AUDITED FINANCIAL STATEMENTS

(As of the Years Ended December 31, 2023 and 2022)

Housing Authority Insurance, Inc.

Housing Authority Property Insurance, A Mutual Company

Housing Authority Risk Retention Group, Inc.

Housing Enterprise Insurance Company, Inc.

Housing Investment Group, Inc. and Subsidiaries

Housing Specialty Insurance Company, Inc.

Housing Telecommunications, Inc.

Innovative Housing Insurance Company, Inc.

Public and Affordable Housing Research Corporation

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HOUSING AUTHORITY INSURANCE, INC.

FINANCIAL STATEMENTS
December 31, 2023 and 2022

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, 2023 and 2022, 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, 2023 and 2022, 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.

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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

Crowe LLP

West Hartford, Connecticut
May 2, 2024

HOUSING AUTHORITY INSURANCE, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	$ 1,771,104	$ 2,747,298
Due from affiliates	-	508,184
Prepaid expenses and other assets	30,041	22,148
Total assets	$ 1,801,145	$ 3,277,630
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 73,326	$ 33,852
Due to affiliates	376,487	86,191
Total liabilities	449,813	120,043
Net assets		
Without donor restrictions	1,351,332	2,821,278
With donor restrictions	-	336,309
Total net assets	1,351,332	3,157,587
Total liabilities and net assets	$ 1,801,145	$ 3,277,630

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, 2023 and 2022

	2023	2022
Changes in net assets without donor restrictions		
Revenues		
Membership fees	$ 500,001	$ 2,032,500
Other Income	112,919	-
Net assets released from donor restrictions	336,309	804,634
Total revenues	949,229	2,837,134
Expenses		
Salaries and benefits	230,559	268,411
General and administrative expenses	146,619	135,272
Grants and donations	436,704	343,510
Loss prevention fund expenses	1,337,263	1,170,247
Member benefits	268,030	386,471
Total expenses	2,419,175	2,303,911
Changes in net assets without donor restrictions	(1,469,946)	533,223
Changes in net assets with donor restrictions		
Net assets released from restrictions	(336,309)	(804,634)
Changes in net assets with donor restrictions	(336,309)	(804,634)
Change in net assets	(1,806,255)	(271,411)
Net assets, beginning of year	3,157,587	3,428,998
Net assets, end of year	$ 1,351,332	$ 3,157,587

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

HOUSING AUTHORITY INSURANCE, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	$ (1,806,255)	$ (271,411)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Changes in assets and liabilities:		
Due from affiliates	508,184	632,760
Prepaid expenses and other assets	(7,893)	118,644
Accounts payable	39,474	(6,728)
Due to affiliates	290,296	41,461
Net cash (used in) provided by operating activities	(976,194)	514,726
Net change in cash and cash equivalents	(976,194)	514,726
Cash and cash equivalents, beginning of year	2,747,298	2,232,572
Cash and cash equivalents, end of year	$ 1,771,104	$ 2,747,298

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

NOTE 1 - GENERAL

Reporting Entity and Operations: Housing Authority Insurance, Inc. (the Company or HAI) was incorporated on October 26, 1987, as a non-stock District of Columbia corporation. The Company is a nonprofit organization, which has undertaken the responsibility for the development of public housing insurance programs. The programs of the Company are funded by Housing Authority Risk Retention Group, Inc. (HARRG), Housing Authority Property Insurance, A Mutual Company (HAPI), Housing Enterprise Insurance Company, Inc. (HEIC) and Housing Specialty Insurance Company, Inc. (HSIC) through membership fees. The Company provides the development of 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. 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 and Cash Equivalents: Cash and cash equivalents are comprised of one investment sweep account and one cash account as of December 31, 2023. Cash and cash equivalents was comprised of one cash account as of December 31, 2022. 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.

Beginning in January 2023, sweep accounts were implemented, which transfer the operating cash balance at the close of each business day to a short-term investment option, typically a money market fund. These funds, while invested, are considered cash equivalents.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets: The Company follows the provisions of FASB ASC 958, "*Not-for-Profit Entities*". FASB ASC 958 establishes standards for external financial reporting by not-for-profit organizations. Resources are reported for accounting purposes, in separate classes of net assets based on the existence or absence of donor-imposed restrictions. Within the financial statements, net assets that have similar characteristics are combined into the following categories:

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

With Donor Restrictions - Net assets that are subject to donor-imposed restrictions.

As of December 31, 2022, the Company's net assets with donor restrictions consisted of funds received for the Loss Prevention Fund (LPF) during 2021 and 2020. The LPF assists members with public housing loss prevention efforts, as further disclosed in Note 4. There were no net assets with donor restrictions as of December 31, 2023.

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. Other income consists of interest income, which is recorded as revenue as earned.

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.

Adoption of New Accounting Standard: On January 1, 2023, the Company adopted Accounting Standards Update (ASU) No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*" (ASU 2016-13), which provides updated guidance for the accounting of credit losses for financial instruments. The updated guidance replaces the incurred loss methodology and applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for certain financial instruments and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts. The expected credit losses, and subsequent adjustments to such losses, are recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the balance sheet at the amount expected to be collected.

The adoption of this pronouncement had no financial impact on the Company's financial statements as of December 31, 2023, as management determined no allowance was necessary for its in scope financial instruments.

Subsequent Events: Subsequent events have been evaluated through May 2, 2024, which is the date the financial statements were available to be issued.

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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, 2023 and 2022. 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 2020 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, 2023 and 2022, 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, 2023 and 2022, as follows:

	2023	2022
HARRG	$ 246,003	$ 1,000,000
HAPI	246,003	1,000,000
HEIC	6,150	25,000
HSIC	1,845	7,500
Total	$ 500,001	$ 2,032,500

During 2021 and 2020, as part of the membership agreement, HARRG and HAPI also contributed 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. HARRG and HAPI did not contribute to the HAI LPF specifically during 2023 and 2022. Distributions from the LPF were $1,337,263 and $1,170,247 for the years ended December 31, 2023 and 2022, respectively. As of December 31, 2022, $254,092 was due from each HARRG and HAPI and is reflected within due from affiliates on the statements of financial position. No amounts were due from HARRG and HAPI as of December 31, 2023. As of December 31, 2023, all net assets with donor restrictions were released.

(Continued)

NOTE 4 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)

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 $675,525 and $527,139 for the years ended December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, $376,487 and $86,191, respectively, was due to HARRG under these agreements and is reflected within due to affiliates on the statements of financial position.

During 2022, the Company recorded grant expenditures in the amount of $203,862 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. During 2022, AHAB was dissolved and all unused grant funds were returned to HAI.

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 all employees 21 years or older. The Company recorded profit sharing expenses of $11,936 and $12,675 and 401(k) expenses of $8,925 and $9,510, for the years ended December 31, 2023 and 2022, respectively. In addition, the Company recorded an expense for incentive compensation of $17,643 and $21,701, for the years ended December 31, 2023 and 2022, 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 and amounts due from affiliates. At December 31, 2023 and 2022, the Company has financial assets available within one year of the statement of financial position date for general expenditure of $1,771,104 and $3,255,482, 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)

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, 2023.

	Program Activities	Management and General Activities	Total Expenses
Salaries and benefits	$ 50,813	$ 179,746	$ 230,559
Member benefits	267,622	408	268,030
Grants and donations	436,704	-	436,704
Loss prevention fund expenses	1,337,263	-	1,337,263
Office and occupancy	7,794	19,554	27,348
Depreciation	1,520	3,612	5,132
Services and professional fees	24,533	44,991	69,524
Travel, meetings and professional development	6,654	28,005	34,659
Other	-	9,956	9,956
Total expenses	$ 2,132,903	$ 286,272	$ 2,419,175

The table below presents expenses by both their nature and their function for the year ended December 31, 2022.

	Program Activities	Management and General Activities	Total Expenses
Salaries and benefits	$ 53,693	$ 214,718	$ 268,411
Member benefits	386,471	-	386,471
Grants and donations	306,902	36,608	343,510
Loss prevention fund expenses	1,170,247	-	1,170,247
Office and occupancy	5,157	32,539	37,696
Depreciation	2,991	7,108	10,099
Services and professional fees	11,724	50,531	62,255
Travel, meetings and professional development	2,257	13,219	15,476
Other	-	9,746	9,746
Total expenses	$ 1,939,442	$ 364,469	$ 2,303,911

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, member benefits, grants and donations, travel, meetings and professional development, and services and professional fees, which are allocated on the basis of estimates of time and effort.

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY

STATUTORY FINANCIAL STATEMENTS
December 31, 2023 and 2022

Crowe LLP
Independent Member Crowe Global

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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, 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.

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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, 2023 and for the year ended. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the statutory financial statements as a whole.

Crowe LLP

Crowe LLP

West Hartford, Connecticut
May 3, 2024

	2023	2022
ADMITTED ASSETS		
Cash and invested assets		
Debt securities, at amortized cost or fair value	$ 178,394,514	$ 174,788,134
Equity securities, at fair value	26,974,941	23,205,458
Federal Home Loan Bank of Boston stock, at cost	135,600	124,800
Investment in affiliates	41,824,411	37,037,953
Cash, cash equivalents and short-term investments	24,454,491	9,997,540
Total cash and invested assets	271,783,957	245,153,885
Investment income due and accrued	1,539,118	1,234,788
Premiums receivable	26,299,828	24,222,339
Reinsurance recoverable on paid losses	842,262	465,389
Funds held by or deposited with reinsured companies	-	10,000
Due from affiliates	5,635	6,616
Total admitted assets	$ 300,470,800	$ 271,093,017
LIABILITIES AND CAPITAL AND SURPLUS		
Liabilities		
Unpaid losses and loss adjustment expenses	$ 43,283,531	$ 44,759,755
Taxes, licenses and fees	636,289	924,428
Unearned premiums	35,999,029	32,797,807
Accrued dividends	8,905,497	7,800,786
Ceded reinsurance premiums payable	801,068	1,036,724
Due to affiliates	1,230,250	1,045,578
Accrued expenses and other liabilities	7,420,616	2,767,057
Total liabilities	98,276,280	91,132,135
Capital and surplus		
Members' contributions	11,081,389	10,855,425
Unassigned funds	191,113,131	169,105,457
Total capital and surplus	202,194,520	179,960,882
Total liabilities and capital and surplus	$ 300,470,800	$ 271,093,017

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, 2023 and 2022

	2023	2022
Underwriting income		
Net premiums earned	$ 70,463,446	$ 64,044,803
Losses and expenses		
Net losses and loss adjustment expenses incurred	38,795,847	27,945,691
Other underwriting expenses incurred	15,527,438	15,621,179
Total losses and expenses	54,323,285	43,566,870
Net underwriting income	16,140,161	20,477,933
Investment income		
Net investment income earned	8,089,705	10,278,779
Net realized capital loss	(1,706,781)	(4,015,443)
Total investment gain	6,382,924	6,263,336
Other income	150,291	149,970
Net income before policyholder dividends	22,673,376	26,891,239
Policyholder dividends	(8,744,554)	(7,780,155)
Net income	$ 13,928,822	$ 19,111,084

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, 2023 and 2022

	2023	2022
Capital and surplus, beginning of year	$ 179,960,882	$ 167,995,423
Net income	13,928,822	19,111,084
Net unrealized capital gains (losses)	8,305,908	(6,793,557)
Equity dividends	(293,171)	(292,368)
Members' contributions, net	1,300	700
Change in non-admitted assets	59,819	(66,105)
Change in provision for reinsurance	-	5,705
Cumulative effect of changes in accounting error	230,960	-
Capital and surplus, end of year	$ 202,194,520	$ 179,960,882

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

	2023	2022
Cash flows from operations		
Premiums collected, net of reinsurance	$ 71,361,522	$ 62,269,263
Net investment income	7,517,185	9,961,798
Miscellaneous income	150,291	159,970
Losses and loss related payments, net	(37,106,600)	(25,908,749)
Commissions, expenses paid and aggregate write-ins for deductions	(18,065,426)	(18,065,049)
Dividends paid to policyholders	(7,639,843)	(2,127,922)
Net cash from operations	16,217,129	26,289,311
Cash flows from investments		
Proceeds from investments sold, matured and repaid	77,270,685	115,407,186
Cost of investments acquired	(79,168,310)	(137,857,894)
Net cash from investments	(1,897,625)	(22,450,708)
Cash flows from financing and miscellaneous sources		
Members' contributions and distributions, net	(291,871)	(291,668)
Other cash provided (used)	429,318	(822,564)
Net cash from financing and miscellaneous sources	137,447	(1,114,232)
Change in cash, cash equivalents and short-term investments	14,456,951	2,724,371
Cash, cash equivalents and short-term investments, beginning of year	9,997,540	7,273,169
Cash, cash equivalents and short-term investments, end of year	$ 24,454,491	$ 9,997,540

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, a 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 requires 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 required by 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."*

Allowance for Credit Losses - Under GAAP, the accounting framework follows a current expected credit loss model for determining credit-related impairments for certain financial instruments (e.g. premiums receivable, reinsurance recoverables and held to maturity fixed income investment portfolios) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses considers historical information, current information as well as reasonable and supportable forecasts. The expected credit losses, and subsequent adjustments to such losses, are recorded through an allowance account that is deducted from the amortized cost basis of the financial instrument, with the net carrying value of the financial instrument presented on the financial statements at the amount expected to be collected. NAIC SAP utilizes an incurred loss impairment model, which requires recognition of credit losses on certain financial instruments when known events occur.

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

<u>Cash, Cash Equivalents and Short-term Investments</u>: For statutory financial statement purposes, the Company considers cash to be cash on hand and cash on deposit. As of December 31, 2023 and 2022, 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).

Beginning in January 2023, sweep accounts were implemented, which transfer the operating cash balance at the close of each business day to a short-term investment option, typically a money market fund. These funds, while invested, are considered short term cash equivalents.

The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Company's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Company may maintain cash balances in excess of the FDIC insurance limit.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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. 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.

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, 2023 and 2022. No contributions were made during 2023 and 2022 to HIG. There were no dividends declared or paid by HIG during 2023. During 2022, the Company received a dividend payment from HIG of $5,000,000.

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 2023 and 2022. As of December 31, 2023 and 2022, 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 2023 and 2022 to HSIC. The Company owns 50% of HSIC as of December 31, 2023 and 2022.

Investments in HIG, HEIC and HSIC are accounted for in accordance with SSAP No. 97, "*Investments in Subsidiary, Controlled and Affiliated Entities"* and recorded based on underlying statutory equity and adjusted for the NAIC SAP basis of accounting where necessary based on the provisions of SSAP No. 97.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Home Loan Bank of Boston Stock: The Company, which is a member of the Federal Home Loan Bank, is required to maintain an investment in capital stock of the Federal Home Loan Bank of Boston (FHLBB). Based on redemption provisions of the FHLBB, the 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, 2023 and 2022, 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.

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 2023 or 2022.

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 reviews its overall position, its reserving techniques and its reinsurance on a monthly basis, and utilizes the findings of an independent consulting actuary's annual review. 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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, 2023 and 2022. 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 2023 and 2022.

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 3, 2024, which is the date the statutory financial statements were available to be issued.

