	<u>1,177,558</u>	<u>1,177,087</u>
 Total	 <u>\$ 25,530,995</u>	 <u>\$ 26,169,357</u>

Proceeds from sales of securities amounted to \$23,308,222 and \$22,770,454 in 2021 and 2020, respectively. Gross realized gains amounted to \$424,672 and \$835,330 on the sale of securities in 2021 and 2020, respectively. Gross realized losses amounted to \$77,520 and \$9,686 in 2021 and 2020, respectively.

(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 3 - INVESTMENTS (Continued)

The Company holds 31 securities that are in an unrealized loss position as of December 31, 2021, of which 5 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, 2021:

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
U.S. government	\$ 7,465,616	\$ (74,713)	\$ 162,281	\$ (9,167)
U.S. special revenue and special assessment obligations	438,769	(3,864)	-	-
Industrial and miscellaneous	2,807,740	(18,537)	591,561	(3,412)
Hybrid securities	<u>39,212</u>	<u>(22)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 10,751,337</u>	<u>\$ (97,136)</u>	<u>\$ 753,842</u>	<u>\$ (12,579)</u>

The Company held 10 securities that were in an unrealized loss position as of December 31, 2020, of which 3 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, 2020:

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
U.S. government	\$ 288,513	\$ (3,507)	\$ -	\$ -
Industrial and miscellaneous	<u>749,326</u>	<u>(15,536)</u>	<u>423,388</u>	<u>(7,783)</u>
Total	<u>\$ 1,037,839</u>	<u>\$ (19,043)</u>	<u>\$ 423,388</u>	<u>\$ (7,783)</u>

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.

(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

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.

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, 2021 and 2020.

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 (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, 2021:

	<u>Admitted Assets</u>	<u>Fair Value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Financial instruments (carried at fair value)					
Money market funds	\$ 23,696	\$ 23,696	\$ -	\$ -	\$ 23,696
Financial instruments (carried at amortized cost)					
Debt securities	<u>25,530,995</u>	<u>-</u>	<u>26,169,357</u>	<u>-</u>	<u>26,169,357</u>
Total	<u>\$ 25,554,691</u>	<u>\$ 23,696</u>	<u>\$ 26,169,357</u>	<u>\$ -</u>	<u>\$ 26,193,053</u>

(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2020:

	<u>Admitted Assets</u>	<u>Fair Value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Financial instruments (carried at fair value)					
Money market funds	\$ 338,735	\$ 338,735	\$ -	\$ -	\$ 338,735
Debt securities	280,500	-	280,500	-	280,500
Total	619,235	338,735	280,500	-	619,235
Financial instruments (carried at amortized cost)					
Short-term investments	349,934	349,942	-	-	349,942
Debt securities	23,547,213	-	24,967,445	-	24,967,445
Total	23,897,147	349,942	24,967,445	-	25,317,387
 Total	 \$ 24,516,382	 \$ 688,677	 \$ 25,247,945	 \$ -	 \$ 25,936,622

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 and special revenue and special assessment obligations - 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, estimated prepayment rates.

As of December 31, 2021 and 2020, the Company held no level 3 investments.

(Continued)

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.

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 2021, the Company ceded \$394,013 and \$28,443 of premium to HAPI and HEIC, respectively, related to this contract. During 2020, the Company ceded \$570,888 and \$48,802 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 \$200,000,000 for 2021 and 2020. Under the program, a participating insurer, in exchange for making terrorism insurance available, is entitled to be reimbursed by the Federal Government for 80% of subject losses in 2021 and 2020, after an insurer deductible, subject to an annual cap. This reimbursement percentage 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, per loss occurrence. With respect to business interruption and extra expense losses arising from nuclear, chemical or biological terrorism, the agreement provides reinsurance for all losses and loss adjustment expenses in excess of \$250,000 up to an aggregate limit of \$5,000,000 per loss occurrence. If a loss occurrence involves more than one of the Companies, the limits and retentions mentioned above will be divided between each of the Companies in the proportion of their individual losses to the total loss sustained by the Companies.

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

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

(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2021 and 2020, are summarized as follows:

	<u>Premiums Written</u>		<u>Premiums Earned</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Direct premiums	\$ 2,618,038	\$ 2,236,452	\$ 2,474,566	\$ 2,293,467
Ceded premiums	<u>(436,462)</u>	<u>(631,503)</u>	<u>(482,511)</u>	<u>(647,255)</u>
Net premiums	<u>\$ 2,181,576</u>	<u>\$ 1,604,949</u>	<u>\$ 1,992,055</u>	<u>\$ 1,646,212</u>

A reconciliation of changes in unpaid losses and loss adjustment expenses, for the years ended December 31, 2021 and 2020, are summarized as follows:

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 608,099	\$ 487,061
Incurred related to:		
Current year	807,749	694,000
Prior years	<u>(129,716)</u>	<u>(58,068)</u>
Total incurred	678,033	635,932
Paid related to:		
Current year	(300,347)	(163,000)
Prior years	<u>(296,449)</u>	<u>(351,895)</u>
Total paid	<u>(596,796)</u>	<u>(514,895)</u>
Balance at end of year	<u>\$ 689,336</u>	<u>\$ 608,098</u>

As a result of changes in loss development, the provision for losses and loss adjustment expenses decreased by \$129,716 and \$58,068 in 2021 and 2020, respectively, due to favorable development on property claims.

The Company recorded net reinsurance recovery activity of \$505,310 in 2020, which is reflected as an increase in losses and loss adjustment expenses incurred in the statutory statements of operations. There was no net reinsurance activity impacting the statutory statements of operations in 2021. All losses ceded for the year ended December 31, 2020, related to the Company's reinsurance contract with HAPI.

(Continued)

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 \$958,244 and \$1,069,051 for the years ended December 31, 2021 and 2020, respectively. The amounts due to HARRG under these agreements, which are included in due to affiliates, amounted to \$78,396 and \$117,975 as of December 31, 2021 and 2020, 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 \$7,500 and \$37,500 under this agreement for the years ended December 31, 2021 and 2020, respectively.

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, 2021 and 2020. Also, as part of the agreement, HSIC pays HTI a sponsorship fee. This portion of the agreement was not renewed for the year ended December 31, 2021. The Company recognized expenses of \$2,295 for sponsorship fees paid to HTI for the year ended December 31, 2020. There were no expenses recognized for sponsorship fees for the year ended December 31, 2021.

As of December 31, 2020, there was \$676 due to Housing Insurance Services, Inc (HIS). As of December 31, 2021, there were no amounts due to 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 postretirement 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 of its employees. The Company recorded profit sharing expenses of \$29,730 and \$32,675 and 401(k) expenses of \$22,520 and \$21,946, for the years ended December 31, 2021 and 2020, respectively. In addition, the Company recorded an expense for incentive compensation of \$78,899 and \$94,686, for the years ended December 31, 2021 and 2020, respectively, which is included within other underwriting expenses incurred on the statutory statements of operations.

HOUSING SPECIALTY INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2021 and 2020.

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 2021 or 2020.