(Continued)

NOTE 3 - INVESTMENTS

Investments, carried at amortized cost and fair value, as of December 31, 2023, are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities, at amortized cost:				
U.S. government	$ 30,561,574	$ 488,583	$ (1,453,578)	$ 29,596,579
U.S. states, territories and possessions	342,068	29,673	(1,752)	369,989
U.S. political subdivisions of states, territories and possessions	688,151	59,550	(7,362)	740,339
U.S. special revenue and special assessment obligations	28,408,168	54,100	(2,356,009)	26,106,259
Industrial and miscellaneous	107,721,311	1,273,386	(4,187,701)	104,806,996
Hybrid securities	5,067,829	3,554	(449,555)	4,621,828
Other invested assets	928,980	-	(167,010)	761,970
Total debt securities, at amortized cost	173,718,081	1,908,846	(8,622,967)	167,003,960
Debt securities, at fair value:				
Industrial and miscellaneous	5,044,931	-	(368,498)	4,676,433
Total debt securities, at fair value	5,044,931	-	(368,498)	4,676,433
Equity securities, at fair value:				
Mutual funds	20,136,197	6,863,727	(24,983)	26,974,941
Total equity securities, at fair value	20,136,197	6,863,727	(24,983)	26,974,941
Total	$ 198,899,209	$ 8,772,573	$ (9,016,448)	$ 198,655,334

(Continued)

NOTE 3 - INVESTMENTS (Continued)

Investments, carried at amortized cost and fair value, as of December 31, 2022, were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities, at amortized cost:				
U.S. government	$ 36,864,596	$ 334,378	$ (1,417,357)	$ 35,781,617
U.S. states, territories and possessions	343,202	29,733	(3,341)	369,594
U.S. political subdivisions of states, territories and possessions	695,492	75,610	(4,856)	766,246
U.S. special revenue and special assessment obligations	27,339,632	64,196	(2,791,386)	24,612,442
Industrial and miscellaneous	98,403,258	313,856	(7,320,486)	91,396,628
Hybrid securities	3,450,289	10,312	(478,873)	2,981,728
Other invested assets	1,576,994	-	(330,910)	1,246,084
Total debt securities, at amortized cost	168,673,463	828,085	(12,347,209)	157,154,339
Debt securities, at fair value:				
Industrial and miscellaneous	6,471,599	-	(703,428)	5,768,171
Hybrid securities	385,000	-	(38,500)	346,500
Total debt securities, at fair value	6,856,599	-	(741,928)	6,114,671
Equity securities, at fair value:				
Mutual funds	19,524,367	4,704,348	(1,023,257)	23,205,458
Total equity securities, at fair value	19,524,367	4,704,348	(1,023,257)	23,205,458
Total	$ 195,054,429	$ 5,532,433	$ (14,112,394)	$ 186,474,468

As of December 31, 2023 and 2022, respectively, the Company held $135,600 and $124,800 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, 2023. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due to mature		
One year or less	$ 4,575,750	$ 4,536,172
After one year through five years	35,519,125	34,620,562
After five years through ten years	53,312,138	51,114,083
After ten years	26,238,779	24,940,303
Collateralized debt obligations	21,581,670	21,019,964
Residential mortgage-backed securities	27,711,254	25,890,055
Commercial mortgage-backed securities	9,824,296	9,559,254
Total fixed income securities	$ 178,763,012	$ 171,680,393

(Continued)

NOTE 3 - INVESTMENTS (Continued)

Proceeds from sales of securities amounted to $62,614,044 and $96,139,496 in 2023 and 2022, respectively. Gross realized gains amounted to $741,343 and $569,338 on the sale of securities in 2023 and 2022, respectively. Gross realized losses amounted to $2,448,124 and $4,584,823 in 2023 and 2022, respectively.

The Company holds 450 securities that are in an unrealized loss position as of December 31, 2023, of which 413 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, 2023:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Debt securities				
U.S. government	$ 11,616,073	$ (280,754)	$ 7,787,638	$ (1,172,824)
U.S. states, territories and possessions	-	-	98,394	(1,752)
U.S. political subdivisions of states, territories and possessions	88,875	(1,404)	55,547	(5,958)
U.S. special revenue and special assessment obligations	4,473,830	(18,591)	16,155,561	(2,337,418)
Industrial and miscellaneous	6,343,536	(42,689)	63,487,317	(4,513,510)
Hybrid securities	-	-	3,646,375	(449,555)
Other invested assets	-	-	761,969	(167,010)
Total debt securities	22,522,314	(343,438)	91,992,801	(8,648,027)
Equity securities				
Mutual funds	121,618	(281)	435,338	(24,702)
Total	$ 22,643,932	$ (343,719)	$ 92,428,139	$ (8,672,729)

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The Company held 527 securities that were in an unrealized loss position as of December 31, 2022, of which 163 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, 2022:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Debt securities				
U.S. government	$ 18,941,922	$ (864,887)	$ 2,513,019	$ (552,470)
U.S. states, territories and possessions	96,918	(3,341)	-	-
U.S. political subdivisions of states, territories and possessions	57,445	(4,856)	-	-
U.S. special revenue and special assessment obligations	13,690,126	(862,511)	7,806,394	(1,928,875)
Industrial and miscellaneous	59,482,569	(4,022,200)	29,949,431	(4,001,714)
Hybrid securities	2,526,533	(406,143)	553,883	(111,230)
Other invested assets	386,280	(81,171)	859,804	(249,739)
Total debt securities	95,181,793	(6,245,109)	41,682,531	(6,844,028)
Equity securities				
Mutual funds	2,731,990	(358,200)	3,178,050	(665,057)
Total	$ 97,913,783	$ (6,603,309)	$ 44,860,581	$ (7,509,085)

The Company had debt securities with amortized costs of $5,283,178 and $5,470,532 as of December 31, 2023 and 2022, respectively, deposited with state insurance departments and regulatory authorities and are restricted, as required by certain state statutes. These amounts are included in debt securities, at amortized cost or fair value, on the statutory statements of admitted assets, liabilities and capital and surplus.

NOTE 4 - FAIR VALUE MEASUREMENTS

The Company measures fair value in accordance with SSAP No. 100, "*Fair Value Measurement,"* which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

(Continued)

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

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, 2023 and 2022.

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, 2023:

	Admitted	Fair Value			
	Assets	Level 1	Level 2	Level 3	Total
Financial instruments					
(carried at fair value)					
Money market funds	$ 5,849,203	$ 5,849,203	$ -	$ -	$ 5,849,203
Mutual funds	26,974,941	26,974,941	-	-	26,974,941
Debt securities	4,676,433	-	4,676,433	-	4,676,433
Total	37,500,577	32,824,144	4,676,433	-	37,500,577
Financial instruments					
(carried at amortized cost)					
Short-term investments	868,174	-	868,174	-	868,174
Debt securities	173,718,081	-	167,003,960	-	167,003,960
Total	174,586,255	-	167,872,134	-	167,872,134
Total	$ 212,086,832	$ 32,824,144	$ 172,548,567	$ -	$ 205,372,711

(Continued)

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents the financial instruments, measured at fair value, by valuation hierarchy, as well as the carrying value of those instruments in the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2022:

	Admitted	Fair Value			
	Assets	Level 1	Level 2	Level 3	Total
Financial instruments					
(carried at fair value)					
Money market funds	$ 4,047,122	$ 4,047,122	$ -	$ -	$ 4,047,122
Mutual funds	23,205,458	23,205,458	-	-	23,205,458
Debt securities	6,114,671	-	6,114,671	-	6,114,671
Total	33,367,251	27,252,580	6,114,671	-	33,367,251
Financial instruments					
(carried at amortized cost)					
Short-term investments	49,664	-	49,664	-	49,664
Debt securities	168,673,463	-	157,154,339	-	157,154,339
Total	168,723,127	-	157,204,003	-	157,204,003
Total	$ 202,090,378	$ 27,252,580	$ 163,318,674	$ -	$ 190,571,254

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 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, 2023 and 2022, 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 2023 and 2022, 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 reinsurers 100% of policy limits. In addition, the Company assumes 100% of certain auto physical damage coverages written by Travelers Indemnity Company through a fronting arrangement.

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 2023 and 2022, the Company assumed $680,242 and $620,197, respectively, of premiums from HSIC related to this contract.

All the Company's policies cover certified terrorism losses (unless coverage is declined by the policyholder) as defined under the Terrorism Risk Insurance Act of 2002 (TRIA) and the subsequent reauthorizations. The Terrorism Risk Insurance Program is a Federal program administered by the Department of the Treasury authorized through December 31, 2027 that provides for a system of shared public and private compensation for certain insured losses resulting from certified acts of terrorism.

In order for a loss to be covered under the program (subject losses), the loss must meet certain aggregate industry loss minimums and must be the result of an event that is certified as an act of terrorism. The annual aggregate industry loss minimum under the program is $200,000,000 for 2023 and 2022. 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 2023 and 2022, after an insurer deductible, subject to an annual cap. This reimbursement percentage is scheduled to 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 billion. Once subject losses have reached the $100 billion 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 acts of terrorism and acts of sabotage the agreement provides reinsurance for all losses and loss adjustment expenses in excess of $2,000,000 up to an aggregate limit of $80,000,000 per loss occurrence. With respect to strikes, riots, civil commotion and malicious damage 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. If a loss occurrence involves more than one of the Companies, the limits and retentions mentioned above will be divided between each of the Companies in the proportion of their individual losses to the total loss sustained by the Companies.

(Continued)

NOTE 5 - INSURANCE ACTIVITY (Continued)

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. All rated reinsurers have an A.M. Best rating of A or better.

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

Premiums direct written, assumed and ceded for the years ended December 31, 2023 and 2022, are summarized as follows:

	Premiums Written		Premiums Earned	
	2023	2022	2023	2022
Direct premiums	$ 96,718,775	$ 86,908,322	$ 92,701,401	$ 82,047,750
Assumed premiums	2,822,221	2,534,871	2,708,868	2,450,443
Ceded premiums	(25,876,328)	(21,344,517)	(24,946,823)	(20,453,390)
Net premiums	$ 73,664,668	$ 68,098,676	$ 70,463,446	$ 64,044,803

A reconciliation of changes in unpaid losses and loss adjustment expenses for the years ended December 31, 2023 and 2022, are summarized as follows:

	2023	2022
Balance at beginning of year	$ 44,759,755	$ 46,718,741
Incurred related to:		
Current year	46,587,320	50,085,379
Prior years	(7,791,473)	(22,139,688)
Total incurred	38,795,847	27,945,691
Paid related to:		
Current year	(18,607,305)	(16,329,036)
Prior years	(21,664,766)	(13,575,641)
Total paid	(40,272,071)	(29,904,677)
Balance at end of year	$ 43,283,531	$ 44,759,755

(Continued)

NOTE 5 - INSURANCE ACTIVITY (Continued)

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by $7,791,473 and $22,139,688 in 2023 and 2022, respectively. The development during 2023 relates primarily to favorable development of accident year 2022. The development during 2022 relates primarily to favorable development of accident year 2021.

The Company recorded net reinsurance recovery activity of $18,982,017 and $12,912,174 in 2023 and 2022, respectively, which are reflected as a decrease in net losses and loss adjustment expenses incurred in the statutory statements of operations.

NOTE 6 - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company has common paymaster and facilities agreements with HARRG, in which HARRG is the common paymaster for the Company. HARRG provides various management services to the Company and charges the Company for its direct allocation of salaries, benefits and overhead, along with the use of its facility. Expenses incurred for HARRG's management services were $10,236,187 and $9,993,444 for the years ended December 31, 2023 and 2022, respectively. The amounts due to HARRG under these agreements, which are included in due to affiliates, amounted to $1,219,020 and $782,548 as of December 31, 2023 and 2022, 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 $107,099 and $95,734 for the years ended December 31, 2023 and 2022, respectively. Amounts due from HIS include 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 is also due certain amounts from HIS for surcharges paid directly by the Company. The net amount due for all of these services, which is included in due from affiliates, amounted to $5,635 and $6,616 as of December 31, 2023 and 2022, respectively.

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, 2023 and 2022, commission expense under this agreement amounted to $4,836,059 and $4,345,560, respectively, which is included in underwriting expenses incurred on the statutory statement of operations. The amounts due to HIS under this agreement, which is included in due to affiliates, amounted to $2,185 as of December 31, 2023. There were no amounts due to HIS as of December 31, 2022.

The Company pays a membership fee to Housing Authority Insurance, Inc. (HAI), which provides membership services to HAPI's insureds. HAPI recognized HAI membership fee expenses of $246,003 and $1,000,000 for the years ended December 31, 2023 and 2022, respectively. The amount due to HAI amounted to $254,092 as of December 31, 2022, which is included in due to affiliates on the statutory statements of admitted assets, liabilities and capital and surplus. No amounts were due to HAI as of December 31, 2023.

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 $47,300 for risk management services fees paid to HTI for the year ended December 31, 2022. The agreement with HTI was not renewed in 2023.

(Continued)

NOTE 6 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)

The Company has amounts due to HTI of $9,045 and $8,938 as of December 31, 2023 and 2022, respectively, which are 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.

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 all employees 21 years or older. The Company recorded profit sharing expenses of $329,951 and $290,998 and 401(k) expenses of $217,027 and $196,025, for the years ended December 31, 2023 and 2022, respectively. In addition, the Company recorded an expense for incentive compensation of $504,546 and $501,371, for the years ended December 31, 2023 and 2022, 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, 2023, policyholder dividends of $9,000,000 were declared by the Company with $8,550,000 related to Class “A” members. Dividends declared to Class “B” members amounted to $450,000, with $202,574 to be paid in cash and $247,426 to be recorded as members’ recapitalization dividends within the statements of changes in capital and surplus. For the year ended December 31, 2022, policyholder dividends of $8,000,000 were declared by the Company with $7,600,000 related to Class “A” members. Dividends declared to Class “B” members amounted to $400,000, with $170,687 to be paid in cash and $229,313 to be recorded as members’ recapitalization dividends within the statements of changes in capital and surplus. In total, policyholder dividends of $8,744,554 and $7,780,155 were expensed for the years ended December 31, 2023 and 2022, 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 years ended December 31, 2023 and 2022, the Company did not declare any supplemental dividends.

(Continued)

NOTE 8 - CAPITAL AND SURPLUS (Continued)

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

During 2023 and 2022, 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 $293,171 and $292,368 in 2023 and 2022, 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, 2023 and 2022.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

In most 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, 2023 and 2022, the Company has not accrued for or been assessed by any state insurance department.

(Continued)

NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)

As of December 31, 2023 and 2022, 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, 2023 and 2022. 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, 2023 and 2022, the Company has an irrevocable standby letter of credit from BBH of $3,997,669 and $1,247,669, respectively, for the Company's assumed auto physical damage program and boiler and machinery program. Travelers Indemnity Company is the beneficiary of the letter of credit. There were no draw downs on this letter of credit as of December 31, 2023 and 2022.

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 2023 and 2022, 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, 2023 and 2022, amounts reflected as non-admitted assets were as follows:

	2023	2022
Non admitted assets of investment in affiliate	$ 14,537	$ 76,594
Prepaid expenses	11,936	9,698
	$ 26,473	$ 86,292

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, 2023 and 2022.

1. The Company's total admitted assets as reported in the Statement of Admitted Assets, Liabilities and Capital and Surplus was $300,470,800 as of December 31, 2023.

2. The ten largest exposures to a single issuer/borrower/investment as of December 31, 2023, are as follows:

Issuer	Description of Exposure		Amount	Percentage of Total Admitted Assets
Housing Enterprise Insurance Company, Inc.	Common Stock-Parents, Sub & Affiliates	$	20,386,318	6.8%
Housing Specialty Insurance Company, Inc.	Common Stock-Parents, Sub & Affiliates	$	13,192,809	4.4%
Housing Investment Group, Inc.	Common Stock-Parents, Sub & Affiliates	$	8,245,284	2.7%
Bank of America Corporation	Long Term Bonds	$	2,222,682	0.7%
JPMorgan Chase & Co.	Long Term Bonds	$	1,849,915	0.6%
Wells Fargo & Company	Long Term Bonds	$	1,552,491	0.5%
General Motors Financial Company, Inc.	Long Term Bonds	$	1,543,173	0.5%
Morgan Stanley	Long Term Bonds	$	1,359,758	0.5%
Global Atlantic (Fin) Company	Long Term Bonds	$	1,308,494	0.4%
Enstar Group Limited	Long Term Bonds	$	1,223,031	0.4%

3. The amounts and percentages of the Company's total admitted assets held in bonds and preferred stocks by NAIC rating are as follows:

Bonds		Amount	Percentage of Total Admitted Assets
NAIC - 1	$	130,543,613	43.4%
NAIC - 2	$	43,663,419	14.5%
NAIC - 3	$	4,676,433	1.6%

4. Assets held in foreign investments:

   Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]

   Total admitted assets held in foreign investments $ 24,869,152 8.3%

(Continued)

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating are as follows:

Rating	Amount	Percentage of Total Admitted Assets
Countries designated NAIC-1	$ 24,331,431	8.1%
Countries designated NAIC-3 or below	$ 537,721	0.2%

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating are as follows:

Rating	Amount	Percentage of Total Admitted Assets
Countries rated NAIC-1		
Country 1: Bermuda	$ 4,485,954	1.5%
Country 2: Cayman Islands	$ 3,183,471	1.1%
Countries rated NAIC-3 or below:		
Country 1: Barbados	$ 537,721	0.2%

10. Ten largest non-sovereign (i.e., non-governmental) foreign issues are as follows:

Issuer	NAIC Rating	Amount	Percentage of Total Admitted Assets
Avolon Holdings Funding Limited	2	$ 1,129,663	0.4%
UBS Group Inc.	1	$ 1,075,000	0.4%
HSBC Holding Plc	1	$ 1,069,660	0.4%
Swiss Re Finance (Luxembourg) S.A.	1	$ 1,055,526	0.4%
Fidelis Insur Hld Ltd	3	$ 911,400	0.3%
Renaissancere Holdings Ltd.	1	$ 871,138	0.3%
Siriuspoint Ltd.	2	$ 845,890	0.3%
Enstar Group Limited	2	$ 838,031	0.3%
Natwest Group Plc	1	$ 750,000	0.2%
Nbgbrm 25R Ar Seq Flt	1	$ 732,269	0.2%

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY
SUPPLEMENTAL SUMMARY INVESTMENT SCHEDULE
December 31, 2023

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
Bonds				
U.S. government	$ 30,561,574	11.2%	$ 30,561,574	11.2%
U.S. states, territories and possessions, etc. guaranteed	342,068	0.1%	342,068	0.1%
U.S. political subdivisions of states, territories and possessions, guaranteed	688,151	0.2%	688,151	0.2%
U.S. special revenue & special assessment obligations, etc., non-guaranteed	28,408,168	10.4%	28,408,168	10.4%
Industrial and miscellaneous	112,397,744	41.4%	112,397,744	41.4%
Hybrid securities	5,067,829	2.0%	5,067,829	2.0%
Common stocks				
Industrial and miscellaneous (unaffiliated)	135,600	0.1%	135,600	0.1%
Parent, subsidiaries, and affiliates other	41,838,949	15.4%	41,824,411	15.4%
Mutual funds	26,974,941	9.9%	26,974,941	9.9%
Cash, cash equivalents and short-term investments	24,454,491	9.0%	24,454,491	9.0%
Other invested assets	928,980	0.3%	928,980	0.3%
Total invested assets	$ 271,798,495	100.0%	$ 271,783,957	100.0%

HOUSING AUTHORITY RISK RETENTION GROUP, INC.

STATUTORY FINANCIAL STATEMENTS
December 31, 2023 and 2022

Crowe LLP
Independent Member Crowe Global

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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and for the year ended. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the statutory financial statements as a whole.

Crowe LLP

Crowe LLP

West Hartford, Connecticut
May 3, 2024

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS
December 31, 2023 and 2022

	2023	2022
ADMITTED ASSETS		
Cash and invested assets		
Debt securities, at amortized cost or fair value	$ 257,949,480	$ 254,047,374
Equity securities, at fair value	46,757,354	40,260,272
Federal Home Loan Bank of Boston stock, at cost	195,300	195,000
Investment in affiliates and majority owned subsidiaries	65,414,249	59,758,970
Real estate occupied by the Company, net	9,987,626	10,447,153
Cash, cash equivalents and short-term investments	22,170,062	11,967,420
Total cash and invested assets	402,474,071	376,676,189
Investment income due and accrued	2,169,618	1,813,067
Premiums receivable	6,814,593	7,442,358
Reinsurance recoverable on paid losses	191,194	2,107
Funds held by or deposited with reinsured companies	600,000	400,000
EDP equipment, net	4,355,201	347,270
Due from affiliates	4,233,409	2,843,756
Deductible receivables	746,192	858,874
Other assets	53,704	29,954
Total admitted assets	$ 421,637,982	$ 390,413,575
LIABILITIES AND CAPITAL AND SURPLUS		
Liabilities		
Unpaid losses and loss adjustment expenses	$ 97,500,066	$ 85,966,206
Taxes, licenses and fees	707,326	557,354
Unearned premiums	18,585,152	18,418,491
Advance premiums	134,811	184,368
Accrued dividends to policyholders	3,244,383	7,591,070
Ceded reinsurance premiums payable	1,052,263	1,027,126
Due to affiliates	3,343,207	167,901
Accrued expenses and other liabilities	11,817,730	6,152,955
Total liabilities	136,384,938	120,065,471
Capital and surplus		
Members’ contributions	11,179,671	11,126,335
Unassigned funds	274,073,373	259,221,769
Total capital and surplus	285,253,044	270,348,104
Total liabilities and capital and surplus	$ 421,637,982	$ 390,413,575

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, 2023 and 2022

	2023	2022
Underwriting income		
Net premiums earned	$ 43,640,397	$ 42,132,593
Losses and expenses		
Net losses and loss adjustment expenses incurred	36,200,061	14,576,021
Other underwriting expenses incurred	10,556,525	10,374,737
Total losses and expenses	46,756,586	24,950,758
Net underwriting (loss) income	(3,116,189)	17,181,835
Investment income		
Net investment income earned	12,031,262	13,854,269
Net realized capital losses	(2,082,720)	(5,987,707)
Total investment gain	9,948,542	7,866,562
Other income	18,527	110,523
Income before policyholder dividends	6,850,880	25,158,920
Policyholder dividends	(2,938,305)	(7,401,182)
Net income	$ 3,912,575	$ 17,757,738

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

	2023	2022
Capital and surplus, beginning of year	$ 270,348,104	$ 262,105,400
Net income	3,912,575	17,757,738
Net unrealized capital gains (losses)	11,589,322	(9,068,388)
Members’ contributions	1,500	500
Member dividend withdrawals	(547,726)	(549,518)
Change in non-admitted assets	(177,822)	80,243
Change in provision for reinsurance	-	22,129
Cumulative effect of changes in accounting error	127,091	-
Capital and surplus, end of year	$ 285,253,044	$ 270,348,104

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

	2023	2022
Cash flows from operations		
Premiums collected, net of reinsurance	$ 44,224,180	$ 42,472,746
Net investment income	11,947,170	14,035,139
Miscellaneous income	18,527	110,523
Losses and loss related payments, net	(15,829,960)	(10,028,872)
Commission, expenses paid and aggregate write-ins for deductions	(18,739,766)	(18,619,809)
Dividends paid to policyholders	(7,284,992)	(9,769,945)
Net cash from operations	14,335,159	18,199,782
Cash flows from investments		
Proceeds from investments sold, matured and repaid	110,679,704	176,505,485
Cost of investments acquired	(112,065,841)	(188,390,574)
Cost of real estate acquired	(97,975)	(102,710)
Net cash used in investments	(1,484,112)	(11,987,799)
Cash flows from financing and miscellaneous sources		
Capital and paid in surplus	(546,226)	(549,018)
Borrowed funds	-	(1,891,068)
Other cash (applied) provided	(2,102,179)	1,977,172
Net cash used in financing and miscellaneous sources	(2,648,405)	(462,914)
Change in cash, cash equivalents and short-term investments	10,202,642	5,749,069
Cash, cash equivalents and short-term investments, beginning of year	11,967,420	6,218,351
Cash, cash equivalents and short-term investments, end of year	$ 22,170,062	$ 11,967,420

NOTE 1 - GENERAL

Reporting Entity: Housing Authority Risk Retention Group, Inc. (the Company or HARRG) 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 the 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, whereas NAIC SAP requires 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 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 equipment, 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 required by 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 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."*

Allowance for Credit Losses - Under GAAP, the accounting framework follows a current expected credit loss model for determining credit-related impairments for certain financial instruments (e.g. premiums receivable, reinsurance recoverables and held to maturity fixed income investment portfolios) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses considers historical information, current information as well as reasonable and supportable forecasts. The expected credit losses, and subsequent adjustments to such losses, are recorded through an allowance account that is deducted from the amortized cost basis of the financial instrument, with the net carrying value of the financial instrument presented on the financial statements at the amount expected to be collected. NAIC SAP utilizes an incurred loss impairment model, which requires recognition of credit losses on certain financial instruments when known events occur.

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.

<u>Cash, Cash Equivalents and Short-term Investments</u>: 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).

Beginning in January 2023, sweep accounts were implemented, which transfer the operating cash balance at the close of each business day to a short-term investment option, typically a money market fund. These funds, while invested, are considered short term cash equivalents.

The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Company's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Company may maintain cash balances in excess of the FDIC insurance limit.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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. 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 (losses) gains are reported within capital and surplus.

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, 2023 and 2022. No contributions were made during 2023 or 2022 to HIG. There were no dividends declared or paid by HIG during 2023. During 2022, the Company received a dividend payment from HIG of $5,000,000.

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 2023 and 2022. As of December 31, 2023 and 2022, 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 2023 or 2022 to HSIC. The Company owns 50% of HSIC as of December 31, 2023 and 2022.

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 to IHIC during 2023 and 2022. HARRG has a 100% ownership interest in IHIC.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in HIG, HEIC, HSIC, and IHIC are accounted for in accordance with SSAP No. 97, "*Investments in Subsidiary, Controlled and Affiliated Entities"* and recorded based on underlying statutory equity and adjusted for the NAIC SAP basis of accounting where necessary based on the provisions of SSAP No. 97.

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, 2023 and 2022, 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.

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 2023 or 2022.

Property and EDP Equipment: Real estate occupied by the Company (excluding land of $2,580,836 in 2023 and 2022) 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 reviews its overall position, its reserving techniques and its reinsurance on a monthly basis, and utilizes the findings of an independent consulting actuary's annual review. 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.

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 2023 and 2022.

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, 2023 and 2022, there were no 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company did not record any income tax contingencies or interest and penalties related to any income tax contingencies as of December 31, 2023 and 2022. 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 3, 2024, which is the date the statutory financial statements were available to be issued.

NOTE 3 - INVESTMENTS

Investments, carried at amortized cost and fair value, as of December 31, 2023, are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities, at amortized cost				
U.S. government	$ 37,056,814	$ 170,244	$ (1,724,001)	$ 35,503,057
U.S. political subdivisions of states, territories and possessions, guaranteed	4,353,495	316,535	(27,695)	4,642,335
U.S. special revenue and special assessment obligations	36,677,842	101,887	(2,938,301)	33,841,428
Industrial and miscellaneous	162,764,981	1,892,663	(6,013,682)	158,643,962
Hybrid securities	8,629,565	5,218	(751,373)	7,883,410
Other invested assets	2,005,608	-	(317,024)	1,688,584
Total debt securities, at amortized cost	251,488,305	2,486,547	(11,772,076)	242,202,776
Debt securities, at fair value				
Industrial and miscellaneous	6,948,855	-	(487,680)	6,461,175
Total debt securities, at fair value	6,948,855	-	(487,680)	6,461,175
Equity securities, at fair value				
Mutual funds	33,984,688	12,828,332	(55,666)	46,757,354
Total	$ 292,421,848	$ 15,314,879	$ (12,315,422)	$ 295,421,305

(Continued)

NOTE 3 - INVESTMENTS (Continued)

Investments, carried at amortized cost and fair value, as of December 31, 2022, were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities, at amortized cost				
U.S. government	$ 39,532,273	$ 359,070	$ (1,585,425)	$ 38,305,918
U.S. political subdivisions of states, territories and possessions, guaranteed	4,404,827	395,385	(18,986)	4,781,226
U.S. special revenue and special assessment obligations	36,479,607	214,236	(3,530,289)	33,163,554
Industrial and miscellaneous	156,625,260	495,149	(11,206,306)	145,914,103
Hybrid securities	5,934,047	14,025	(810,449)	5,137,623
Other invested assets	2,458,438	-	(414,393)	2,044,045
Total debt securities, at amortized cost	245,434,452	1,477,865	(17,565,848)	229,346,469
Debt securities, at fair value				
Industrial and miscellaneous	9,125,369	-	(1,070,447)	8,054,922
Hybrid securities	620,000	-	(62,000)	558,000
Total debt securities, at fair value	9,745,369	-	(1,132,447)	8,612,922
Equity securities, at fair value				
Mutual funds	32,773,499	8,757,484	(1,270,711)	40,260,272
Total	$ 287,953,320	$ 10,235,349	$ (19,969,006)	$ 278,219,663

As of December 31, 2023 and 2022, the Company held $195,300 and $195,000, respectively, of FHLBB stock which is carried at cost as further described in Note 2.

As of December 31, 2023 and 2022, the Company pledged securities to FHLBB with an amortized cost of $24,984,574 and $7,299,194, respectively, to support future outstanding collateralized advances. Pledged assets are being maintained at current levels to provide for a potential future source of short-term liquidity.

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The amortized cost and fair value of debt securities are shown by contractual maturity as of December 31, 2023. 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	$ 5,185,481	$ 5,136,644
After one year through five years	52,132,253	50,877,804
After five years through ten years	85,283,436	82,335,844
After ten years	34,921,831	32,831,083
Residential mortgage-backed securities	31,952,679	31,102,500
Commercial mortgage-backed securities	32,872,099	30,808,061
Collateralized debt obligations	16,089,381	15,572,015
Total debt securities	$ 258,437,160	$ 248,663,951

Proceeds from sales of securities amounted to $83,596,680 and $149,528,632 in 2023 and 2022, respectively. Gross realized gains of $1,072,255 and $781,902, and gross realized losses of $3,154,975 and $6,769,609 were realized on those sales during 2023 and 2022, respectively.

The Company holds 452 securities that are in an unrealized loss position as of December 31, 2023, of which 422 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, 2023:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Debt securities				
U.S. government	$ 21,063,229	$ (419,744)	$ 10,229,719	$ (1,304,257)
U.S. political subdivisions of states, territories and possessions, guaranteed	278,453	(4,399)	217,194	(23,296)
U.S. special revenue and special assessment obligations	4,194,169	(19,078)	23,226,643	(2,919,223)
Industrial and miscellaneous	12,728,363	(65,822)	93,698,370	(6,435,540)
Hybrid securities	-	-	6,382,603	(751,373)
Other invested assets	-	-	1,688,584	(317,024)
Total debt securities	38,264,214	(509,043)	135,443,113	(11,750,713)
Equity securities				
Mutual funds	236,379	(547)	1,326,749	(55,119)
Total	$ 38,500,593	$ (509,590)	$ 136,769,862	$ (11,805,832)

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The Company held 540 securities that were in an unrealized loss position as of December 31, 2022, of which 156 of these securities had 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 had been in a continuous unrealized loss position, as of December 31, 2022:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Debt securities				
U.S. government	$ 20,896,950	$ (1,128,233)	$ 2,569,352	$ (457,192)
U.S. political subdivisions of states, territories and possessions, guaranteed	224,615	(18,986)	-	-
U.S. special revenue and special assessment obligations	19,798,743	(1,483,880)	8,214,082	(2,046,409)
Industrial and miscellaneous	96,330,086	(6,526,246)	45,595,287	(5,750,507)
Hybrid securities	4,758,558	(752,625)	600,040	(119,824)
Other invested assets	1,004,705	(173,731)	1,039,338	(240,662)
Total debt securities	143,013,657	(10,083,701)	58,018,099	(8,614,594)
Equity securities				
Mutual funds	1,300,964	(100,016)	5,489,387	(1,170,695)
Total	$ 144,314,621	$ (10,183,717)	$ 63,507,486	$ (9,785,289)

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.

(Continued)

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

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, 2023 and 2022.

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, 2023:

	Admitted	Fair Value			
	Assets	Level 1	Level 2	Level 3	Total
Financial instruments (carried at fair value)					
Money market funds	$ 5,985,553	$ 5,985,553	$ -	$ -	$ 5,985,553
Debt securities	6,461,175	-	6,461,175	-	6,461,175
Mutual funds	46,757,354	46,757,354	-	-	46,757,354
Total	59,204,082	52,742,907	6,461,175	-	59,204,082
Financial instruments (carried at amortized cost)					
Short-term investments	1,423,616	-	1,423,616	-	1,423,616
Debt securities	251,488,305	-	242,202,776	-	242,202,776
Total	252,911,921	-	243,626,392	-	243,626,392
Total	$ 312,116,003	$ 52,742,907	$ 250,087,567	$ -	$ 302,830,474

(Continued)

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents the financial instruments, measured at fair value, by valuation hierarchy, as well as the carrying value of those instruments in the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2022:

	Admitted	Fair Value			
	Assets	Level 1	Level 2	Level 3	Total
Financial instruments (carried at fair value)					
Money market funds	$ 1,504,087	$ 1,504,087	$ -	$ -	$ 1,504,087
Debt securities	8,612,922	-	8,612,922	-	8,612,922
Mutual funds	40,260,272	40,260,272	-	-	40,260,272
Total	50,377,281	41,764,359	8,612,922	-	50,377,281
Financial instruments (carried at amortized cost)					
Short-term investments	367,513	-	367,513	-	367,513
Debt securities	245,434,452	-	229,346,469	-	229,346,469
Total	245,801,965	-	229,713,982	-	229,713,982
Total	$ 296,179,246	$ 41,764,359	$ 238,326,904	$ -	$ 280,091,263

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, 2023 and 2022, 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, 2023 and 2022, 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 2023 and 2022. 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 2023 and 2022, after an insurer deductible, subject to an annual cap. This reimbursement percentage is scheduled to 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 billion. Once subject losses have reached the $100 billion 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 acts of terrorism and acts of sabotage the agreement provides reinsurance for all losses and loss adjustment expenses in excess of $2,000,000 up to an aggregate limit of $80,000,000 per loss occurrence. With respect to strikes, riots, civil commotion and malicious damage 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. 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, 2023 and 2022, 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, 2023 and 2022, 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. Limits written above $15,000,000 are reinsured on a facultative basis.