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, 2021 and 2020 are as follows:

	<u>Ordinary</u>	<u>2021 Capital</u>	<u>Total</u>	<u>Ordinary</u>	<u>2020 Capital</u>	<u>Total</u>
Gross deferred tax assets	\$ 34,687	\$ 430	\$ 35,117	\$ 29,994	\$ 1,086	\$ 31,080
Statutory valuation allowance adjustment	-	-	-	-	-	-
Adjusted gross deferred tax assets	34,687	430	35,117	29,994	1,086	31,080
Deferred tax asset non-admitted	-	-	-	4,161	-	4,161
Net deferred tax asset	34,687	430	35,117	25,833	1,086	26,919
Deferred tax liabilities	(2,445)	-	(2,445)	(2,596)	-	(2,596)
Net admitted deferred tax asset	<u>\$ 32,242</u>	<u>\$ 430</u>	<u>\$ 32,672</u>	<u>\$ 23,237</u>	<u>\$ 1,086</u>	<u>\$ 24,323</u>

The components of the admissibility calculation under paragraphs 11.a., 11.b. and 11.c. as of December 31, 2021 and 2020 are as follows:

	<u>Ordinary</u>	<u>2021 Capital</u>	<u>Total</u>	<u>Ordinary</u>	<u>2020 Capital</u>	<u>Total</u>
Admitted pursuant to 11.a.	\$ 32,242	\$ 430	\$ 32,672	\$ 23,237	\$ 1,086	\$ 24,323
Admitted pursuant to 11.b.	-	-	-	-	-	-
Admitted pursuant to 11.c.	2,445	-	2,445	2,596	-	2,596
Admitted deferred tax asset	<u>\$ 34,687</u>	<u>\$ 430</u>	<u>\$ 35,117</u>	<u>\$ 25,833</u>	<u>\$ 1,086</u>	<u>\$ 26,919</u>

(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2020 to December 31, 2021, are as follows:

	<u>Change During 2021</u>		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Gross deferred tax assets	\$ 4,693	\$ (656)	\$ 4,037
Statutory valuation allowance adjustment	<u>-</u>	<u>-</u>	<u>-</u>
Adjusted gross deferred tax assets	4,693	(656)	4,037
Deferred tax asset non-admitted	<u>(4,161)</u>	<u>-</u>	<u>(4,161)</u>
Net deferred tax asset	8,854	(656)	8,198
Deferred tax liabilities	<u>151</u>	<u>-</u>	<u>151</u>
Net admitted deferred tax asset	<u>\$ 9,005</u>	<u>\$ (656)</u>	<u>\$ 8,349</u>
Admitted pursuant to 11.a.	\$ 9,005	\$ (656)	\$ 8,349
Admitted pursuant to 11.b.	-	-	-
Admitted pursuant to 11.c.	<u>(151)</u>	<u>-</u>	<u>(151)</u>
Admitted deferred tax asset	<u>\$ 8,854</u>	<u>\$ (656)</u>	<u>\$ 8,198</u>

In 2021 and 2020, 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, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Ratio percentage used to determine recovery period and threshold limitation amount	2626%	2251%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	\$ 25,187,183	\$ 24,228,587

(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 9 - FEDERAL INCOME TAXES (Continued)

The provisions for incurred taxes on earnings for the years ended December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Federal	\$ 188,269	\$ 89,398	\$ 98,871
Foreign	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	188,269	89,398	98,871
Federal income tax on net capital gains	<u>72,908</u>	<u>173,385</u>	<u>(100,477)</u>
Federal income taxes incurred	<u>\$ 261,177</u>	<u>\$ 262,783</u>	<u>\$ (1,606)</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets as of December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Deferred tax assets:			
Ordinary:			
Discounting of unpaid losses	\$ 7,340	\$ 6,518	\$ 822
Unearned premium reserves	26,096	18,136	7,960
Treasury inflation protected securities	701	3,136	(2,435)
Other	110	1,323	(1,213)
Retiree medical	-	376	(376)
Organization costs	<u>440</u>	<u>505</u>	<u>(65)</u>
Subtotal	34,687	29,994	4,693
Non-admitted deferred tax assets	<u>-</u>	<u>(4,161)</u>	<u>4,161</u>
Admitted ordinary deferred tax assets	34,687	25,833	8,854
Capital:			
Unrealized loss	<u>430</u>	<u>1,086</u>	<u>(656)</u>
Subtotal	<u>430</u>	<u>1,086</u>	<u>(656)</u>
Admitted deferred tax assets	35,117	26,919	8,198
Deferred tax liabilities:			
Ordinary:			
Retiree Medical	(368)	-	(368)
TCJA transition adjustment	<u>(2,077)</u>	<u>(2,596)</u>	<u>519</u>
Deferred tax liabilities	<u>(2,445)</u>	<u>(2,596)</u>	<u>151</u>
Net admitted deferred tax assets	<u>\$ 32,672</u>	<u>\$ 24,323</u>	<u>\$ 8,349</u>

(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 9 - FEDERAL INCOME TAXES (Continued)

The Company has no net operating loss carry-forwards as of December 31, 2021. The Company has no capital loss carry-forwards as of December 31, 2021. The Company has no AMT Credits available.

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 not recorded a valuation allowance against its net deferred tax asset, as management anticipates that it is more likely than not that the Company will be able to recover these deferred tax assets.

In 2021 and 2020, 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, 2021 and 2020, are comprised of the following:

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Total deferred tax assets	\$ 35,117	\$ 31,080	\$ 4,037
Total deferred tax liabilities	<u>(2,445)</u>	<u>(2,596)</u>	<u>151</u>
Net deferred tax asset	32,672	28,484	4,188
Tax effect of unrealized losses	<u>(430)</u>	<u>(1,086)</u>	<u>656</u>
Change in net deferred income tax	<u>\$ 32,242</u>	<u>\$ 27,398</u>	<u>\$ 4,844</u>

(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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 before income taxes. The significant items causing this difference are as follows for the years ended December 31, 2021 and 2020:

	<u>2021</u>		<u>2020</u>	
Provision computed at statutory rate	\$ 256,793	21.00 %	\$ 261,186	21.00 %
Meals and entertainment	14	0.00	9	0.00
Tax exempt interest	(2,653)	(0.21)	(2,336)	(0.19)
Tax exempt expenses	173	0.01	147	0.01
Proration	620	0.05	547	0.05
Change in nonadmitted assets	1,214	0.10	(1,320)	(0.11)
True up	<u>172</u>	<u>0.01</u>	<u>827</u>	<u>0.07</u>
Total federal income taxes incurred	<u>\$ 256,333</u>	<u>20.96 %</u>	<u>\$ 259,060</u>	<u>20.38 %</u>
Reconciliation				
Federal income taxes	\$ 188,269	15.40 %	\$ 89,398	7.19
Federal income tax on net capital gains	72,908	5.96	173,385	13.94
Change in net deferred income taxes	<u>(4,844)</u>	<u>(0.40)</u>	<u>(3,723)</u>	<u>(0.30)</u>
Total statutory income taxes	<u>\$ 256,333</u>	<u>20.96 %</u>	<u>\$ 259,060</u>	<u>20.83 %</u>

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

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
December 31, 2021 (current year)	\$ 188,110	\$ 72,908	\$ 261,018
December 31, 2020 (first preceding period)	\$ 86,468	\$ 173,385	\$ 259,853
December 31, 2019 (second preceding period)	\$ 75,683	\$ 66,097	\$ 141,780

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)

HOUSING SPECIALTY INSURANCE COMPANY, INC.
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2021 and 2020, amounts reflected as non-admitted assets were as follows:

	<u>2021</u>	<u>2020</u>
Prepaid insurance	\$ 523	\$ 6,303
Deferred tax assets	<u>-</u>	<u>4,161</u>
	<u>\$ 523</u>	<u>\$ 10,464</u>

NOTE 11 - RECONCILIATION TO THE STATUTORY ANNUAL STATEMENT

There are no material differences net income and capital and surplus, and net income as reported herein and the Annual Statement as previously filed with the Department for the years ended December 31, 2021 and 2020.