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. All rated reinsurers have an A.M. Best rating of A or better.

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

(Continued)

NOTE 5 - INSURANCE ACTIVITY (Continued)

Premiums written, assumed and ceded for the years ended December 31, 2023 and 2022, are summarized as follows:

	Premiums Written		Premiums Earned	
	2023	2022	2023	2022
Direct premiums	$ 43,067,787	$ 43,399,943	$ 43,234,104	$ 42,789,395
Assumed premiums	6,502,592	4,731,193	5,966,763	4,145,871
Ceded premiums	(5,763,321)	(5,084,748)	(5,560,470)	(4,802,673)
Net premiums	$ 43,807,058	$ 43,046,388	$ 43,640,397	$ 42,132,593

A reconciliation of changes in unpaid losses and loss adjustment expenses as of and for the years ended December 31, 2023 and 2022, are summarized as follows:

	2023	2022
Balance at beginning of year	$ 85,966,206	$ 90,036,854
Incurred related to		
Current year	35,336,543	32,127,422
Prior years	863,518	(17,551,401)
Total incurred	36,200,061	14,576,021
Paid related to		
Current year	(3,187,698)	(2,982,422)
Prior years	(21,478,503)	(15,664,247)
Total paid	(24,666,201)	(18,646,669)
Balance at end of year	$ 97,500,066	$ 85,966,206

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses increased (decreased) by $863,518 and ($17,551,401) in 2023 and 2022, respectively. The development during 2023 relates primarily to unfavorable development on HARRG's retained liability book of business for accident year 2020. The development during 2022 relates primarily to favorable development on HARRG's retained liability book of business for accident years 2016 through 2018 and 2020 through 2021.

The Company recorded net reinsurance activity of $4,027,814 and $3,516,107 in 2023 and 2022, respectively, which is reflected as a decrease in net losses and loss adjustment expenses incurred in the statutory statements of operations.

NOTE 6 - PROPERTY AND EQUIPMENT

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

	2023	2022
Land	$ 2,580,836	$ 2,580,836
Building	15,261,862	15,163,888
Furniture and equipment	1,946,653	1,922,003
	19,789,351	19,666,727
Less: accumulated depreciation	(9,642,066)	(9,014,284)
	10,147,285	10,652,443
Non-admitted assets	(159,659)	(205,290)
Total	$ 9,987,626	$ 10,447,153
EDP equipment	$ 4,200,683	$ 3,971,476
EDP software	5,933,089	1,750,787
	10,133,772	5,722,263
Less: accumulated depreciation	(5,778,571)	(5,374,993)
Total	$ 4,355,201	$ 347,270

Depreciation expense for the years ended December 31, 2023 and 2022 amounted to $1,037,775 and $1,052,038, respectively. Depreciation expense of $766,380 and $749,787 was allocated to affiliated entities per the management services agreement, as disclosed in Note 8, in 2023 and 2022, 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 had an interest rate of 2.78% annually and was scheduled to mature on May 1, 2023. In July 2022, the term loan was paid in full. 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.

Interest expense related to the FHLBB term loans was $26,454 for the year ended December 31, 2022, and is included within other underwriting expenses incurred on the statutory statements of operations.

NOTE 8 - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company pays a membership fee to Housing Authority Insurance, Inc. (HAI), which provides membership services to HARRG's insureds. HARRG recognized HAI membership fee expenses of $246,003 and $1,000,000 for the years ended December 31, 2023 and 2022, respectively. The amount due to HAI amounted to $254,092 as of December 31, 2022, which is included in due to affiliates on the statutory statements of admitted assets, liabilities and capital and surplus. No amounts were due to HAI as of December 31, 2023.

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 $325,130 and $304,713 for the years ended December 31, 2023 and 2022, 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 year ended December 31, 2022. The agreement with HTI was not renewed in 2023.

During 2023, the Company entered into an Intercompany Loan Agreement with HAPI, HEIC, HSIC, IHIC, HIG, HIS, HAI, HTI, and Public and Affordable Housing Research Corporation (PAHRC), by which the Company may lend to one or more of these companies and one or more of these companies may borrow from the Company from time to time for a period not to exceed 12 months, an amount at a competitive market-based interest rate charged to the Company by a third-party for borrowing funds. The maximum funds that may be lent or borrowed will not exceed $20,000,000 outstanding in the aggregate at any time. As of December 31, 2023, no funds were lent or borrowed.

The Company has common paymaster and facilities agreements with its affiliates, in which the Company is the common paymaster for all of its affiliates' employees. The Company provides various management services to its affiliates and charges its affiliates for their direct allocation of salaries, benefits and overhead, along with the use of its facility. The cost of these services is directly allocated to these entities.

The amounts of allocated costs by company are as follows:

	Allocated Costs	
	2023	2022
HAPI	$ 10,236,187	$ 9,993,444
HEIC	9,806,928	9,873,673
HSIC	996,445	777,525
HIG	293,682	302,670
HIS	6,192,097	5,020,861
IHIC	96,302	110,406
HAI	675,525	527,139
HTI	1,891,326	1,665,192
PAHRC	982,512	709,148
Total	$ 31,171,004	$ 28,980,058

(Continued)

NOTE 8 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)

In addition to the allocated costs, the Company is party to various intercompany agreements and activities, which from time-to-time result in amounts receivable from and payable to affiliated entities. As of December 31, 2023 and 2022, the Company had the following amounts receivable from and payable to affiliated entities:

	2023		2022	
	Amounts Receivable	Amounts Payable	Amounts Receivable	Amounts Payable
HAPI	$ 1,219,020	$ -	$ 782,550	$ -
HEIC	1,155,805	-	1,055,114	-
HSIC	104,115	-	76,133	-
HIG	30,353	-	48,938	-
HIS	1,052,584	3,329,586	659,925	-
IHIC	12,355	-	15,826	-
HAI	376,487	-	-	167,901
HTI	176,321	13,621	122,628	-
PAHRC	106,369	-	82,642	-
Total	$ 4,233,409	$ 3,343,207	$ 2,843,756	$ 167,901

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 contribution at the discretion of the Board of Directors. Contributions amounted to $723,646 and $618,165 for the years ended December 31, 2023 and 2022, 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 contributions is based ratably on years of continuous service. Participants are fully vested in discretionary 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. During 2016, accumulated benefits were paid out to all participants covered. During 2022, the Company surrendered the related life insurance policies and received net proceeds of $2,772,833. SERP benefits incurred amounted to $192,795 for the year ended December 31, 2022, net of allocated amounts to affiliated companies. During 2022, the Company recorded an expense of $106,530, relating to premium payments.

(Continued)

NOTE 9 - EMPLOYEE BENEFITS (Continued)

The Company provides incentive compensation to its employees, on a discretionary basis. Accrued incentive compensation expense amounted to $824,142 and $771,920 as of December 31, 2023 and 2022, 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 $693,329 and $656,892 of incentive compensation for the years ended December 31, 2023 and 2022, 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 $2,029,629 and $2,139,183 as of December 31, 2023 and 2022, 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.

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 $3,000,000 and $7,500,000 for the years ended December 31, 2023 and 2022, respectively. For the years ended December 31, 2023 and 2022, $2,970,000 and $7,425,000 related to Class "A" members, respectively. During 2023 and 2022, dividends were declared to Class "B" members in the amount of $30,000 and $75,000, with $3,634 and $20,035 to be paid in cash and $26,366 and $54,965 to be recorded as members' recapitalization dividends within the statements of changes in capital and surplus, respectively. In total, policyholder dividends of $2,938,305 and $7,401,182 were expensed for the years ended December 31, 2023 and 2022, respectively, within the statutory statements of operations. Dividends were approved by the Board of Directors and 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, 2023 and 2022, the Company did not declare any supplemental dividends.

The Company also provides its members with equity dividends which are allowed to be used for the purchase of HAI Group products and services. Equity dividends amounted to $547,726 and $549,518 in 2023 and 2022, respectively.

(Continued)

NOTE 10 - CAPITAL AND SURPLUS (Continued)

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, 2023 and 2022, 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, 2023 and 2022.

The Company is required by the Department to maintain a minimum statutory surplus of $1,000,000 in 2023 and 2022.

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, 2023 and 2022.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

As of December 31, 2023 and 2022, 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, 2023 and 2022. 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 $10,900,000 and $7,100,000 irrevocable letter of credit with BBH, related to the Company's fronted auto program as of December 31, 2023 and 2022, respectively. Travelers Indemnity Company is the beneficiary of the letter of credit. As of December 31, 2023 and 2022, the Company pledged $11,990,000 and $7,810,000, respectively, as collateral to secure the letter of credit. There were no draw downs on this letter of credit as of December 31, 2023 and 2022.

(Continued)

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, 2023 and 2022, amounts reflected as non-admitted assets were as follows:

	2023	2022
Nonadmits on investment in affiliate	$ 14,537	$ 76,594
Premiums receivable over 90 days	-	13,774
Furniture and equipment	159,659	205,289
Deductible receivable over 90 days	-	4,062
Prepaid expenses	1,148,814	845,469
	$ 1,323,010	$ 1,145,188

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, 2023 and 2022.

1. The Company's total admitted assets as reported in the Statutory Statement of Admitted Assets, Liabilities and Capital and Surplus was $421,637,982 as of December 31, 2023.

2. The ten largest exposures to a single issuer/borrower/investment as of December 31, 2023, are as follows:

Issuer	Description of Exposure		Amount	Percentage of Total Admitted Assets
Housing Enterprise Insurance Company, Inc.	Common Stock-Parents, Sub & Affiliates	$	37,505,510	8.9%
Housing Specialty Insurance Company, Inc.	Common Stock-Parents, Sub & Affiliates	$	13,192,809	3.1%
Housing Investment Group, Inc.	Common Stock-Parents, Sub & Affiliates	$	8,245,284	2.0%
Innovative Housing Insurance Company, Inc.	Common Stock-Parents, Sub & Affiliates	$	6,470,646	1.5%
Bank of America Corporation	Long Term Bonds	$	3,061,222	0.7%
Detroit Public Schools	Long Term Bonds	$	2,813,495	0.7%
Morgan Stanley	Long Term Bonds	$	2,763,262	0.7%
Vistra Operations Company LLC	Long Term Bonds	$	2,703,079	0.6%
Wells Fargo & Company	Long Term Bonds	$	2,616,233	0.6%
JPMorgan Chase & Co.	Long Term Bonds	$	2,531,172	0.6%

3. The amounts and percentages of the Company's total admitted assets held in bonds and preferred stocks by NAIC rating are as follows:

Bonds		Amount	Percentage of Total Admitted Assets
NAIC-1	$	182,137,971	43.2%
NAIC-2	$	68,768,342	16.3%
NAIC-3	$	6,461,175	1.5%

4. Assets held in foreign investments:

Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]

Total admitted assets held in foreign investments $ 31,737,418 7.5%

(Continued)

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating are as follows:

Rating		Amount	Percentage of Total Admitted Assets
Countries designated NAIC-1	$	30,834,638	7.3%
Countries designated NAIC-3 or below	$	902,780	0.2%

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating are as follows:

Rating		Amount	Percentage of Total Admitted Assets
Countries rated NAIC-1:			
Bermuda	$	8,301,633	2.0%
Cayman Islands	$	5,299,647	1.3%
Countries rated NAIC-3:			
Barbados	$	902,780	0.2%

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues are as follows:

Issuer	NAIC Rating		Amount	Percentage of Total Admitted Assets
ASB Bank Limited	1	$	2,247,368	0.5%
Avolon Holdings Funding Limited	1	$	1,775,837	0.4%
HSBC Holdings Plc	1	$	1,754,426	0.4%
Swiss Re Finance (Luxembourg) S.A.	1	$	1,709,582	0.4%
Siriuspoint Ltd.	1	$	1,704,636	0.4%
UBS Group Inc.	1	$	1,680,000	0.4%
Enstar Group Limited	1	$	1,631,167	0.4%
Fidelis Insur Hld Ltd	1	$	1,479,800	0.4%
Davincire Holdings Ltd.	1	$	1,458,007	0.3%
Lloyds Banking Group Plc	1	$	1,236,342	0.3%

HOUSING AUTHORITY RISK RETENTION GROUP, INC.
SUPPLEMENTAL SUMMARY INVESTMENT SCHEDULE
December 31, 2023

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
Bonds				
U.S. government	$ 37,056,814	9.2%	$ 37,056,814	9.2%
U.S. political subdivisions of states, territories and possessions, guaranteed	4,353,495	1.1%	4,353,495	1.1%
U.S. special revenue & special assessment obligations, etc., non-guaranteed	36,677,842	9.1%	36,677,842	9.1%
Industrial and miscellaneous	169,226,156	42.0%	169,226,156	42.0%
Hybrid securities	8,629,565	2.1%	8,629,565	2.1%
Common stocks				
Industrial and miscellaneous (unaffiliated) other	195,300	0.1%	195,300	0.1%
Parent, subsidiaries and affiliates other	65,428,787	16.3%	65,414,249	16.3%
Mutual funds	46,757,354	11.6%	46,757,354	11.6%
Real estate				
Properties occupied by company	9,987,626	2.5%	9,987,626	2.5%
Cash, cash equivalents and short-term investments	22,170,062	5.5%	22,170,062	5.5%
Other invested assets	2,005,608	0.5%	2,005,608	0.5%
Total invested assets	$ 402,488,609	100.0%	$ 402,474,071	100.0%

HOUSING ENTERPRISE INSURANCE COMPANY, INC.

STATUTORY FINANCIAL STATEMENTS
December 31, 2023 and 2022

Crowe LLP
Independent Member Crowe Global

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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and for the year ended. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the statutory financial statements as a whole.

Crowe LLP

Crowe LLP

West Hartford, Connecticut
May 3, 2024

STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS
December 31, 2023 and 2022

	2023	2022
ADMITTED ASSETS		
Cash and invested assets:		
Debt securities, at amortized cost or fair value	$ 110,848,949	$ 112,586,715
Cash, cash equivalents and short-term investments	9,012,519	7,566,763
Total cash and invested assets	119,861,468	120,153,478
Investment income due and accrued	723,155	660,232
Premiums receivable	32,227,503	19,614,995
Reinsurance recoverable on paid losses	4,098,470	1,205,775
Deferred tax asset	2,398,079	1,896,778
Federal income tax receivable	625,925	5,864
Due from affiliates	7,491	19,433
Other assets	51,929	33,402
Total admitted assets	$ 159,994,020	$ 143,589,957
LIABILITIES AND CAPITAL AND SURPLUS		
Liabilities		
Unpaid losses and loss adjustment expenses	$ 52,545,031	$ 50,484,475
Taxes, licenses and fees	858,536	643,240
Unearned premiums	39,806,826	32,167,082
Reinsurance payable on paid losses	-	587
Ceded reinsurance premium payable	3,750,729	1,882,753
Provision for unauthorized reinsurance	-	83,801
Due to affiliates	1,155,805	1,055,114
Accrued expenses and other liabilities	3,985,266	2,009,532
Total liabilities	102,102,193	88,326,584
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	8,891,827	6,263,373
Total capital and surplus	57,891,827	55,263,373
Total liabilities and capital and surplus	$ 159,994,020	$ 143,589,957

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, 2023 and 2022

	2023	2022
Underwriting income		
Net premiums earned	$ 59,259,015	$ 52,969,733
Losses and expenses		
Net losses and loss adjustment expenses incurred	40,714,048	33,115,285
Other underwriting expenses incurred	18,615,658	16,986,507
Total losses and expenses	59,329,706	50,101,792
Net underwriting (loss) gain	(70,691)	2,867,941
Investment income		
Net investment income earned	3,318,292	1,849,384
Net realized capital losses, net of taxes of $0 in 2023 and 2022	(751,026)	(1,339,697)
Total investment income	2,567,266	509,687
Other income	90,772	89,372
Net income before all other federal income taxes	2,587,347	3,467,000
Federal income taxes incurred	964,939	950,685
Net income	$ 1,622,408	$ 2,516,315

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, 2023 and 2022

	2023	2022
Capital and surplus, beginning of year	$ 55,263,373	$ 52,270,671
Net income	1,622,408	2,516,315
Change in net unrealized capital gains (loss)	76,588	(29,469)
Change in net deferred income taxes	422,646	237,640
Change in non-admitted assets	191,042	62,309
Change in provision for reinsurance	83,801	205,907
Cumulative effect of changes in accounting error	231,969	-
Capital and surplus, end of year	$ 57,891,827	$ 55,263,373

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, 2023 and 2022

	2023	2022
Cash flows from operations		
Premiums collected, net of reinsurance	$ 56,154,226	$ 58,789,688
Net investment income	3,424,808	2,125,427
Miscellaneous income	90,772	89,372
Losses and loss related payments, net	(35,944,356)	(20,567,134)
Commissions, expenses paid and aggregate write-ins for deductions	(20,821,218)	(22,455,067)
Federal income taxes paid	(1,585,000)	(524,610)
Net cash from operations	1,319,232	17,457,676
Cash flows from investments		
Proceeds from investments sold, matured and repaid	19,690,803	30,779,850
Cost of investments acquired	(18,693,067)	(45,762,907)
Other cash used	(1,173,470)	-
Net cash from investments	(175,734)	(14,983,057)
Cash flows from financing and miscellaneous sources		
Other cash provided (applied)	302,258	(224,777)
Net cash from financing and miscellaneous sources	302,258	(224,777)
Change in cash, cash equivalents and short-term investments	1,445,756	2,249,842
Cash, cash equivalents and short-term investments, beginning of year	7,566,763	5,316,921
Cash, cash equivalents and short-term investments, end of year	$ 9,012,519	$ 7,566,763

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, 2023 and 2022, 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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."*

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses - Under GAAP, the accounting framework follows a current expected credit loss model for determining credit-related impairments for certain financial instruments (e.g. premiums receivable, reinsurance recoverables and held to maturity fixed income investment portfolios) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses considers historical information, current information as well as reasonable and supportable forecasts. The expected credit losses, and subsequent adjustments to such losses, are recorded through an allowance account that is deducted from the amortized cost basis of the financial instrument, with the net carrying value of the financial instrument presented on the financial statements at the amount expected to be collected. NAIC SAP utilizes an incurred loss impairment model, which requires recognition of credit losses on certain financial instruments when known events occur.

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 required by 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.

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

<u>Cash, Cash Equivalents and Short-term Investments</u>: 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).

Beginning in January 2023, sweep accounts were implemented, which transfer the operating cash balance at the close of each business day to a short-term investment option, typically a money market fund. These funds, while invested, are considered short term cash equivalents.

The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Company’s policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Company may maintain cash balances in excess of the FDIC insurance limit.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 impairment (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 recognized no OTTI losses during 2023 or 2022.

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)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2023 and 2022.

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 reviews its overall position, its reserving techniques and its reinsurance on a monthly basis, and utilizes the findings of an independent consulting actuary's annual review. 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 2020 forward are open and subject to examination by the Internal Revenue Service.

As of December 31, 2023 and 2022, the Company has recorded a deferred tax liability of $45,376 and $68,064, 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.

(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 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, 2023 and 2022. 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, 2023 and 2022, the Company recorded $72,660 and $144,186, 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 3, 2024, which is the date the statutory financial statements were available to be issued.

(Continued)

NOTE 3 - INVESTMENTS

Investments, carried at amortized cost and fair value, as of December 31, 2023, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities, at amortized cost				
U.S. government	$ 27,916,416	$ 164,553	$ (2,229,222)	$ 25,851,747
All other governments	54,781	1,682	-	56,463
U.S. states, territories and possessions	425,336	27,603	(3,505)	449,434
U.S. special revenue and special assessment obligations	34,672,146	100,128	(2,058,880)	32,713,394
Industrial and miscellaneous	47,521,706	216,974	(3,069,536)	44,669,144
Hybrid securities	34,624	551	-	35,175
Total debt securities, at amortized cost	110,625,009	511,491	(7,361,143)	103,775,357
Debt securities, at fair value				
Industrial and miscellaneous	272,293	-	(48,353)	223,940
Total	$ 110,897,302	$ 511,491	$ (7,409,496)	$ 103,999,297

Investments, carried at amortized cost and fair value, as of December 31, 2022, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities, at amortized cost				
U.S. government	$ 27,972,681	$ 4,736	$ (2,698,407)	$ 25,279,010
All other governments	55,153	477	-	55,630
U.S. states, territories and possessions	426,511	27,659	(6,682)	447,488
U.S. political subdivisions of states, territories and possessions	519,243	-	(7,948)	511,295
U.S. special revenue and special assessment obligations	30,833,363	46,050	(2,468,053)	28,411,360
Industrial and miscellaneous	51,424,928	44,783	(5,207,454)	46,262,257
Hybrid securities	462,701	20,411	-	483,112
Total debt securities, at amortized cost	111,694,580	144,116	(10,388,544)	101,450,152
Debt securities, at fair value				
Industrial and miscellaneous	1,020,462	-	(128,327)	892,135
Total	$ 112,715,042	$ 144,116	$ (10,516,871)	$ 102,342,287

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The amortized cost and fair value of debt securities are shown by contractual maturity as of December 31, 2023. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due to mature:		
One year or less	$ 3,142,479	$ 3,115,738
After one year through five years	31,019,382	29,325,482
After five years through ten years	19,741,875	18,217,416
After ten years	9,773,098	8,868,253
Collateralized debt obligations	7,863,143	7,625,874
Residential mortgage-backed securities	37,063,995	34,743,192
Commercial mortgage-backed securities	2,293,330	2,103,342
Total	$ 110,897,302	$ 103,999,297

Proceeds from sales of securities amounted to $11,950,282 and $20,242,900 in 2023 and 2022, respectively. Gross realized gains amounted to $33,957 and $247,429 on the sale of securities in 2023 and 2022, respectively. Gross realized losses amounted to $784,983 and $1,587,089 in 2023 and 2022, respectively.

The Company holds 289 securities that are in an unrealized loss position as of December 31, 2023, of which 263 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, 2023:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government	$ 2,057,018	$ (74,956)	$ 22,240,900	$ (2,154,266)
U.S. states, territories and possessions	-	-	196,788	(3,505)
U.S. special revenue and special assessment obligations	5,913,938	(23,290)	16,360,448	(2,035,590)
Industrial and miscellaneous	897,806	(18,967)	35,686,264	(3,098,922)
Total	$ 8,868,762	$ (117,213)	$ 74,484,400	$ (7,292,283)

(Continued)

NOTE 3 - INVESTMENTS (Continued

The Company held 344 securities that were in an unrealized loss position as of December 31, 2022, of which 114 of these securities had 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 had been in a continuous unrealized loss position, as of December 31, 2022:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government	$ 9,641,604	$ (1,702,512)	$ 8,729,963	$ (995,895)
U.S. states, territories and possessions	193,836	(6,682)	-	-
U.S. political subdivisions of states, territories and possessions	511,295	(7,948)	-	-
U.S. special revenue and special assessment obligations	15,420,067	(904,816)	7,173,438	(1,563,237)
Industrial and miscellaneous	22,031,375	(1,862,570)	23,092,595	(3,473,211)
Total	$ 47,798,177	$ (4,484,528)	$ 38,995,996	$ (6,032,343)

The Company had debt securities with amortized costs of $5,256,405 and $5,255,928 as of December 31, 2023 and 2022, respectively, deposited with state insurance departments and regulatory authorities and are restricted, as required by certain state statutes. These amounts are included in debt securities, at amortized cost or fair value on the statutory statements of admitted assets, liabilities and capital and surplus.

NOTE 4 - FAIR VALUE MEASUREMENTS

The Company measures fair value in accordance with SSAP No. 100, "*Fair Value Measurement*," which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under SSAP No. 100 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets 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.

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

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, 2023 and 2022.

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, 2023:

	Admitted Assets	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total
Financial instruments (carried at fair value)					
Money market funds	$ 563,204	$ 563,204	$ -	$ -	$ 563,204
Debt securities	223,940	-	223,940	-	223,940
Total	787,144	563,204	223,940	-	787,144
Financial instruments (carried at amortized cost)					
Short-term investments	2,362,854	-	2,362,854	-	2,362,854
Debt securities	110,625,009	-	103,775,357	-	103,775,357
Total	112,987,863	-	106,138,211	-	106,138,211
Total	$ 113,775,007	$ 563,204	$ 106,362,151	$ -	$ 106,925,355

(Continued)

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents the financial instruments, measured at fair value, by valuation hierarchy, as well as the carrying value of those instruments in the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2022:

	Admitted	Fair Value			
	Assets	Level 1	Level 2	Level 3	Total
Financial instruments (carried at fair value)					
Money market funds	$ 3,810,980	$ 3,810,980	$ -	$ -	$ 3,810,980
Debt securities	892,135	-	892,135	-	892,135
Total	4,703,115	3,810,980	892,135	-	4,703,115
Financial instruments (carried at amortized cost)					
Short-term investments	-	-	14,995	-	14,995
Debt securities	111,694,580	-	101,450,152	-	101,450,152
Total	111,694,580	-	101,465,147	-	101,465,147
Total	$ 116,397,695	$ 3,810,980	$ 102,357,282	$ -	$ 106,168,262

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.

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

As of December 31, 2023 and 2022, the Company held no level 3 investments.

NOTE 5 - INSURANCE ACTIVITY

The Company writes both property and casualty coverages on a direct basis. In 2023 and 2022, 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 excess 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 2023 and 2022. During 2023 and 2022, 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. The property limit of $300,000,000 per occurrence in 2023 and 2022, is a shared aggregate limit with HAPI. Additionally, the Company secured reinsurance for amounts in excess of their $500,000 retained limit up to $5,000,000 per occurrence for casualty as of July 1, 2023 and 2022.

In 2023 and 2022, the Company secured quota share reinsurance for losses covered under excess liability policies. The reinsurer retains an 85% quota share up to $5,000,000 in losses per policy excess of the Company's retained limit. 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.

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 2023 and 2022, the Company assumed $73,278 and $54,693 of premiums, respectively, from HSIC related to this contract. There were no ceded losses recorded for the years ended December 31, 2023 and 2022, 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 2023 and 2022. 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 2023 and 2022, 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 billion. Once subject losses have reached the $100 billion aggregate during a program year, participating insurers will not be liable under the program for additional covered terrorism losses for that program year.

(Continued)

NOTE 5 - INSURANCE ACTIVITY(Continued)

The Company, HARRG, 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 acts of terrorism and acts of sabotage the agreement provides reinsurance for all losses and loss adjustment expenses in excess of $2,000,000 up to an aggregate limit of $80,000,000 per loss occurrence. With respect to strikes, riots, civil commotion and malicious damage 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. 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. All rated reinsurers have an A.M. Best rating of A or better.

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

Direct, assumed and ceded premiums written and earned by the Company for the years ended December 31, 2023 and 2022, are summarized as follows:

	Premiums Written		Premiums Earned	
	2023	2022	2023	2022
Direct premiums	$ 98,120,500	$ 82,064,134	$ 88,686,162	$ 76,717,778
Assumed premiums	73,278	54,693	43,987	40,650
Premiums ceded	(31,295,019)	(26,154,923)	(29,471,134)	(23,788,695)
Net premiums	$ 66,898,759	$ 55,963,904	$ 59,259,015	$ 52,969,733

(Continued)

NOTE 5 - INSURANCE ACTIVITY(Continued)

A reconciliation of changes in the Company's unpaid losses and loss adjustment expenses, for the years ended December 31, 2023 and 2022, is summarized as follows:

	2023	2022
Balance at beginning of year	$ 50,484,475	$ 43,521,026
Incurred related to:		
Current year	45,417,853	42,017,809
Prior years	(4,703,805)	(8,902,524)
Total incurred	40,714,048	33,115,285
Paid related to:		
Current year	(16,103,619)	(12,075,245)
Prior years	(22,549,873)	(14,076,591)
Total paid	(38,653,492)	(26,151,836)
Balance at end of year	$ 52,545,031	$ 50,484,475

As a result of changes in loss development, the provision for loss and loss adjustment expenses decreased by $4,703,805 and $8,902,524 in 2023 and 2022, respectively. The decrease in 2023 is related to favorable loss development on property claims related to the 2022 and 2021 accident years. The decrease in 2022 is related to favorable loss development on property claims related to the 2021 accident year and liability claims related to the 2018 to 2021 accident years.

The Company recorded net reinsurance recovery activity of $19,348,072 and $3,475,803 in 2023 and 2022, respectively, which is reflected as a decrease in losses and loss adjustment expenses incurred in the statutory statements of operations.

NOTE 6 - AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company has 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 $9,806,928 and $9,873,673 for the years ended December 31, 2023 and 2022, respectively. The amounts due to HARRG under these agreements, which are included in due to affiliates, amounted to $1,155,805 and $1,055,114 as of December 31, 2023 and 2022, respectively.

(Continued)

NOTE 6 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)

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, 2023 and 2022, commission expense under this agreement amounted to $1,779,589 and $1,489,815, respectively, which is included within other underwriting expenses incurred on the statutory statements of operations. The Company is also due certain amounts from HIS for surcharges paid directly by the Company. The Company has amounts due from HIS of $7,491 and $19,433 as of December 31, 2023 and 2022, respectively, which are 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 year ended December 31, 2022. The agreement with HTI was not renewed in 2023.

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 $6,150 and $25,000 for the years ended December 31, 2023 and 2022, 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 all employees 21 years or older. The Company recorded profit sharing expenses of $350,948 and $303,173 and 401(k) expenses of $225,057 and $198,166 for the years ended December 31, 2023 and 2022, respectively. In addition, the Company recorded an expense for incentive compensation of $544,978 and $521,954, for the years ended December 31, 2023 and 2022, respectively, which is included within other underwriting expenses incurred on the statutory statements of operations.

(Continued)

NOTE 8 - CAPITAL AND SURPLUS

As part of its regulatory filings, the Company is required to disclose its risk-based capital (RBC) requirements. The NAIC develops the RBC program to enable regulators to take appropriate and timely regulatory actions with respect to insurers that show signs of weak or deteriorated financial condition. RBC is a series of dynamic surplus related formulas that contain a variety of factors that are applied to financial balances based on a degree of certain risks, such as asset, credit and underwriting risks. The Company's statutory capital and surplus exceeded the NAIC's authorized control level risk based capital as of December 31, 2023 and 2022.

No dividends were declared or paid in 2023 and 2022.

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

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, 2023 and 2022 are as follows:

	2023			2022		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets	$ 2,613,161	$ 20,700	$ 2,633,861	$ 2,233,347	$ 33,651	$ 2,266,998
Statutory valuation allowance adjustment	-	-	-	-	-	-
Adjusted gross deferred tax asset	2,613,161	20,700	2,633,861	2,233,347	33,651	2,266,998
Deferred tax asset non-admitted	119,655	-	119,655	302,156	-	302,156
Net deferred tax asset	2,493,506	20,700	2,514,206	1,931,191	33,651	1,964,842
Deferred tax liabilities	45,376	70,751	116,127	68,064	-	68,064
Net admitted deferred tax asset (liability)	$ 2,448,130	$ (50,051)	$ 2,398,079	$ 1,863,127	$ 33,651	$ 1,896,778

The components of the admissibility calculation under paragraphs 11.a., 11.b. and 11.c. as of December 31, 2023 and 2022, are as follows:

	2023			2022		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Admitted pursuant to 11.a.	$ 2,325,478	$ -	$ 2,325,478	$ 1,279,679	$ -	$ 1,279,679
Admitted pursuant to 11.b.	51,901	20,700	72,601	583,448	33,651	617,099
Admitted pursuant to 11.c.	116,127	-	116,127	68,064	-	68,064
Admitted deferred tax asset	$ 2,493,506	$ 20,700	$ 2,514,206	$ 1,931,191	$ 33,651	$ 1,964,842

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, 2022 to December 31, 2023, are as follows:

	Change During 2023		
	Ordinary	Capital	Total
Gross deferred tax assets	$ 379,814	$ (12,951)	$ 366,863
Statutory valuation allowance adjustment	-	-	-
Adjusted gross deferred tax assets	379,814	(12,951)	366,863
Deferred tax asset non-admitted	(182,501)	-	(182,501)
Net deferred tax asset	562,315	(12,951)	549,364
Deferred tax liabilities	(22,688)	70,751	48,063
Net admitted deferred tax asset	$ 585,003	$ (83,702)	$ 501,301
Admitted pursuant to 11.a.	$ 1,045,799	$ -	$ 1,045,799
Admitted pursuant to 11.b.	(531,547)	(12,951)	(544,498)
Admitted pursuant to 11.c.	48,063	-	48,063
Admitted deferred tax asset	$ 562,315	$ (12,951)	$ 549,364

The threshold used by the Company for amounts admitted pursuant to 11.b. as of December 31, 2023 and 2022, is as follows:

	2023	2022
Ratio percentage used to determine recovery period and threshold limitation amount	751.89%	745.75%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	$ 55,493,748	$ 53,366,595

In 2023, the Company did not implement any tax planning strategies which would have an impact on adjusted gross and net admitted deferred tax assets.