INNOVATIVE HOUSING INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS

December 31, 2021 and 2020



INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Innovative Housing Insurance Company, Inc. (the Company), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, changes in shareholder's equity, and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year from the date the financial statements are available to be issued.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Crowe LLP

West Hartford, Connecticut
May 2, 2022

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
BALANCE SHEETS
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 4,742,699	\$ 4,837,858
Investment, available for sale, at fair value	2,051,465	2,104,002
Other assets	523	6,302
Deferred tax asset	<u>18,526</u>	<u>19,306</u>
Total assets	<u>\$ 6,813,213</u>	<u>\$ 6,967,468</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities:		
Unearned premiums	\$ 302,117	\$ 365,603
Accounts payable and other liabilities	4,348	7,903
Due to affiliate	<u>14,921</u>	<u>16,836</u>
Total liabilities	321,386	390,342
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	6,150,000	6,150,000
Retained deficit	<u>(158,173)</u>	<u>(72,874)</u>
Total shareholder's equity	<u>6,491,827</u>	<u>6,577,126</u>
Total liabilities and shareholder's equity	<u>\$ 6,813,213</u>	<u>\$ 6,967,468</u>

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

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
STATEMENTS OF OPERATIONS
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues		
Premiums earned	\$ 63,486	\$ 90,050
Total revenues	63,486	90,050
Expenses		
Salaries and benefits	31,391	52,245
General and administrative expenses	<u>93,887</u>	<u>90,872</u>
Total expenses	125,278	143,117
Net investment (loss) income	<u>(22,727)</u>	<u>95,908</u>
Net (loss) income before provision for federal income taxes	(84,519)	42,841
Federal income taxes incurred	<u>780</u>	<u>(19,306)</u>
Net (loss) income	<u>\$ (85,299)</u>	<u>\$ 62,147</u>

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, 2021 and 2020

	<u>Common Stock</u>		<u>Contributed</u>	<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Surplus</u>	<u>Deficit</u>	<u>Shareholder's</u>
					<u>Equity</u>
Balance as of January 1, 2020	50	\$ 500,000	\$ 4,750,000	\$ (135,021)	\$ 5,114,979
Contributed surplus	-	-	1,400,000	-	1,400,000
Net income	-	-	-	62,147	62,147
	50	500,000	6,150,000	(72,874)	6,577,126
Balance as of December 31, 2020					
Net loss	-	-	-	(85,299)	(85,299)
	50	500,000	6,150,000	(158,173)	6,491,827
Balance as of December 31, 2021					

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

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Net (loss) income	\$ (85,299)	\$ 62,147
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Deferred federal income taxes	780	(19,306)
Unrealized holding losses (gains) on investments	52,537	(58,120)
Change in assets and liabilities:		
Other assets	5,779	(5,999)
Unearned premiums	(63,486)	77,950
Accounts payable and other liabilities	(3,555)	6,637
Due to affiliate	(1,915)	7,923
Net cash (used in) provided by operating activities	(95,159)	71,232
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	(95,159)	1,471,232
Cash and cash equivalents, beginning of year	4,837,858	3,366,626
Cash and cash equivalents, end of year	\$ 4,742,699	\$ 4,837,858

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

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and Cash Equivalents: Cash is comprised of cash on deposit with financial institutions. Cash equivalents consist of a money market account. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to \$250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Company's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Company may maintain cash balances in excess of the FDIC insurance limit.

Investments: The Company accounts for 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 (loss) income.

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

Unpaid Losses and Loss Adjustment Expense Reserves: As of December 31, 2021 and 2020, management's best estimate of unpaid losses and loss adjustment expenses on its claims made written policies is zero. As of December 31, 2021 and 2020, 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.

(Continued)

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2021 and 2020, 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, 2021 and 2020. 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, 2021 and 2020, the Company did not record any penalties or interest associated with unrecognized tax benefits. Tax years from 2018 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 May 2, 2022, which is the date the financial statements were available to be issued.

Risks and Uncertainties: Due to the ongoing concern of the novel strain of the coronavirus and resulting global pandemic, the operations and business results of the Company could be materially adversely affected in future years. 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. As of December 31, 2021, the Company has not been materially adversely impacted. Management continues to monitor any new information which may emerge concerning the severity, containment and treatment of the virus and the global impact of the pandemic relating to all components of the Company.

(Continued)

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 3 - INVESTMENTS

Investments, classified as available for sale and carried at fair value, as of December 31, 2021, are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Exchange traded fund	\$ 1,999,944	\$ 51,521	\$ -	\$ 2,051,465

Investments, classified as available for sale and carried at fair value, as of December 31, 2020, were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Exchange traded fund	\$ 1,999,944	\$ 104,058	\$ -	\$ 2,104,002

There were no sales or realized gains or losses during 2021 and 2020.

Net investment (loss) income for the years ended December 31, 2021 and 2020, consists of the following:

	<u>2021</u>	<u>2020</u>
Interest and investment income	\$ 29,810	\$ 37,788
Holding (losses) gains on investments	<u>(52,537)</u>	<u>58,120</u>
Net investment (loss) income	<u>\$ (22,727)</u>	<u>\$ 95,908</u>

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).

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 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.

(Continued)

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2021 and 2020

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

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

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

The following tables set forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2021 and 2020:

<u>2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market fund	\$ 107,509	\$ -	\$ -
Exchange traded fund	<u>2,051,465</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,158,974</u>	<u>\$ -</u>	<u>\$ -</u>
<u>2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market fund	\$ 77,699	\$ -	\$ -
Exchange traded fund	<u>2,104,002</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,181,701</u>	<u>\$ -</u>	<u>\$ -</u>

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument. For the years ended December 31, 2021 and 2020, 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. During 2021, the Company did not write any policies to HAGL.

Premiums written and earned for the years ended December 31, 2021 and 2020 are summarized as follows:

	<u>Premiums Written</u>		<u>Premiums Earned</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Direct premiums	<u>\$ -</u>	<u>\$ 168,000</u>	<u>\$ 63,486</u>	<u>\$ 90,050</u>

(Continued)

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 5 - INSURANCE ACTIVITY (Continued)

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, 2021 and 2020, 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 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 \$115,054 and \$131,971 for the years ended December 31, 2021 and 2020, respectively. The amounts due to HARRG under these agreements, which are included in due to affiliate, amounted to \$14,921 and \$16,836 as of December 31, 2021 and 2020, 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 postretirement 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 of its employees. The Company recorded profit sharing expenses of \$1,389 and \$2,620 and 401(k) expenses of \$1,089 and \$1,882, for the years ended December 31, 2021 and 2020, respectively. In addition, the Company recorded an expense for incentive compensation of \$3,670 and \$6,740, for the years ended December 31, 2021 and 2020, respectively, which is included within salaries and benefits on the statements of operations.

NOTE 8 - SURPLUS

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

(Continued)

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020

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 (loss) income as follows:

	<u>2021</u>		<u>2020</u>	
Federal income taxes computed				
at the statutory rate	\$ (17,749)	(21.00)%	\$ 8,997	21.00%
Valuation allowance	18,526	21.92%	(28,304)	(66.07)%
Other	<u>3</u>	<u>0.00%</u>	<u>1</u>	<u>0.00%</u>
 Total	 <u>\$ 780</u>	 <u>0.92%</u>	 <u>\$ (19,306)</u>	 <u>(45.07)%</u>

Federal income tax expense (benefit) consists of the following for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Current	\$ -	\$ -
Deferred	<u>780</u>	<u>(19,306)</u>
 Total	 <u>\$ 780</u>	 <u>\$ (19,306)</u>

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

	<u>2021</u>	<u>2020</u>
Deferred tax assets		
Net operating loss carry-forward	\$ 35,265	\$ 25,850
Unearned premiums	<u>12,689</u>	<u>15,355</u>
Gross deferred tax assets	47,954	41,205
 Deferred tax liabilities		
Unrealized gains on investments	(10,819)	(21,852)
Retiree medical expense	<u>(83)</u>	<u>(47)</u>
Gross deferred tax liabilities	(10,902)	(21,899)
 Valuation allowance	 <u>(18,526)</u>	 <u>-</u>
 Total deferred tax asset, net	 <u>\$ 18,526</u>	 <u>\$ 19,306</u>

The Company has net operating loss carry-forwards as of December 31, 2021 of \$167,927, which will begin to expire in 2036. The Company has no capital loss or AMT Credit carryovers available.