The provisions for incurred taxes on earnings for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Federal	$ 1,102,510	$ 1,288,731
Foreign	-	-
Subtotal	1,102,510	1,288,731
Federal income tax on net capital gains	-	-
Capital loss carryback	(137,571)	(338,046)
Federal income taxes incurred	$ 964,939	$ 950,685

(Continued)

NOTE 9 - FEDERAL INCOME TAXES (Continued)

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, 2023 and 2022, are as follows:

	2023	2022	Change
Deferred tax assets			
Ordinary:			
Unearned premiums	$ 1,671,887	$ 1,351,017	$ 320,870
Discounting of unpaid losses	814,218	756,633	57,585
Treasury inflation protected securities	107,516	86,504	21,012
Other	19,540	39,193	(19,653)
Subtotal	2,613,161	2,233,347	379,814
Statutory valuation allowance adjustment	-	-	-
Non-admitted deferred tax assets	(119,655)	(302,156)	182,501
Admitted ordinary deferred tax assets	2,493,506	1,931,191	562,315
Capital:			
Investments	556	556	-
Unrealized loss	-	33,095	(33,095)
Capital loss carryforward	20,144	-	20,144
Subtotal	20,700	33,651	(12,951)
Statutory valuation allowance adjustment	-	-	-
Admitted deferred tax assets	$ 2,514,206	$ 1,964,842	$ 549,364
Deferred tax liabilities			
Ordinary:			
TCJA transition adjustment	$ (45,376)	$ (68,064)	$ 22,688
Capital:			
Unrealized gain	(70,751)	-	(70,751)
Deferred tax liabilities	(116,127)	(68,064)	(48,063)
Net admitted deferred tax assets	$ 2,398,079	$ 1,896,778	$ 501,301

(Continued)

NOTE 9 - FEDERAL INCOME TAXES (Continued)

The Company has no net operating loss carry-forwards as of December 31, 2023. The Company has no capital loss carry-forwards as of December 31, 2023. During 2023 and 2022, the Company utilized $137,571 and $338,046, respectively, of capital loss carrybacks. 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 2023 and 2022, 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, 2023 and 2022, are comprised of the following:

	2023	2022	Change
Total deferred tax assets	$ 2,633,861	$ 2,266,998	$ 366,863
Total deferred tax liabilities	(116,127)	(68,064)	(48,063)
Net deferred tax asset	2,517,734	2,198,934	318,800
Statutory valuation allowance adjustment allocation	-	-	-
Net deferred tax asset after statutory valuation allowance	2,517,734	2,198,934	318,800
Tax effect of unrealized gains (losses)	70,751	(33,095)	103,846
Statutory valuation allowance adjustment allocated to unrealized	-	-	-
Change in net deferred income tax	$ 2,588,485	$ 2,165,839	$ 422,646

(Continued)

NOTE 9 - FEDERAL INCOME TAXES (Continued)

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to (loss) income before income taxes. The significant items causing this difference are as follows for the years ended December 31, 2023 and 2022:

	2023		2022	
Provision computed at statutory rate	$ 543,343	21.00 %	$ 728,070	21.00 %
Meals and entertainment	1,648	0.06	349	0.01
Tax exempt interest	(16,514)	(0.64)	(20,468)	(0.59)
Proration	3,929	0.15	4,773	0.14
Tax exempt expenses	799	0.03	1,374	0.04
Change in nonadmitted assets	1,794	0.07	(1,782)	(0.05)
Other	7,294	0.28	729	0.02
Total federal income taxes incurred	$ 542,293	20.95 %	$ 713,045	20.57 %
Reconciliation:				
Federal income taxes	$ 964,939	37.29 %	$ 950,685	27.42 %
Change in net deferred income taxes	(422,646)	(16.34)	(237,640)	(6.85)
Total statutory income taxes	$ 542,293	20.95 %	$ 713,045	20.57 %

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

	Ordinary	Capital	Total
December 31, 2023 (current year)	$ 1,092,795	$ -	$ 1,092,795
December 31, 2022 (first preceding year)	$ 1,232,683	$ -	$ 1,232,683
December 31, 2021 (second preceding year)	$ -	$ -	$ -

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

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

(Continued)

NOTE 10 - 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, 2023 and 2022, the Company has not accrued for or been assessed by any state insurance department.

As of December 31, 2023 and 2022, 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, 2023 and 2022. 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.

NOTE 11 - 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, 2023 and 2022, amounts reflected as non-admitted assets were as follows:

	2023	2022
Prepaid insurance	$ 7,785	$ 6,326
Deductible receivable over 90 days	-	10,000
Deferred tax assets	119,655	302,156
	$ 127,440	$ 318,482

NOTE 12 - 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, 2023 and 2022.

1. The Company's total admitted assets as reported in the Statutory Statements of Admitted Assets, Liabilities and Capital and Surplus was $159,994,020 as of December 31, 2023.

2. The ten largest exposures to a single issuer/borrower/investment are as follows:

Issuer	Investment Category		Amount	Percentage of Total Admitted Assets
Bank of America Corporation	Long Term Bond	$	2,930,150	1.8%
JPMorgan Chase & Co.	Long Term Bond	$	2,193,004	1.4%
Cars-Db4 L.P.	Long Term Bond	$	1,668,191	1.0%
B.A.T Capital Corporation	Long Term Bond	$	1,552,763	1.0%
Morgan Stanley	Long Term Bond	$	1,202,091	0.8%
General Motors Company	Long Term Bond	$	1,114,583	0.7%
The Goldman Sachs Group Inc.	Long Term Bond	$	1,080,000	0.7%
Canadian Natural Resources Limited	Long Term Bond	$	1,010,025	0.6%
Sands China Ltd.	Long Term Bond	$	1,008,555	0.6%
Corebridge Global Funding	Long Term Bond	$	949,243	0.6%

3. The amounts and percentages of the Company's total admitted assets held in bonds and preferred stocks by NAIC rating are as follows:

Bond		Amount	Percentage of Total Admitted Assets
NAIC-1	$	95,438,258	59.7%
NAIC-2	$	17,549,606	11.0%
NAIC-3	$	223,940	0.1%

4. Assets held in foreign investments:

Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

Total admitted assets held in foreign investments: $ 3,079,404 1.9%

(Continued)

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating are as follows:

NAIC Rating		Amount	Percentage of Total Admitted Assets
Countries designated NAIC - 1	$	3,079,404	1.9%

6. Largest foreign investment by country, categorized by the country's NAIC sovereign rating are as follows:

Rating		Amount	Percentage of Total Admitted Assets
Countries rated NAIC-1:			
Country 2: Macao	$	1,008,555	0.6%
Country 2: Singapore	$	898,851	0.6%

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues are as follows:

Issuer	NAIC Rating		Amount	Percentage of Total Admitted Assets
Sands China Ltd.	2	$	1,008,555	0.6%
Pfizer Investment Enterprises Pte. Ltd	1	$	898,851	0.6%
Avolon Holdings Funding Limited	2	$	479,264	0.3%
Barclays Plc	2	$	258,663	0.2%
Natwest Group Plc	1	$	200,743	0.1%
Sumitomo Mitsui Financial Group Inc.	1	$	145,000	0.1%
Orange Sa	2	$	88,329	0.1%

HOUSING ENTERPRISE INSURANCE COMPANY, INC.
SUPPLEMENTAL SUMMARY INVESTMENT SCHEDULE
December 31, 2023

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
Bonds				
U.S. governments	$ 27,916,416	23.3%	$ 27,916,416	23.3%
All other governments	54,781	0.1%	54,781	0.1%
U.S. states, territories and possessions, etc., guaranteed	425,336	0.4%	425,336	0.4%
U.S. special revenue and special assessment obligations, etc., non-guaranteed	34,672,146	28.9%	34,672,146	28.9%
Industrial and miscellaneous	47,745,646	39.8%	47,745,646	39.8%
Hybrid securities	34,624	0.0%	34,624	0.0%
Cash, cash equivalents and short-term investments	9,012,519	7.5%	9,012,519	7.5%
Total invested assets	$ 119,861,468	100.0%	$ 119,861,468	100.0%

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023 and 2022

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, 2023 and 2022, 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, 2023 and 2022, 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

Crowe LLP

West Hartford, Connecticut
May 3, 2024

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 29,348,355	$ 24,384,628
Agency and commission accounts receivables	49,437,851	44,309,509
Due from related parties	3,340,012	365,631
Income taxes receivable	-	37,089
Prepaid contractual liability insurance (Note 2)	217,125	243,200
Other assets	256,277	27,424
Total current assets	82,599,620	69,367,481
Deferred tax asset	4,398,166	2,744,087
Total assets	$ 86,997,786	$ 72,111,568
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Commission payable and accounts current	$ 66,172,206	$ 58,578,985
Deferred commissions and other revenues	1,961,219	1,747,390
Accounts payable and accrued expenses	1,209,591	554,077
Due to related parties	1,096,064	1,100,945
Income taxes payable	39,063	-
Total current liabilities	70,478,143	61,981,397
Stockholders' equity		
Common stock, Class A, no par value, $5,000 per share stated value, 2 shares authorized, issued and outstanding in 2023 and 2022	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 2023 and 2022	39,400,000	39,400,000
Additional paid-in capital	482,234	482,234
Retained deficit	(23,372,591)	(29,762,063)
Total stockholders' equity	16,519,643	10,130,171
Total liabilities and stockholders' equity	$ 86,997,786	$ 72,111,568

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, 2023 and 2022

	2023	2022
Net revenues		
Commission income	$ 9,461,877	$ 8,283,713
Insurance management services	411,420	312,137
Interest income	1,440,758	-
Other income	128,109	75,507
Total revenues	11,442,164	8,671,357
Costs and expenses		
Salaries and benefits	4,567,653	3,795,962
General and administrative	1,881,289	1,753,308
Total costs and expenses	6,448,942	5,549,270
Income before provision for income taxes	4,993,222	3,122,087
Income tax benefit	(1,396,250)	(400,214)
Net income	$ 6,389,472	$ 3,522,301

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, 2023 and 2022

	Common Stock Class A		Common Stock Class B (1)		Additional Paid-In	Retained	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance as of January 1, 2022	2	$ 10,000	198,700	$ 39,400,000	$ 482,234	$ (23,284,364)	$ 16,607,870
Dividends declared	-	-	-	-	-	(10,000,000)	(10,000,000)
Net income	-	-	-	-	-	3,522,301	3,522,301
Balance as of December 31, 2022	2	10,000	198,700	39,400,000	482,234	(29,762,063)	10,130,171
Net income	-	-	-	-	-	6,389,472	6,389,472
Balance as of December 31, 2023	2	$ 10,000	198,700	$ 39,400,000	$ 482,234	$ (23,372,591)	$ 16,519,643

(1) 182,000 shares issued and outstanding at $100 per share stated value as of December 31, 2023 and 2022, 500 shares issued and outstanding at $10,000 per share stated value as of December 31, 2023 and 2022, 16,200 shares issued and outstanding at $1,000 per share stated value as of December 31, 2023 and 2022.

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, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Net income	$ 6,389,472	$ 3,522,301
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred federal income taxes	(1,654,079)	(587,116)
Changes in assets and liabilities		
Agency and commissions accounts receivables	(5,128,342)	(17,534,497)
Due from related parties	(2,974,381)	77,889
Income taxes receivable	37,089	(33,968)
Prepaid contractual liability insurance (Note 2)	26,075	58,917
Other assets	(228,853)	(11,091)
Commission payable and accounts current	7,593,221	17,852,847
Deferred commissions and other revenues	213,829	94,829
Accounts payable and accrued expenses	655,514	(298,340)
Due to related parties	(4,881)	(112,684)
Income taxes payable	39,063	-
Net cash provided by operating activities	4,963,727	3,029,087
Cash flows from financing activities		
Dividends paid to shareholders	-	(10,000,000)
Net cash used in financing activities	-	(10,000,000)
Net change in cash and cash equivalents	4,963,727	(6,970,913)
Cash and cash equivalents, beginning of year	24,384,628	31,355,541
Cash and cash equivalents, end of year	$ 29,348,355	$ 24,384,628
Supplemental cash flow disclosure:		
Income taxes paid during the year	$ 181,677	$ 220,870

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

NOTE 1 - GENERAL

Reporting Entity: Housing Investment Group, Inc. (HIG) and Subsidiaries (the Company) was incorporated on June 13, 1995 as a Delaware Corporation. The Company is a holding company, which governs the related for-profit businesses of Housing Authority Risk Retention Group, Inc. (HARRG) and Housing Authority Property Insurance, A Mutual Company (HAPI), affiliated entities through common management. The Company has two classes of stock, voting class (Class A) and non-voting class (Class B), which are owned 50% by HARRG and 50% by HAPI. The Company is governed by the same Board of Directors as HARRG, HAPI and other affiliated companies through common management. The Company has two wholly owned subsidiaries as of December 31, 2023 or 2022: 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. During 2023, the Board of Directors approved the discontinuation and dissolution of HAGL. Management is continuing to work through the discontinuation and dissolution during 2024.

The Company declared and paid dividends of $5,000,000 each to HARRG and HAPI during 2022. No dividends were declared or paid during 2023.

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, 2023 and 2022 and for the years then ended. All material intercompany transactions and accounts have been eliminated in the consolidated financial statements.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 years ended December 31, 2023 and 2022, 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, 2023 and 2022, 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.

Beginning in January 2023, sweep accounts were implemented, which transfer the operating cash balance at the close of each business day to a short-term investment option, typically a money market fund. These funds, while invested, are considered cash equivalents.

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes: The Company accounts for income taxes in accordance with FASB ASC 740, "*Income Taxes*." FASB ASC 740 is an asset and liability method, which requires the recognition of deferred tax assets and liabilities. The Company, under certain provisions of FASB ASC 740, accounts for how uncertain tax positions should be recognized, measured, presented and disclosed within their consolidated financial statements. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Company did not have any unrecognized tax benefits as of December 31, 2023 and 2022. 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, 2023 and 2022, the Company did not record any penalties or interest associated with unrecognized tax benefits. Tax years from 2020 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.

Adoption of New Accounting Standard: On January 1, 2023, the Company adopted ASU No. 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*" (ASU 2016-13), which provides updated guidance for the accounting of credit losses for financial instruments. The updated guidance replaces the incurred loss methodology and applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for certain financial instruments, and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts. The expected credit losses, and subsequent adjustments to such losses, are recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected.

The adoption of this pronouncement had no financial impact on the Company's financial statements as of December 31, 2023 as management determined no allowance was necessary for its in scope financial instruments.

Subsequent Events: Subsequent events have been evaluated through May 3, 2024, which is the date the consolidated financial statements were available to be issued.

(Continued)

NOTE 3 - REVENUES

HIS 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 2023 and 2022, commission income under these agreements amounted to $6,629,481 and $5,834,134, respectively, and the Company has recorded deferred commission income of $1,355,000 and $1,201,149, respectively, as of December 31, 2023 and 2022.

In addition, HIS provides agency and brokerage services to unaffiliated insurance carriers. Commission percentages vary by carrier and line of business. For the years ended December 31, 2023 and 2022, commission income related to unaffiliated carriers amounted to $2,726,423 and $2,369,400, respectively, and the Company has deferred $254,762 and $194,766, respectively.

HIS entered into a program administration agreement with The Travelers Indemnity Company, Inc. (Travelers), a fronting company, as part of the HAPI insurance program and the HARRG auto insurance program. HIS has agreed to underwrite, rate, quote and bind risks, solicit from and market to brokers, issue policies, collect premiums and account for the premiums of the book of business being reinsured by HAPI and HARRG. HIS collects a 1% commission from Travelers on all bound premiums. For the years ended December 31, 2023 and 2022, program administration income amounted to $105,973 and $80,179, respectively, and the Company has recorded deferred program administration income of $27,248 and $21,997, respectively, as of December 31, 2023 and 2022.

HIS has insurance management services agreements with HAPI and HARRG to provide various insurance agency activities relating to the auto coverages provided. Fees for these services in 2023 and 2022 amounted to $411,420 and $312,137, respectively, and the Company has recorded deferred management fee revenues of $107,126 and $86,318, respectively, as of December 31, 2023 and 2022. These fees are calculated based upon a percentage of gross written premium for the years ended December 31, 2023 and 2022. 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 years ended December 31, 2023 and 2022, there was no revenue from program fees.

Other income, which consists of HAGL association benefit fees and consulting fees, amounted to $128,109 and $75,507, respectively, and the Company has deferred revenue of $217,083 and $243,160, respectively, for the years ended December 31, 2023 and 2022.

(Continued)

NOTE 4 - INCOME TAXES

The provision for income tax benefit consists of the following for the years ended December 31, 2023 and 2022:

	2023	2022
Current federal and state tax	$ 257,829	$ 186,902
Deferred federal and state tax:		
Deferred tax expense exclusive of the effects of other components listed below	1,090,008	337,300
Decrease in beginning of year deferred tax asset valuation allowance	(2,744,087)	(924,416)
Total	$ (1,396,250)	$ (400,214)

The tax effect of temporary differences, which result in deferred tax assets, as of December 31, 2023 and 2022, are as follows:

	2023	2022
Deferred tax assets:		
Net operating loss	$ 3,372,996	$ 4,357,390
Charitable carry forward	18	18
State taxes	350,228	451,869
Accrued retirement benefits	32,668	36,641
Research and development	642,256	642,256
Gross deferred tax asset	4,398,166	5,488,174
Valuation allowance	-	(2,744,087)
Net deferred tax asset	$ 4,398,166	$ 2,744,087

The 2023 and 2022 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:

	2023		2022	
	Amount	Percent	Amount	Percent
Federal tax at statutory rate	$ 1,048,577	21.00%	$ 655,638	21.00%
State taxes	305,056	6.11%	211,740	6.78%
Valuation allowance	(2,744,087)	(54.96%)	(1,261,715)	(40.41%)
Meals and entertainment	875	0.02%	753	0.02%
Other	(6,671)	(0.13%)	(6,630)	(0.21%)
Income tax benefit	$ (1,396,250)	(27.96%)	$ (400,214)	(12.82%)

(Continued)

NOTE 4 - INCOME TAXES (Continued)

The Company has a net operating loss carry-forward as of December 31, 2023 of $16,061,887 that will begin to expire in 2035. 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, 2023, the Company has not recorded a valuation allowance against the deferred tax asset, as the Company believes it is more likely than not that all of the deferred tax asset will be realized. 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.

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:

	Allocated Costs 2023	2022
HIS	$ 6,192,097	$ 5,020,861
HIG	293,682	302,670
Total	$ 6,485,779	$ 5,323,531

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, 2023 and 2022, the Company had the following amounts receivable from and payable to affiliated entities:

	2023		2022	
	Amounts Receivable	Amounts Payable	Amounts Receivable	Amounts Payable
HARRG	$ -	$ 1,082,937	$ -	$ 1,071,787
HAPI	2,185	5,635	2,707	9,323
HEIC	-	7,492	-	19,433
HSIC	8,241	-	-	402
Total	$ 10,426	$ 1,096,064	$ 2,707	$ 1,100,945

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 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 all employees 21 years or older. The Company recorded profit sharing expenses of $259,345 and $198,082, respectively, and 401(k) expenses of $176,185 and $140,909 for the years ended December 31, 2023 and 2022, respectively. In addition, the Company recorded an expense for incentive compensation of $442,305 and $342,701, for the years ended December 31, 2023 and 2022, respectively, which is included within salaries and benefits within the consolidated statements of operations.

SUPPLEMENTAL INFORMATION

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2023

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	$ 122,646	$ 29,200,902	$ 24,807	$ -	$ 29,348,355
Agency and commission accounts receivables	-	49,437,851	-	-	49,437,851
Due from related parties	5,152	3,340,012	-	(5,152)	3,340,012
Prepaid contractual liability insurance (Note 2)	-	-	217,125	-	217,125
Other assets	509	158,590	97,178	-	256,277
Total current assets	128,307	82,137,355	339,110	(5,152)	82,599,620
Deferred tax asset	4,377,345	9,123	11,698	-	4,398,166
Investment in HIS	7,587,647	-	-	(7,587,647)	-
Investment in HAGL	283,122	-	-	(283,122)	-
Total assets	$ 12,376,421	$ 82,146,478	$ 350,808	$ (7,875,921)	$ 86,997,786
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities					
Commission payable and accounts current	$ -	$ 66,172,206	$ -	$ -	$ 66,172,206
Deferred commissions and other revenues	-	1,744,136	217,083	-	1,961,219
Accounts payable and accrued expenses	4,107	1,105,107	100,377	-	1,209,591
Due to related parties	30,354	1,065,710	5,152	(5,152)	1,096,064
Income taxes (receivable) payable	(4,177,683)	4,471,672	(254,926)	-	39,063
Total current liabilities	(4,143,222)	74,558,831	67,686	(5,152)	70,478,143
Stockholders' equity					
Common stock, Class A, no par value, $5,000 per share stated value, 2 shares authorized, issued and outstanding	10,000	-	-	-	10,000
Common stock, Class B, no par value, various stated values, 300,000 shares authorized, 198,700 shares issued and outstanding	39,400,000	-	-	-	39,400,000
Common stock, no par value, $25 per share stated value, 1,000 shares authorized, 1,000 shares issued and outstanding	-	25,000	-	(25,000)	-
Additional paid-in capital	269,664	-	1,700,000	(1,487,430)	482,234
Retained (deficit) earnings	(23,160,021)	7,562,647	(1,416,878)	(6,358,339)	(23,372,591)
Total stockholders' equity	16,519,643	7,587,647	283,122	(7,870,769)	16,519,643
Total liabilities and stockholders' equity	$ 12,376,421	$ 82,146,478	$ 350,808	$ (7,875,921)	$ 86,997,786

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2022

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	$ 126,137	$ 24,101,470	$ 157,021	$ -	$ 24,384,628
Agency and commission accounts receivables	-	44,309,509	-	-	44,309,509
Due from related parties	4,072	365,631	-	(4,072)	365,631
Income taxes receivable (payable)	3,211,005	(3,398,687)	224,771	-	37,089
Prepaid contractual liability insurance (Note 2)	-	-	243,200	-	243,200
Other assets	-	19,751	7,673	-	27,424
Total current assets	3,341,214	65,397,674	632,665	(4,072)	69,367,481
Deferred tax asset	2,731,503	6,735	5,849	-	2,744,087
Investment in HIS	3,729,141	-	-	(3,729,141)	-
Investment in HAGL	383,892	-	-	(383,892)	-
Total assets	$ 10,185,750	$ 65,404,409	$ 638,514	$ (4,117,105)	$ 72,111,568
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities					
Commission payable and accounts current	$ -	$ 58,578,985	$ -	$ -	$ 58,578,985
Deferred commissions and other revenues	-	1,504,230	243,160	-	1,747,390
Accounts payable and accrued expenses	6,641	540,046	7,390	-	554,077
Due to related parties	48,938	1,052,007	4,072	(4,072)	1,100,945
Total current liabilities	55,579	61,675,268	254,622	(4,072)	61,981,397
Stockholders' equity					
Common stock, Class A, no par value, $5,000 per share stated value, 2 shares authorized, issued and outstanding	10,000	-	-	-	10,000
Common stock, Class B, no par value, various stated values, 300,000 shares authorized, 198,700 shares issued and outstanding	39,400,000	-	-	-	39,400,000
Common stock, no par value, $25 per share stated value, 1,000 shares authorized, 1,000 shares issued and outstanding	-	25,000	-	(25,000)	-
Additional paid-in capital	269,664	-	1,700,000	(1,487,430)	482,234
Retained (deficit) earnings	(29,549,493)	3,704,141	(1,316,108)	(2,600,603)	(29,762,063)
Total stockholders' equity	10,130,171	3,729,141	383,892	(4,113,033)	10,130,171
Total liabilities and stockholders' equity	$ 10,185,750	$ 65,404,409	$ 638,514	$ (4,117,105)	$ 72,111,568

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2023

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
Net revenues					
Commission income	$ -	$ 9,461,877	$ -	$ -	$ 9,461,877
Insurance management services	-	411,420	-	-	411,420
Interest income	8,680	1,430,350	1,728		1,440,758
Other income	245,000	-	128,109	(245,000)	128,109
Gain on investment in subsidiaries	3,757,736	-	-	(3,757,736)	-
Total revenues	4,011,416	11,303,647	129,837	(4,002,736)	11,442,164
Costs and expenses					
Salaries and benefits	40,159	4,489,935	37,559	-	4,567,653
General and administrative	188,383	1,708,854	229,052	(245,000)	1,881,289
Total costs and expenses	228,542	6,198,789	266,611	(245,000)	6,448,942
Income (loss) before income taxes	3,782,874	5,104,858	(136,774)	(3,757,736)	4,993,222
Income tax (benefit) expense	(2,606,598)	1,246,352	(36,004)	-	(1,396,250)
Net income (loss)	$ 6,389,472	$ 3,858,506	$ (100,770)	$ (3,757,736)	$ 6,389,472

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2022

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
Net revenues					
Commission income	$ -	$ 8,283,713	$ -	$ -	$ 8,283,713
Insurance management services	-	312,137	-	-	312,137
Other income	311,000	-	75,507	(311,000)	75,507
Gain on investment in subsidiaries	2,244,839	-	-	(2,244,839)	-
Total revenues	2,555,839	8,595,850	75,507	(2,555,839)	8,671,357
Costs and expenses					
Salaries and benefits	65,956	3,706,160	23,846	-	3,795,962
General and administrative	186,664	1,690,041	187,603	(311,000)	1,753,308
Total costs and expenses	252,620	5,396,201	211,449	(311,000)	5,549,270
Income (loss) before income taxes	2,303,219	3,199,649	(135,942)	(2,244,839)	3,122,087
Income tax (benefit) expense	(1,219,082)	850,679	(31,811)	-	(400,214)
Net income (loss)	$ 3,522,301	$ 2,348,970	$ (104,131)	$ (2,244,839)	$ 3,522,301

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2023

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
Cash flows from operating activities					
Net income (loss)	$ 6,389,472	$ 3,858,506	$ (100,770)	$ (3,757,736)	$ 6,389,472
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:					
Deferred federal income taxes	(1,645,842)	(2,388)	(5,849)	-	(1,654,079)
Gain on investment in subsidiaries	(3,757,736)	-	-	3,757,736	-
Changes in assets and liabilities					
Agency and commissions accounts receivables	-	(5,128,342)	-	-	(5,128,342)
Due from related parties	(1,080)	(2,974,381)	-	1,080	(2,974,381)
Income taxes receivable	3,211,005	(3,398,687)	224,771	-	37,089
Prepaid contractual liability insurance (Note 2)	-	-	26,075	-	26,075
Other assets	(509)	(138,839)	(89,505)	-	(228,853)
Commission payable and accounts current	-	7,593,221	-	-	7,593,221
Deferred commissions and other revenues	-	239,906	(26,077)	-	213,829
Accounts payable and accrued expenses	(2,534)	565,061	92,987	-	655,514
Due to related parties	(18,584)	13,703	1,080	(1,080)	(4,881)
Income taxes payable	(4,177,683)	4,471,672	(254,926)	-	39,063
Net cash (used in) provided by operating activities	(3,491)	5,099,432	(132,214)	-	4,963,727
Net change in cash and cash equivalents	(3,491)	5,099,432	(132,214)	-	4,963,727
Cash and cash equivalents, beginning of year	126,137	24,101,470	157,021	-	24,384,628
Cash and cash equivalents, end of year	$ 122,646	$ 29,200,902	$ 24,807	$ -	$ 29,348,355

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2022

	Housing Investment Group, Inc.	Housing Insurance Services, Inc.	Housing Alliance Group, LLC	Elimination Entries	Consolidated
Cash flows from operating activities					
Net income (loss)	$ 3,522,301	$ 2,348,970	$ (104,131)	$ (2,244,839)	$ 3,522,301
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Deferred federal income taxes	(547,957)	(36,287)	(2,872)	-	(587,116)
Gain on investment in subsidiaries	(2,244,839)	-	-	2,244,839	-
Dividends received	10,000,000	-	-	(10,000,000)	-
Changes in assets and liabilities					
Agency and commissions accounts receivables	-	(17,534,497)	-	-	(17,534,497)
Due from related parties	17,258	56,559	32,905	(28,833)	77,889
Income taxes receivable (payable)	(698,125)	693,096	(28,939)	-	(33,968)
Prepaid contractual liability insurance (Note 2)	-	-	58,917	-	58,917
Other assets	-	(5,116)	(5,975)	-	(11,091)
Commission payable and accounts current	-	17,852,847	-	-	17,852,847
Deferred commissions and other revenues	-	153,736	(58,907)	-	94,829
Accounts payable and accrued expenses	482	(272,878)	(25,944)	-	(298,340)
Due to related parties	16,033	(161,622)	4,072	28,833	(112,684)
Net cash provided by (used in) operating activities	10,065,153	3,094,808	(130,874)	(10,000,000)	3,029,087
Cash flows from financing activities					
Dividends paid to shareholders	(10,000,000)	(10,000,000)	-	10,000,000	(10,000,000)
Net cash used in operating activities	(10,000,000)	(10,000,000)	-	10,000,000	(10,000,000)
Net change in cash and cash equivalents	65,153	(6,905,192)	(130,874)	-	(6,970,913)
Cash and cash equivalents, beginning of year	60,984	31,006,662	287,895	-	31,355,541
Cash and cash equivalents, end of year	$ 126,137	$ 24,101,470	$ 157,021	$ -	$ 24,384,628

HOUSING SPECIALTY INSURANCE COMPANY, INC.

STATUTORY FINANCIAL STATEMENTS
December 31, 2023 and 2022

Crowe LLP
Independent Member Crowe Global

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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and for the year ended. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the statutory financial statements as a whole.

Crowe LLP

Crowe LLP

West Hartford, Connecticut
May 3, 2024

HOUSING SPECIALTY INSURANCE COMPANY, INC.
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS
December 31, 2023 and 2022

	2023	2022
ADMITTED ASSETS		
Cash and invested assets		
Investments, at amortized cost or fair value	$ 25,893,802	$ 25,091,566
Cash, cash equivalents and short-term investments	1,281,702	904,168
Total cash and invested assets	27,175,504	25,995,734
Investment income due and accrued	239,430	190,943
Premiums receivable	628,066	358,579
Due from affiliates	-	402
State income tax receivable	-	17,967
Federal income tax receivable	251,904	309,313
Deferred tax asset	41,821	35,681
Total admitted assets	$ 28,336,725	$ 26,908,619
LIABILITIES AND CAPITAL AND SURPLUS		
Liabilities		
Unpaid losses and loss adjustment expenses	$ 757,527	$ 877,839
Unearned premiums	822,826	654,939
Ceded reinsurance premiums payable	149,500	86,219
Due to affiliates	112,356	76,133
Accrued expenses and other liabilities	108,896	47,282
Total liabilities	1,951,105	1,742,412
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	3,585,620	2,366,207
Total capital and surplus	26,385,620	25,166,207
Total liabilities and capital and surplus	$ 28,336,725	$ 26,908,619

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

HOUSING SPECIALTY INSURANCE COMPANY, INC.
STATUTORY STATEMENTS OF OPERATIONS
Years ended December 31, 2023 and 2022

	2023	2022
Underwriting income		
Net premiums earned	$ 2,414,830	$ 2,288,428
Losses and expenses		
Net losses and loss adjustment expenses incurred	745,165	932,983
Other underwriting expenses incurred	1,229,040	960,332
Total losses and expenses	1,974,205	1,893,315
Net underwriting gain	440,625	395,113
Investment income		
Net investment income earned	1,144,572	790,391
Net realized capital loss, net of taxes of $0 in 2023 and 2022	(151,405)	(1,059,933)
Total investment gain (loss)	993,167	(269,542)
Net income before provision for federal income taxes	1,433,792	125,571
Federal income taxes incurred	307,409	26,037
Net income	$ 1,126,383	$ 99,534

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

HOUSING SPECIALTY INSURANCE COMPANY, INC.
STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS
Years ended December 31, 2023 and 2022

	2023	2022
Capital and surplus, beginning of year	$ 25,166,207	$ 25,219,855
Net income	1,126,383	99,534
Change in net unrealized capital losses	56,167	(124,213)
Change in non-admitted assets	20,068	(31,124)
Change in net deferred income tax	7,329	2,155
Cumulative effect of changes in accounting error	9,466	-
Capital and surplus, end of year	$ 26,385,620	$ 25,166,207

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

HOUSING SPECIALTY INSURANCE COMPANY, INC.
STATUTORY STATEMENTS OF CASH FLOWS
Years ended December 31, 2023 and 2022

	2023	2022
Cash from operations		
Premiums collected, net of reinsurance	$ 2,376,512	$ 2,346,235
Net investment income	1,037,134	706,102
Losses and loss related payments, net	(706,804)	(565,374)
Commissions, expenses paid and aggregate write-ins for deductions	(1,346,297)	(1,139,439)
Federal and foreign income taxes paid	(250,000)	(415,000)
Net cash from operations	1,110,545	932,524
Cash from investments		
Proceeds from investments sold, matured and repaid	13,875,276	28,512,402
Costs of investments acquired	(14,692,446)	(29,241,991)
Net cash from investments	(817,170)	(729,589)
Cash from financing and miscellaneous sources		
Other cash used (applied)	84,159	(40,107)
Net cash from financing and miscellaneous sources	84,159	(40,107)
Change in cash, cash equivalents and short-term investments	377,534	162,828
Cash, cash equivalents and short-term investments, beginning of year	904,168	741,340
Cash, cash equivalents and short-term investments, end of year	$ 1,281,702	$ 904,168

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

NOTE 1 - GENERAL

Reporting Entity and Operations: Housing Specialty Insurance Company, Inc. (the Company or HSIC) was incorporated in the State of Vermont as a domestic stock insurance company and 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, 2023 and 2022, HARRG and HAPI owned 100 shares of $10,000 per share stated value 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 required by 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.