(Continued)

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 9 - FEDERAL INCOME TAXES (Continued)

A valuation allowance on the deferred tax assets is evaluated based on management's assessment of the recoverability. As of December 31, 2021, the Company recorded a valuation allowance against the deferred tax asset of \$18,526 as the Company believes it is more likely than not that not all of the deferred tax asset will 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, 2021 and 2020, to the amounts shown in the accompanying financial statements.

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Housing Investment Group, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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 financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 and are not required parts of the consolidated financial statements. 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 consolidated financial statements. The 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 supplemental schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.


Crowe LLP

West Hartford, Connecticut
May 2, 2022

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 31,355,541	\$ 23,668,826
Agency and commission accounts receivables	26,775,012	31,331,225
Due from related parties	443,520	1,036,315
Income taxes receivable	3,121	11,708
Prepaid contractual liability insurance (Note 2)	302,117	365,603
Other assets	<u>16,333</u>	<u>195,785</u>
Total current assets	58,895,644	56,609,462
Deferred tax asset	<u>2,156,971</u>	<u>1,696,078</u>
Total assets	<u>\$ 61,052,615</u>	<u>\$ 58,305,540</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Commission payable and accounts current	\$ 40,726,138	\$ 41,382,533
Deferred commissions and other revenues	1,652,561	1,664,999
Accounts payable and accrued expenses	852,417	840,599
Due to related parties	<u>1,213,629</u>	<u>932,917</u>
Total current liabilities	44,444,745	44,821,048
Stockholders' equity		
Common stock, Class A, no par value, \$5,000 per share stated value, 2 shares authorized, issued and outstanding in 2021 and 2020	10,000	10,000
Common stock, Class B, no par value, various stated values, 300,000 shares authorized, 198,700 shares issued and outstanding in 2021 and 2020	39,400,000	39,400,000
Additional paid-in capital	482,234	482,234
Retained deficit	<u>(23,284,364)</u>	<u>(26,407,742)</u>
Total stockholders' equity	<u>16,607,870</u>	<u>13,484,492</u>
Total liabilities and stockholders' equity	<u>\$ 61,052,615</u>	<u>\$ 58,305,540</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net revenues		
Commission income	\$ 7,803,076	\$ 6,931,477
Insurance management services	249,787	211,851
Program fees	-	166,800
Other income	<u>257,643</u>	<u>150,242</u>
Total revenues	8,310,506	7,460,370
Costs and expenses		
Salaries and benefits	3,640,047	3,632,709
General and administrative	<u>1,804,927</u>	<u>1,741,386</u>
Total costs and expenses	<u>5,444,974</u>	<u>5,374,095</u>
Income before provision for income taxes	2,865,532	2,086,275
Income tax benefit	<u>(257,846)</u>	<u>(458,624)</u>
Net income	<u>\$ 3,123,378</u>	<u>\$ 2,544,899</u>

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

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2021 and 2020

	Common Stock Class A		Common Stock Class B (1)		Additional Paid-In Capital	Retained Deficit	Total
	Shares	Amount	Shares	Amount			
Balance as of January 1, 2020	2	\$ 10,000	198,700	\$ 39,400,000	\$ 482,234	\$ (24,952,641)	\$ 14,939,593
Dividends declared	-	-	-	-	-	(4,000,000)	(4,000,000)
Net income	-	-	-	-	-	2,544,899	2,544,899
Balance as of December 31, 2020	2	10,000	198,700	39,400,000	482,234	(26,407,742)	13,484,492
Net income	-	-	-	-	-	3,123,378	3,123,378
Balance as of December 31, 2021	<u>2</u>	<u>\$ 10,000</u>	<u>198,700</u>	<u>\$ 39,400,000</u>	<u>\$ 482,234</u>	<u>\$ (23,284,364)</u>	<u>\$ 16,607,870</u>

(1) 182,000 shares issued and outstanding at \$100 per share stated value as of December 31, 2021 and 2020, 500 shares issued and outstanding at \$10,000 per share stated value as of December 31, 2021 and 2020, 16,200 shares issued and outstanding at \$1,000 per share stated value as of December 31, 2021 and 2020

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Net income	\$ 3,123,378	\$ 2,544,899
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred federal income taxes	(460,893)	(612,878)
Changes in assets and liabilities		
Agency and commissions accounts receivables	4,556,213	(5,546,327)
Due from related parties	592,795	(629,821)
Income taxes receivable	8,587	(5,905)
Prepaid contractual liability insurance (Note 2)	63,486	(77,950)
Other assets	179,452	59,392
Commission payable and accounts current	(656,395)	6,406,128
Deferred commissions and other revenues	(12,438)	146,095
Accounts payable and accrued expenses	11,818	(105,298)
Due to related parties	280,712	379,467
Net cash provided by operating activities	<u>7,686,715</u>	<u>2,557,802</u>
Cash flows from financing activities		
Dividends paid to shareholders	-	(4,000,000)
Net cash used in financing activities	<u>-</u>	<u>(4,000,000)</u>
Net change in cash and cash equivalents	7,686,715	(1,442,198)
Cash and cash equivalents, beginning of year	<u>23,668,826</u>	<u>25,111,024</u>
Cash and cash equivalents, end of year	<u>\$ 31,355,541</u>	<u>\$ 23,668,826</u>
Supplemental cash flow disclosure:		
Income taxes paid during the year	<u>\$ 194,460</u>	<u>\$ 160,159</u>

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

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

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, 2021 or 2020: 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.

The Company declared and paid dividends of \$4,000,000 to HARRG and HAPI during 2020. There were no dividends paid or declared during 2021 by the Company.

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 Public Housing Authorities (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 group's policies, changes in public policy and/or funding of the PHAs could have a significant impact on the operations of the Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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, 2021 and 2020 and for the years then ended. 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.

(Continued)

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition: The Company recognizes revenue in accordance with FASB ASC 606, “*Revenue from Contracts with Customers*” (ASC 606). Commission, agency and brokerage services, program administration and management services revenues, paid by insurance carriers for the binding of insurance coverage, are 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 insureds may elect for payments to be made on an installment basis. 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 program fees are recorded upon finalization and approval of the anticipated project investment and no amounts are deferred. For the year ended December 31, 2021, HAGL did not earn any revenue from program fees. Other income, which consists primarily of 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.

Agency and Commission Accounts Receivable: Agency and commission accounts receivable consist of earned and uncollected commission and agency income. As of December 31, 2021 and 2020, management has not recorded an allowance for doubtful accounts against its outstanding accounts receivable as the balance is considered to be fully collectible.

Commission Payable: Commission payable consists of billed premium, net of retained commission, due to the insurance carriers the Company performs agency and brokerage services for.

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 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.

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.

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.

(Continued)

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company did not have any unrecognized tax benefits as of December 31, 2021 and 2020. 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, 2021 and 2020, the Company did not record any penalties or interest associated with unrecognized tax benefits. Tax years from 2018 forward are open and subject to examination by the Internal Revenue Service.

The Company has a formal tax sharing agreement whereby 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 the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

Subsequent Events: Subsequent events have been evaluated through May 2, 2022, which is the date the consolidated financial statements were available to be issued.

Risks and Uncertainties: Due to the ongoing concern of the novel strain of the coronavirus and resulting global pandemic, the operations and business results of the Company could be materially adversely affected in future years. The extent to which the coronavirus may impact business activity will depend on future developments, which are highly uncertain and cannot be predicted. As of December 31, 2021, the Company has not been materially adversely impacted. Management continues to monitor any new information which may emerge concerning the severity, containment and treatment of the virus and the global impact of the pandemic relating to all components of the Company.

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 2021 and 2020, commission income under these agreements amounted to \$5,257,358 and \$4,774,471, respectively, and the Company has recorded deferred commission income of \$1,047,759 and \$936,889, respectively, as of December 31, 2021 and 2020.

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, 2021 and 2020, commission income related to unaffiliated carriers amounted to \$2,481,591 and \$2,104,277, respectively, and the Company has deferred \$219,312 and \$292,223, respectively.

(Continued)

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 3 - REVENUES (Continued)

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. For the years ended December 31, 2021 and 2020, program administration income amounted to \$64,127 and \$52,729, respectively, and the Company has recorded deferred program administration income of \$17,261 and \$13,843, respectively, as of December 31, 2021 and 2020.

HIS has insurance management services agreements with HAPI and HARRG to provide various insurance agency activities. Fees for these services in 2021 and 2020 amounted to \$249,787 and \$211,851, respectively, and the Company has recorded deferred management fee revenues of \$66,162 and \$56,484, respectively, as of December 31, 2021 and 2020. These fees are calculated based upon a percentage of gross written premium for the years ended December 31, 2021 and 2020. All business associated with these insurance management service agreements originates from the service agreement as discussed in the previous paragraph.

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. For the year ended December 31, 2021, there was no revenue from program fees. For the years ended December 31, 2020, revenue from program fees amounted to \$166,800.

Other income, which consists of HAGL association benefit fees and consulting fees, amounted to \$257,643 and \$150,242, respectively, and the Company has deferred revenue of \$302,067 and \$365,560, respectively, for the years ended December 31, 2021 and 2020.

NOTE 4 - INCOME TAXES

The provision for income tax benefit consists of the following for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Current federal and state tax	\$ 203,047	\$ 154,254
Deferred federal and state tax:		
Deferred tax expense exclusive of the effects of other components listed below	217,538	109,255
Decrease in beginning of year deferred tax asset valuation allowance	<u>(678,431)</u>	<u>(722,133)</u>
Total	<u>\$ (257,846)</u>	<u>\$ (458,624)</u>

(Continued)

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 4 - INCOME TAXES (Continued)

The tax effect of temporary differences, which result in deferred tax assets, as of December 31, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Deferred tax assets:		
Net operating loss	\$ 5,058,427	\$ 5,710,147
Charitable carry forward	18	18
State taxes	514,773	572,730
Accrued retirement benefits	39,979	44,517
Research and development	642,256	642,256
Gross deferred tax asset	<u>6,255,453</u>	<u>6,969,668</u>
Deferred tax liabilities:		
481(a) adjustment	<u>(92,680)</u>	<u>(185,358)</u>
Gross deferred tax liability	(92,680)	(185,358)
Valuation allowance	<u>(4,005,802)</u>	<u>(5,088,232)</u>
Net deferred tax asset	<u>\$ 2,156,971</u>	<u>\$ 1,696,078</u>

The 2021 and 2020 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:

	<u>2021</u>		<u>2020</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Federal tax at statutory rate	\$ 601,762	21.00%	\$ 438,118	21.00%
State taxes	222,543	7.77%	162,665	7.80%
Valuation allowance	(1,082,430)	(37.77%)	(1,049,903)	(50.32%)
Meals and entertainment	725	0.02%	94	0.00%
Other	(446)	(0.02%)	(9,598)	(0.46%)
Income tax expense	<u>\$ (257,846)</u>	<u>(9.00%)</u>	<u>\$ (458,624)</u>	<u>(21.98%)</u>

The Company has a net operating loss carry-forward as of December 31, 2021 of \$24,087,748 that will begin to expire in 2034. 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, 2021 and 2020, the Company recorded a valuation allowance against the deferred tax asset of \$4,005,802 and \$5,088,232, respectively, as the Company believes it is more likely than not that all of the deferred tax asset will not be realized based on management's projections of taxable income. The change in valuation allowance is reflective of management's change in future projections of taxable income. The amount of the valuation allowance could continue to change in the near term, should management's projections of future taxable income change.

(Continued)

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 5 - 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 are as follows:

	<u>2021</u>	<u>2020</u>
HIS	\$ 4,715,955	\$ 4,459,753
HIG	<u>552,369</u>	<u>748,797</u>
Total	<u>\$ 5,268,324</u>	<u>\$ 5,208,550</u>

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, 2021 and 2020, the Company had the following amounts receivable from and payable to affiliated entities:

	<u>2021</u>		<u>2020</u>	
	<u>Amounts Receivable</u>	<u>Amounts Payable</u>	<u>Amounts Receivable</u>	<u>Amounts Payable</u>
HARRG	\$ 441,952	\$ 1,189,379	\$ 1,033,924	\$ 885,802
HAPI	1,568	17,662	1,715	14,191
HEIC	-	6,164	-	32,924
HSIC	<u>-</u>	<u>424</u>	<u>676</u>	<u>-</u>
Total	<u>\$ 443,520</u>	<u>\$ 1,213,629</u>	<u>\$ 1,036,315</u>	<u>\$ 932,917</u>

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 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. The Company recorded profit sharing expenses of \$178,488 and \$183,494, respectively, and 401(k) expenses of \$136,490 and \$126,863 for the years ended December 31, 2021 and 2020, respectively. In addition, the Company recorded an expense for incentive compensation of \$478,590 and \$515,478, for the years ended December 31, 2021 and 2020, respectively, which is included within salaries and benefits within the consolidated statements of operations.

HOUSING TELECOMMUNICATIONS, INC.

FINANCIAL STATEMENTS

December 31, 2021 and 2020

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Housing Telecommunications, Inc. (the Company), which comprise the statements of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year from the date the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Crowe LLP

West Hartford, Connecticut
May 2, 2022

HOUSING TELECOMMUNICATIONS, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 3,340,077	\$ 3,264,414
Accounts receivable	54,647	57,179
Refundable advance	81,677	-
Prepaid expenses	1,045	18,882
Due from affiliates	<u>28,621</u>	<u>27,325</u>
 Total assets	 <u>\$ 3,506,067</u>	 <u>\$ 3,367,800</u>
 LIABILITIES AND NET ASSETS		
Accounts payable	\$ 250,356	\$ 205,112
Due to affiliates	92,217	138,613
Unearned subscription fees	<u>553,866</u>	<u>552,784</u>
 Total liabilities	 896,439	 896,509
 Net assets without donor restrictions	 <u>2,609,628</u>	 <u>2,471,291</u>
 Total liabilities and net assets	 <u>\$ 3,506,067</u>	 <u>\$ 3,367,800</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenue without donor restrictions:		
Subscription fees	\$ 1,095,803	\$ 1,102,252
Risk management service fees	100,000	100,000
Sponsorship fees	-	150,000
Pay per view fees	1,069,982	988,133
Other income	<u>255,250</u>	<u>203,800</u>
 Total revenue without donor restrictions	 2,521,035	 2,544,185
 Expenses:		
Salaries and benefits	1,032,258	855,509
Program acquisition	534,067	534,279
Grant expense	485,323	-
General and administrative expenses	<u>331,050</u>	<u>475,571</u>
 Total expenses	 <u>2,382,698</u>	 <u>1,865,359</u>
 Change in net assets without donor restrictions	 138,337	 678,826
 Net assets without donor restrictions, beginning of year	 <u>2,471,291</u>	 <u>1,792,465</u>
 Net assets without donor restrictions, end of year	 <u>\$ 2,609,628</u>	 <u>\$ 2,471,291</u>

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

HOUSING TELECOMMUNICATIONS, INC.
 STATEMENTS OF CASH FLOWS
 Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 138,337	\$ 678,826
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	2,532	(25,006)
Refundable advance	(81,677)	-
Prepaid expenses	17,837	(12,840)
Due from affiliates	(1,296)	29
Accounts payable	45,244	42,704
Due to affiliates	(46,396)	(35,830)
Unearned subscription fees	1,082	19,842
Net cash provided by operating activities	<u>75,663</u>	<u>667,725</u>
 Net change in cash	 75,663	 667,725
Cash, beginning of year	<u>3,264,414</u>	<u>2,596,689</u>
 Cash, end of year	 <u>\$ 3,340,077</u>	 <u>\$ 3,264,414</u>

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

HOUSING TELECOMMUNICATIONS, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020

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 Company has carried out 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 operations of the Company are dependent on its affiliations with HARRG, 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).

Cash: Cash is comprised of one cash account as of December 31, 2021 and two cash accounts as of December 31, 2020. 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.

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. As of December 31, 2021 and 2020, management has not recorded an allowance for doubtful accounts against its outstanding accounts receivable as the balance is considered to be fully collectible.

Refundable Advance: Grant funds paid but not spent by the grantee during the year are classified as refundable advance and are deferred until future periods.

(Continued)

HOUSING TELECOMMUNICATIONS, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2021 and 2020, 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. Other income consists of professional services fees, which are recorded as revenue when the certification courses are completed.

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

Subsequent Events: Subsequent events have been evaluated through May 2, 2022, which is the date the financial statements were available to be issued.

Risks and Uncertainties: Due to the ongoing concern of the novel strain of the coronavirus and resulting global pandemic, the operations and business results of the Company could be materially adversely affected in future years. The extent to which the coronavirus may impact business activity will depend on future developments, which are highly uncertain and cannot be predicted. As of December 31, 2021, the Company has not been materially adversely impacted. Management continues to monitor any new information which may emerge concerning the severity, containment and treatment of the virus and the global impact of the pandemic relating to all components of the Company.

NOTE 3 - INCOME TAXES

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

(Continued)

NOTE 3 - INCOME TAXES (Continued)

The Company accounts for income taxes in accordance with FASB ASC 740, “*Income Taxes*”, with respect to how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Company did not record any unrecognized tax benefits as of December 31, 2021 and 2020. 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 2018 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, 2021 and 2020, the Company did not record any penalties or interest associated with unrecognized tax benefits.

NOTE 4 - AFFILIATES 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 \$1,303,308 and \$1,485,347 for the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, \$92,217 and \$138,613, respectively, was due to HARRG under these agreements 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, 2021 and 2020.

The Related Companies provide a sponsorship fee to the Company, which is intended to support membership training and education. The sponsorship agreement between HTI and the Related Companies was not renewed for the year ended December 31, 2021. For the year ended December 31, 2020 the Company recorded sponsorship fee income of \$150,000.

As of December 31, 2021 and 2020, on the statements of financial position within due from affiliates, are receivables from HARRG in the amount \$20,072 and \$18,894, respectively, and from HAPI in the amount of \$8,549 and \$8,431, respectively, related to equity dividends declared by HARRG and HAPI that have been applied to the PHAs’ current subscription fees.

During 2021, the Company recorded grant expenditures in the amount of \$485,323 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, 2021, PAHRC had unspent grant funds of \$81,677, which is recorded as a refundable advance within the statements of financial position.

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 5 - EMPLOYEE BENEFITS

HTI does not maintain a retirement plan, deferred compensation or other postretirement benefit plan. HTI 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 \$50,599 and \$43,148 and 401(k) expenses of \$41,862 and \$32,431, for the years ended December 31, 2021 and 2020. In addition, the Company recorded an expense for incentive compensation of \$138,531 and \$129,993, for the years ended December 31, 2021 and 2020, 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. The Company's main sources of liquidity at its disposal consists of cash and accounts receivable. At December 31, 2021 and 2020, the Company has financial assets available within one year of the statement of financial position date for general expenditure of \$3,394,724 and \$3,321,593, 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 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.

HOUSING TELECOMMUNICATIONS, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2021.

	<u>Program Activities</u>	<u>Management and General Activities</u>	<u>Total Expenses</u>
Salaries and benefits	\$ 836,579	\$ 195,679	\$ 1,032,258
Grants	485,323	-	485,323
Program costs	534,067	-	534,067
Event support	1,749	3	1,752
Office and occupancy	80,706	145,145	225,851
Depreciation	10,627	2,507	13,134
Services and professional fees	21,027	39,302	60,329
Travel, meetings and professional development	7,983	9,372	17,355
Other	4,597	8,032	12,629
Total expenses	<u>\$ 1,982,658</u>	<u>\$ 400,040</u>	<u>\$ 2,382,698</u>

The table below presents expenses by both their nature and their function for the year ended December 31, 2020.

	<u>Program Activities</u>	<u>Management and General Activities</u>	<u>Total Expenses</u>
Salaries and benefits	\$ 684,815	\$ 170,694	\$ 855,509
Program costs	534,279	-	534,279
Event support	649	-	649
Office and occupancy	138,905	225,938	364,843
Depreciation	27,637	6,865	34,502
Services and professional fees	13,450	36,458	49,908
Travel, meetings and professional development	11,525	4,931	16,456
Other	2,917	6,296	9,213
Total expenses	<u>\$ 1,414,177</u>	<u>\$ 451,182</u>	<u>\$ 1,865,359</u>

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 FTE basis, as well as salaries and benefits, event support, 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, 2021 and 2020

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Housing Authority Insurance, Inc. (the Company), which comprise the statements of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year from the date the financial statements are available to be issued.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in black ink that reads "Crowe LLP". The letters are cursive and somewhat stylized.

Crowe LLP

West Hartford, Connecticut
May 2, 2022

HOUSING AUTHORITY INSURANCE, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 2,232,572	\$ 2,731,163
Refundable advance	-	396,685
Due from affiliates	1,140,944	757,731
Prepaid expenses and other assets	<u>140,792</u>	<u>19,606</u>
 Total assets	 <u>\$ 3,514,308</u>	 <u>\$ 3,905,185</u>
 LIABILITIES AND NET ASSETS		
Accounts payable	\$ 40,580	\$ 53,442
Due to affiliates	<u>44,730</u>	<u>60,780</u>
Total liabilities	85,310	114,222
 Net assets:		
Without donor restrictions	2,288,055	3,033,232
With donor restrictions	<u>1,140,943</u>	<u>757,731</u>
Total net assets	<u>3,428,998</u>	<u>3,790,963</u>
 Total liabilities and net assets	 <u>\$ 3,514,308</u>	 <u>\$ 3,905,185</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Changes in net assets without donor restrictions:		
Revenues:		
Membership fees	\$ 500,000	\$ 2,500,000
Net assets released from donor restrictions	<u>616,788</u>	<u>242,269</u>
Total revenues	1,116,788	2,742,269
Expenses:		
Salaries and benefits	289,947	343,015
General and administrative expenses	136,696	190,931
Grants and donations	486,687	922,554
Loss prevention fund expenses	616,788	242,269
Event support	2,297	638
Member benefits	<u>329,550</u>	<u>301,768</u>
Total expenses	<u>1,861,965</u>	<u>2,001,175</u>
Changes in net assets without donor restrictions	(745,177)	741,094
Changes in net assets with donor restrictions:		
Restricted contributions	1,000,000	1,000,000
Net assets released from restrictions	<u>(616,788)</u>	<u>(242,269)</u>
Changes in net assets with donor restrictions	<u>383,212</u>	<u>757,731</u>
Change in net assets	(361,965)	1,498,825
Net assets, beginning of year	<u>3,790,963</u>	<u>2,292,138</u>
Net assets, end of year	<u>\$ 3,428,998</u>	<u>\$ 3,790,963</u>

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

HOUSING AUTHORITY INSURANCE, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ (361,965)	\$ 1,498,825
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Changes in assets and liabilities:		
Refundable advance	396,685	(124,541)
Due from affiliates	(383,213)	(757,731)
Prepaid expenses and other assets	(121,186)	(525)
Accounts payable	(12,862)	(47,491)
Due to affiliates	(16,050)	(6,617)
Deferred revenue	<u>-</u>	<u>(4,310)</u>
Net cash (used in) provided by operating activities	<u>(498,591)</u>	<u>557,610</u>
 Net change in cash	 (498,591)	 557,610
 Cash, beginning of year	 <u>2,731,163</u>	 <u>2,173,553</u>
 Cash, end of year	 <u>\$ 2,232,572</u>	 <u>\$ 2,731,163</u>

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

HOUSING AUTHORITY INSURANCE, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020

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 the affiliated entities 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).

Cash: Cash is comprised of one cash account as of December 31, 2021 and 2020. 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.

Refundable Advance: Grant funds paid but not spent by the grantee during the year are classified as refundable advance and are deferred until future periods.

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:

(Continued)

HOUSING AUTHORITY INSURANCE, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2021, and 2020, the Company's net assets with donor restrictions consisted of funds received for the Loss Prevention Fund (LPF). The LPF assists members with public housing loss prevention efforts, as further disclosed in Note 4.

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.

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

Subsequent Events: Subsequent events have been evaluated through May 2, 2022, which is the date the financial statements were available to be issued.

Risks and Uncertainties: Due to the ongoing concern of the novel strain of the coronavirus and resulting global pandemic, the operations and business results of the Company could be materially adversely affected in future years. The extent to which the coronavirus may impact business activity will depend on future developments, which are highly uncertain and cannot be predicted. As of December 31, 2021, the Company has not been materially adversely impacted. Management continues to monitor any new information which may emerge concerning the severity, containment and treatment of the virus and the global impact of the pandemic relating to all components of the Company.

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, 2021 and 2020. 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 2018 forward are open and subject to examination by the Internal Revenue Service.

(Continued)

HOUSING AUTHORITY INSURANCE, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 3 - INCOME TAXES (Continued)

The Company's policy is to include interest and penalties related to unrecognized tax benefits as a component of its provision for income taxes. As of December 31, 2021 and 2020, the Company did not record any penalties or interest associated with unrecognized tax benefits.

NOTE 4 - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company has a membership agreement with HARRG, HAPI, HEIC, and HSIC, which provides membership services to their insureds. The Company earned membership fees for the years ended December 31, 2021 and 2020, as follows:

	<u>2021</u>	<u>2020</u>
HARRG	\$ 169,300	\$ 846,500
HAPI	289,750	1,448,750
HEIC	33,450	167,250
HSIC	7,500	37,500
Total	<u>\$ 500,000</u>	<u>\$ 2,500,000</u>

As part of the membership agreement, HARRG and HAPI also contribute funds to a program, called the LPF, relating to public housing loss prevention efforts that would result in a safer environment for their residents and mitigate losses for HAI individual members. HAI individual members have the ability to apply for and request reimbursement from HAI, subject to approval, for the purchase of risk management and loss prevention products or services. HARRG and HAPI agreed to contribute \$500,000 each to the HAI LPF for the years ended December 31, 2021 and 2020. These contributions are restricted for use for the LPF and classified as net assets with donor restrictions. Once funds are distributed from the LPF to reimburse the individual member, the donor restriction is released. Distributions from the LPF were \$616,788 and \$242,269 for the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, \$570,472 and \$378,866, respectively, was due from each HARRG and HAPI and is reflected within due from affiliates on the statements of financial position.

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 \$524,442 and \$705,428 for the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, \$44,730 and \$60,780, respectively, was due to HARRG under these agreements and is reflected within due to affiliates on the statements of financial position.

During 2021, the Company did not provide a grant to Public and Affordable Housing Research Corporation (PAHRC), an affiliated company through common management. During 2020, the Company recorded grant expenditures in the amount of \$417,752 to PAHRC. 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, 2020, PAHRC had unspent grant funds of \$396,685, which is recorded as a refundable advance within the statements of financial position. During 2021, the grant funds remained unspent and as such, \$396,685 was returned by PAHRC to the Company in accordance with the grant agreement.

(Continued)

HOUSING AUTHORITY INSURANCE, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 4 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)

During 2021 and 2020, the Company recorded grant expenditures in the amount of \$320,000 and \$345,706, respectively, to Affordable Housing Accreditation Board (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, 2021, and 2020, the grant was fully utilized by AHAB.

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 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. The Company recorded profit sharing expenses of \$14,832 and \$16,494 and 401(k) expenses of \$10,776 and \$12,187, for the years ended December 31, 2021 and 2020. In addition, the Company recorded an expense for incentive compensation of \$34,251 and \$45,578, for the years ended December 31, 2021 and 2020, 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. The Company's main source of liquidity at its disposal consists of cash. At December 31, 2021 and 2020, the Company has financial assets available within one year of the statement of financial position date for general expenditure of \$2,232,572 and \$2,731,163, 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 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)

HOUSING AUTHORITY INSURANCE, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, 2021.

	<u>Program Activities</u>	<u>Management and General Activities</u>	<u>Total Expenses</u>
Salaries and benefits	\$ 156,833	\$ 133,114	\$ 289,947
Member benefits	329,288	262	329,550
Grants and donations	459,153	27,534	486,687
Loss prevention fund expenses	616,788	-	616,788
Event support	2,296	1	2,297
Office and occupancy	13,311	27,148	40,459
Depreciation	7,093	6,041	13,134
Services and professional fees	31,923	32,676	64,599
Travel, meetings and professional development	4,892	8,236	13,128
Other	-	5,376	5,376
Total expenses	<u>\$ 1,621,577</u>	<u>\$ 240,388</u>	<u>\$ 1,861,965</u>

The table below presents expenses by both their nature and their function for the year ended December 31, 2020.

	<u>Program Activities</u>	<u>Management and General Activities</u>	<u>Total Expenses</u>
Salaries and benefits	\$ 122,679	\$ 220,336	\$ 343,015
Member benefits	150,810	150,958	301,768
Grants and donations	759,258	163,296	922,554
Loss prevention fund expenses	242,269	-	242,269
Event support	319	319	638
Office and occupancy	10,724	39,610	50,334
Depreciation	5,818	10,460	16,278
Services and professional fees	34,188	73,779	107,967
Travel, meetings and professional development	2,895	8,441	11,336
Other	134	4,882	5,016
Total expenses	<u>\$ 1,329,094</u>	<u>\$ 672,081</u>	<u>\$ 2,001,175</u>

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 FTE 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, 2021 and 2020

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Public and Affordable Housing Research Corporation:

Opinion

We have audited the financial statements of Public and Affordable Housing Research Corporation (the Company), which comprise the statements of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year from the date the financial statements are available to be issued.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Crowe LLP

West Hartford, Connecticut
May 2, 2022

PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 115,093	\$ 460,986
Accounts receivable	-	7,021
Prepaid expenses	<u>2,165</u>	<u>7,945</u>
Total assets	<u>\$ 117,258</u>	<u>\$ 475,952</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 93,463	\$ 73,633
Unearned revenue	38,542	50,321
Due to affiliate	38,931	64,253
Deferred grant revenue	<u>81,677</u>	<u>396,685</u>
Total liabilities	252,613	584,892
Net deficit without donor restrictions	<u>(135,355)</u>	<u>(108,940)</u>
Total liabilities and net assets	<u>\$ 117,258</u>	<u>\$ 475,952</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenue without donor restrictions:		
Grant revenue	\$ 485,323	\$ 417,752
Other revenue	<u>144,950</u>	<u>110,632</u>
Total revenue without donor restrictions	630,273	528,384
Expenses:		
Salaries and benefits	492,365	443,658
General and administrative expenses	<u>164,323</u>	<u>147,259</u>
Total expenses	<u>656,688</u>	<u>590,917</u>
Change in net deficit without donor restrictions	(26,415)	(62,533)
Net deficit without donor restrictions, beginning of year	<u>(108,940)</u>	<u>(46,407)</u>
Net deficit without donor restrictions, end of year	<u>\$ (135,355)</u>	<u>\$ (108,940)</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ (26,415)	\$ (62,533)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	7,021	(7,021)
Prepaid expenses	5,780	(6,134)
Accounts payable	19,830	19,840
Unearned revenue	(11,779)	8,974
Due to affiliate	(25,322)	(15,331)
Deferred grant revenue	(315,008)	150,247
Net cash (used in) provided by operating activities	<u>(345,893)</u>	<u>88,042</u>
 Net change in cash	 (345,893)	 88,042
 Cash, beginning of year	 <u>460,986</u>	 <u>372,944</u>
 Cash, end of year	 <u><u>\$ 115,093</u></u>	 <u><u>\$ 460,986</u></u>

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

PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

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 Telecommunications, Inc. (HTI) and Housing Authority Insurance, Inc. (HAI), which are affiliated entities through common management, for the years ended December 31, 2021 and 2020, respectively. HTI provides education through a variety of media to employees and residents of public and low income and affordable housing authorities throughout the United States. 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 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).

Cash: Cash is comprised of one cash 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 maintains cash balances in excess of the FDIC insurance limit.

Accounts Receivable: Accounts receivable consists of contributions promised but not received and consulting services billed and uncollected as of year-end. The Company does not charge interest or late fees to its customers. As of December 31, 2021 and 2020, management has not recorded an allowance for doubtful accounts against its outstanding accounts receivable as the balance is considered to be fully collectible.

(Continued)

PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

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, 2021 and 2020, all of the Company’s net assets are classified as net assets without donor restrictions.

Revenue Recognition: Grant revenue is recognized when expenses are 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, sponsorships, and consulting fees. The Company records contribution income when an unconditional promise to give cash and other assets is made. 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 statements of financial position. Sponsorship revenue is recorded as revenue pro-rata over the term of the agreement. Consulting income is recorded as revenue as services are performed.

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

Subsequent Events: Subsequent events have been evaluated through May 2, 2022, which is the date the financial statements were available to be issued.

Risks and Uncertainties: Due to the ongoing concern of the novel strain of the coronavirus and resulting global pandemic, the operations and business results of the Company could be materially adversely affected in future years. The extent to which the coronavirus may impact business activity will depend on future developments, which are highly uncertain and cannot be predicted. As of December 31, 2021, the Company has not been materially adversely impacted. Management continues to monitor any new information which may emerge concerning the severity, containment and treatment of the virus and the global impact of the pandemic relating to all components of the Company.

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.

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PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

NOTE 3 - INCOME TAXES (Continued)

The Company accounts for income taxes in accordance with FASB ASC 740, “*Income Taxes*”, with respect to how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Company did not record any unrecognized tax benefits as of December 31, 2021 and 2020. 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 2018 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, 2021 and 2020, the Company did not record any penalties or interest associated with unrecognized tax benefits.

NOTE 4 - OTHER INCOME

During 2021 and 2020, the Company received contributions from several donors amounting to \$32,645 and \$30,057, respectively. 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. As of December 31, 2020, the Company was owed \$21, which is included in accounts receivable on the statements of financial position.

For the years ended December 31, 2021 and 2020, the Company recorded \$67,199 and \$38,356, respectively, of subscription fee revenue. The Company provides subscriptions and data licenses for use of the National Housing Preservation Database (NHPD). All subscriptions are for one year. As of December 31, 2021 and 2020, the Company recorded \$38,542 and \$33,540, respectively, of unearned subscription fee revenue, which is included in unearned revenue on the statements of financial position.

For the years ended December 31, 2021 and 2020, the Company recorded \$16,781 and \$35,219, respectively, of sponsorship revenue. These sponsorships are used to support the NHPD. During 2021, the Company did not receive any sponsorships. As of December 31, 2020, the Company recorded \$16,781 of unearned sponsorship revenue, which is included in unearned revenue on the statements of financial position.

For the years ended December 31, 2021 and 2020, the Company recorded \$28,325 and \$7,000 of consulting fees. During 2021, the Company provided a custom research group, project administration, market research and analysis, and customized application research and writing services. During 2020, the Company provided a custom training session and customized reporting on the NHPD. As of December 31, 2020, the Company was owed \$7,000, which is included in accounts receivable on the statements of financial position.

NOTE 5 - 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 \$617,832 and \$558,387 for the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, \$38,931 and \$64,253, respectively, was due to HARRG under these agreements and is reflected within due to affiliate on the statements of financial position.

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NOTE 5 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)

The Company recorded grant revenue in the amount of \$485,323 and \$417,752, from HTI in 2021 and HAI in 2020, respectively. The grants were made to support the Company's primary function, on behalf of HTI and HAI, of informing and educating residents, owners, operators, developers, vendors and regulators of public and affordable housing throughout the United States.

Unspent grant funds during the year are deferred until future periods. As of December 31, 2021 and 2020, the Company had unspent grant funds of \$81,677 and \$396,685, respectively, which are included within deferred grant revenue on the statements of financial position. During 2021, the 2020 HAI grant funds remained unspent and as such, \$396,685 was returned by the Company to HAI in accordance with the grant agreement.

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 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. The Company recorded profit sharing expenses of \$23,335 and \$21,660, and 401(k) expenses of \$19,539 and \$16,447, for the years ended December 31, 2021 and 2020, respectively. In addition, the Company recorded an expense for incentive compensation of \$59,633 and \$57,133, for the years ended December 31, 2021 and 2020, respectively, 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. The Company's main sources of liquidity at its disposal consist of cash and accounts receivable. At December 31, 2021 and 2020, the Company has financial assets available within one year of the statement of financial position date for general expenditure of \$115,093 and \$468,007, 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 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.

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PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

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, 2021.

	Program Activities	Management and General Activities	Fundraising Activities	Total Expenses
Salaries and benefits	\$ 356,453	\$ 120,857	\$ 15,055	\$ 492,365
Services and professional fees	30,412	29,420	229	60,061
Travel, meetings and professional development	9,068	8,438	176	17,682
Office and occupancy	17,031	31,505	-	48,536
Event support	1,997	1	-	1,998
Depreciation	4,771	1,594	201	6,566
Other	236	6,432	1	6,669
Program costs	21,671	-	1,140	22,811
Total expenses	<u>\$ 441,639</u>	<u>\$ 198,247</u>	<u>\$ 16,802</u>	<u>\$ 656,688</u>

The table below presents expenses by both their nature and their function for the year ended December 31, 2020.

	Program Activities	Management and General Activities	Fundraising Activities	Total Expenses
Salaries and benefits	\$ 356,747	\$ 71,432	\$ 15,479	\$ 443,658
Services and professional fees	18,084	26,864	249	45,197
Travel, meetings and professional development	8,050	3,221	227	11,498
Office and occupancy	27,830	31,158	-	58,988
Event support	572	-	-	572
Depreciation	15,579	3,083	676	19,338
Other	-	5,024	-	5,024
Program costs	6,310	-	332	6,642
Total expenses	<u>\$ 433,172</u>	<u>\$ 140,782</u>	<u>\$ 16,963</u>	<u>\$ 590,917</u>

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 FTE basis, as well as salaries and benefits, event support, services and professional fees, and travel, meetings and professional development, which are allocated on the basis of estimates of time and effort.