Allowance for Credit Losses - Under GAAP, the accounting framework follows a current expected credit loss model for determining credit-related impairments for certain financial instruments (e.g. premiums receivable, reinsurance recoverables and held to maturity fixed income investment portfolios) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses considers historical information, current information as well as reasonable and supportable forecasts. The expected credit losses, and subsequent adjustments to such losses, are recorded through an allowance account that is deducted from the amortized cost basis of the financial instrument, with the net carrying value of the financial instrument presented on the financial statements at the amount expected to be collected. NAIC SAP utilizes an incurred loss impairment model, which requires recognition of credit losses on certain financial instruments when known events occur.

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).

Beginning in January 2023, sweep accounts were implemented, which transfer the operating cash balance at the close of each business day to a short-term investment option, typically a money market fund. These funds, while invested, are considered short term cash equivalents.

The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to $250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Company's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Company 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.

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.

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.

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 2023 or 2022.

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 2023 and 2022.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 reviews its overall position, its reserving techniques and its reinsurance on a monthly basis, and utilizes the findings of an independent consulting actuary's annual review. 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 2020 forward are open and subject to examination by the Internal Revenue Service.

As of December 31, 2023 and 2022, the Company has recorded a deferred tax liability of $1,038 and $1,558 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company did not record any income tax contingencies or interest and penalties related to any income tax contingencies as of December 31, 2023 and 2022. 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 3, 2024, which is the date the statutory financial statements were available to be issued.

NOTE 3 - INVESTMENTS

Investments, carried at amortized cost and fair value, as of December 31, 2023, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities, at amortized cost				
U.S. government	$ 3,497,228	$ 85,548	$ (49,386)	3,533,390
U.S. political subdivisions of states, territories and possessions	246,237	-	(23,853)	222,384
U.S. special revenue and special assessment obligations	941,425	-	(151,003)	790,422
Industrial and miscellaneous	19,130,382	279,868	(560,062)	18,850,188
Hybrid securities	916,198	1,129	(46,981)	870,346
Other invested assets	246,530	-	(41,300)	205,230
Total debt securities, at amortized cost	24,978,000	366,545	(872,585)	24,471,960
Debt securities, at fair value				
Industrial and miscellaneous	993,187	-	(77,385)	915,802
Total debt securities, at fair value	993,187	-	(77,385)	915,802
Total	$ 25,971,187	$ 366,545	$ (949,970)	$ 25,387,762

(Continued)

NOTE 3 - INVESTMENTS (Continued)

Investments, carried at amortized cost and fair value, as of December 31, 2022, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities, at amortized cost				
U.S. government	$ 4,130,200	$ 64,702	$ (63,627)	$ 4,131,275
U.S. political subdivisions of states, territories and possessions	255,819	-	(19,939)	235,880
U.S. special revenue and special assessment obligations	1,156,348	17,029	(186,314)	987,063
Industrial and miscellaneous	17,593,828	91,765	(1,027,222)	16,658,371
Hybrid securities	351,686	-	(37,474)	314,212
Other invested assets	361,135	-	(69,450)	291,685
Total debt securities, at amortized cost	23,849,016	173,496	(1,404,026)	22,618,486
Debt securities, at fair value				
Industrial and miscellaneous	1,307,455	-	(145,905)	1,161,550
Hybrid securities	90,000	-	(9,000)	81,000
Total debt securities, at fair value	1,397,455	-	(154,905)	1,242,550
Total	$ 25,246,471	$ 173,496	$ (1,558,931)	$ 23,861,036

The amortized cost and fair value of debt securities are shown by contractual maturity as of December 31, 2023. 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	$ 787,830	$ 781,551
After one year through five years	5,494,858	5,401,742
After five years through ten years	9,309,300	9,065,438
After ten years	4,728,187	4,590,731
Collateralized debt obligations	3,883,963	3,804,220
Commercial mortgage-backed securities	1,767,049	1,744,080
Total	$ 25,971,187	$ 25,387,762

Proceeds from sales of securities amounted to $12,433,449 and $26,248,917 in 2023 and 2022, respectively. Gross realized gains amounted to $176,995 and $135,587 on the sale of securities in 2023 and 2022, respectively. Gross realized losses amounted to $328,400 and $1,195,520 in 2023 and 2022, respectively.

NOTE 3 - INVESTMENTS (Continued)

The Company holds 113 securities that are in an unrealized loss position as of December 31, 2023, of which 99 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, 2023:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government	$ 2,181,918	$ (49,386)	$ -	$ -
U.S. political subdivisions of states, territories and possessions	-	-	222,384	(23,853)
U.S. special revenue and special assessment obligations	-	-	790,422	(151,003)
Industrial and miscellaneous	1,343,897	(6,596)	10,706,867	(630,851)
Hybrid securities	-	-	517,011	(46,981)
Other invested assets	-	-	205,230	(41,300)
Total	$ 3,525,815	$ (55,982)	$ 12,441,914	$ (893,988)

The Company held 149 securities that were in an unrealized loss position as of December 31, 2022, of which 33 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 had been in a continuous unrealized loss position, as of December 31, 2022:

	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government	$ 1,457,391	$ (63,627)	$ -	$ -
U.S. political subdivisions of states, territories and possessions	235,880	(19,939)	-	-
U.S. special revenue and special assessment obligations	355,058	(69,942)	401,832	(116,372)
Industrial and miscellaneous	12,140,996	(796,443)	3,463,831	(376,684)
Hybrid securities	362,902	(40,080)	32,310	(6,394)
Other invested assets	114,675	(21,524)	177,012	(47,926)
Total	$ 14,666,902	$ (1,011,555)	$ 4,074,985	$ (547,376)

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, 2023 and 2022.

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.

(Continued)

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents the financial instruments, measured at fair value, by valuation hierarchy, as well as the carrying value of those instruments in the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2023:

		Fair Value			
	Admitted Assets	Level 1	Level 2	Level 3	Total
Financial instruments (carried at fair value)					
Money market funds	$ 4,195	$ 4,195	$ -	$ -	$ 4,195
Debt securities	915,802	-	915,802	-	915,802
Total	919,997	4,195	915,802	-	919,997
Financial instruments (carried at amortized cost)					
Short-term investments	300,000	-	300,000	-	300,000
Debt securities	24,978,000	-	24,471,960	-	24,471,960
Total	25,278,000	-	24,771,960	-	24,771,960
Total	$ 26,197,997	$ 4,195	$ 25,687,762	$ -	$ 25,691,957

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, 2022:

		Fair Value			
	Admitted Assets	Level 1	Level 2	Level 3	Total
Financial instruments (carried at fair value)					
Money market funds	$ 56,537	$ 56,537	$ -	$ -	$ 56,537
Debt securities	1,242,550	-	1,242,550	-	1,242,550
Total	1,299,087	56,537	1,242,550	-	1,299,087
Financial instruments (carried at amortized cost)					
Debt securities	23,849,016	-	22,618,486	-	22,618,486
Total	23,849,016	-	22,618,486	-	22,618,486
Total	$ 25,148,103	$ 56,537	$ 23,861,036	$ -	$ 23,917,573

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

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

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

(Continued)

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

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.

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

As of December 31, 2023 and 2022, the Company held no level 3 investments.

NOTE 5 - INSURANCE ACTIVITY

The Company primarily writes commercial property coverage to public and affordable housing entities on a direct basis as an excess and surplus lines insurance company.

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 2023, the Company ceded $680,242 and $73,278 of premium to HAPI and HEIC, respectively, related to this contract. During 2022, the Company ceded $620,197 and $54,693 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 2023 and 2022. 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 2023 and 2022, after an insurer deductible, subject to an annual cap. This reimbursement percentage is scheduled to remain at 80% through December 31, 2027.

NOTE 5 - INSURANCE ACTIVITY (Continued)

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 billion. Once subject losses have reached the $100 billion 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 acts of terrorism and acts of sabotage the agreement provides reinsurance for all losses and loss adjustment expenses in excess of $2,000,000 up to an aggregate limit of $80,000,000 per loss occurrence. With respect to strikes, riots, civil commotion and malicious damage 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. 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. All rated reinsurers have an A.M. Best rating of A or better.

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

Premiums direct written and ceded for the years ended December 31, 2023 and 2022, are summarized as follows:

	Premiums Written		Premiums Earned	
	2023	2022	2023	2022
Direct premiums	$ 3,353,717	$ 3,013,277	$ 3,130,427	$ 2,907,531
Ceded premiums	(771,000)	(691,242)	(715,597)	(619,103)
Net premiums	$ 2,582,717	$ 2,322,035	$ 2,414,830	$ 2,288,428

(Continued)

NOTE 5 - INSURANCE ACTIVITY (Continued)

A reconciliation of changes in unpaid losses and loss adjustment expenses, for the years ended December 31, 2023 and 2022, are summarized as follows:

	2023	2022
Balance at beginning of year	$ 877,839	$ 689,336
Incurred related to		
Current year	1,151,150	1,535,757
Prior years	(405,985)	(602,774)
Total incurred	745,165	932,983
Paid related to:		
Current year	(619,349)	(708,378)
Prior years	(246,128)	(36,102)
Total paid	(865,477)	(744,480)
Balance at end of year	$ 757,527	$ 877,839

As a result of changes in loss development, the provision for losses and loss adjustment expenses decreased by $405,985 and $602,774 in 2023 and 2022, respectively. The decrease in 2023 is mainly related to favorable loss development on property claims related to the 2022 accident year. The decrease in 2022 is mainly related to favorable loss development on property claims related to the 2021 and 2018 accident years.

The Company recorded net reinsurance recovery activity of $22,023 and ($41,827) in 2023 and 2022, respectively, which is reflected as an increase (decrease) in losses and loss adjustment expenses incurred in the statutory statements of operations. All losses ceded for the years ended December 31, 2023 and 2022, related to the Company's reinsurance contract with HAPI.

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 $996,445 and $777,525 for the years ended December 31, 2023 and 2022, respectively. The amounts due to HARRG under these agreements, which are included in due to affiliates, amounted to $104,115 and $76,133 as of December 31, 2023 and 2022, 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 expenses of $1,845 and $7,500 under this agreement for the years ended December 31, 2023 and 2022, respectively.

NOTE 6 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)

The Company entered into an agreement with Housing Telecommunications, Inc. (HTI) to support the delivery of risk management training to members and employees of HSIC. The Company recognized expenses of $1,000 for risk management services fees paid to HTI for the year ended December 31, 2022. The agreement with HTI was not renewed in 2023.

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 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, 2023 and 2022, commission expense under this agreement amounted to $167,684 and $150,669, respectively, which is included in underwriting expenses incurred on the statutory statement of operations. The Company has amounts due to HIS of $8,241 as of December 31, 2023, which is included in due to affiliates. The Company has miscellaneous expenses due from HIS of $402 as of December 31, 2022, which is included in due from affiliates.

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 all employees 21 years or older. The Company recorded profit sharing expenses of $36,251 and $23,831 and 401(k) expenses of $23,578 and $16,564, for the years ended December 31, 2023 and 2022, respectively. In addition, the Company recorded an expense for incentive compensation of $56,360 and $40,238, for the years ended December 31, 2023 and 2022, 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, 2023 and 2022.

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 2023 or 2022.

(Continued)

NOTE 9 - FEDERAL INCOME TAXES

The components of the net deferred tax asset recognized in the Company's statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2023 and 2022 are as follows:

	2023			2022		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets	$ 42,764	$ 11,155	$ 53,919	$ 35,955	$ 32,509	$ 68,464
Statutory valuation allowance adjustment	-	-	-	-	-	-
Adjusted gross deferred tax assets	42,764	11,155	53,919	35,955	32,509	68,464
Deferred tax asset non-admitted	11,060	-	11,060	31,225	-	31,225
Net deferred tax asset	31,704	11,155	42,859	4,730	32,509	37,239
Deferred tax liabilities	(1,038)	-	(1,038)	(1,558)	-	(1,558)
Net admitted deferred tax asset	$ 30,666	$ 11,155	$ 41,821	$ 3,172	$ 32,509	$ 35,681

The components of the admissibility calculation under paragraphs 11.a., 11.b. and 11.c. as of December 31, 2023 and 2022, are as follows:

	2023			2022		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Admitted pursuant to 11.a.	$ 41,000	$ -	$ 41,000	$ 35,681	$ -	$ 35,681
Admitted pursuant to 11.b.	(10,334)	11,155	821	(32,509)	32,509	-
Admitted pursuant to 11.c.	1,038	-	1,038	1,558	-	1,558
Admitted deferred tax asset	$ 31,704	$ 11,155	$ 42,859	$ 4,730	$ 32,509	$ 37,239

(Continued)

NOTE 9 - FEDERAL INCOME TAXES (Continued)

The change in the components of the net deferred tax asset recognized in the Company's statutory statements of admitted assets, liabilities and capital and surplus from December 31, 2022 to December 31, 2023, are as follows:

	Change During 2023		
	Ordinary	Capital	Total
Gross deferred tax assets	$ 6,809	$ (21,354)	$ (14,545)
Statutory valuation allowance adjustment	-	-	-
Adjusted gross deferred tax assets	6,809	(21,354)	(14,545)
Deferred tax asset non-admitted	(20,165)	-	(20,165)
Net deferred tax asset	26,974	(21,354)	5,620
Deferred tax liabilities	520	-	520
Net admitted deferred tax asset	$ 27,494	$ (21,354)	$ 6,140
Admitted pursuant to 11.a.	$ 5,319	$ -	$ 5,319
Admitted pursuant to 11.b.	22,175	(21,354)	821
Admitted pursuant to 11.c.	(520)	-	(520)
Admitted deferred tax asset	$ 26,974	$ (21,354)	$ 5,620

In 2023 and 2022, 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, 2023 and 2022 is as follows:

	2023	2022
Ratio percentage used to determine recovery period and threshold limitation amount	2631%	2647%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	$ 26,343,799	$ 25,130,526

(Continued)

NOTE 9 - FEDERAL INCOME TAXES (Continued)

The provisions for incurred taxes on earnings for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022	Change
Federal	$ 339,204	$ 246,410	$ 92,794
Foreign	-	-	-
Subtotal	339,204	246,410	92,794
Federal income tax on net capital gains	-	-	-
Capital loss carryback	(31,795)	(220,373)	188,578
Federal income taxes incurred	$ 307,409	$ 26,037	$ 281,372

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets as of December 31, 2023 and 2022, are as follows:

	2023	2022	Change
Deferred tax assets			
Ordinary			
Discounting of unpaid losses	$ 7,782	$ 7,982	$ (200)
Unearned premium reserves	34,559	27,507	7,052
Other	109	89	20
Organization costs	314	377	(63)
Subtotal	42,764	35,955	6,809
Non-admitted deferred tax assets	(11,060)	(31,225)	20,165
Admitted ordinary deferred tax assets	31,704	4,730	26,974
Capital			
Unrealized loss	11,155	32,509	(21,354)
Subtotal	11,155	32,509	(21,354)
Admitted deferred tax assets	42,859	37,239	5,620
Deferred tax liabilities			
Ordinary			
TCJA transition adjustment	(1,038)	(1,558)	520
Deferred tax liabilities	(1,038)	(1,558)	520
Net admitted deferred tax assets	$ 41,821	$ 35,681	$ 6,140

(Continued)

NOTE 9 - FEDERAL INCOME TAXES (Continued)

The Company has no net operating loss carry-forwards as of December 31, 2023. The Company has no capital loss carry-forwards as of December 31, 2022. During 2023 and 2022, the Company utilized $31,795 and $222,586 respectively, of capital loss carrybacks. 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 2023 and 2022, 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, 2023 and 2022, are comprised of the following:

	2023	2022	Change
Total deferred tax assets	$ 53,919	$ 68,464	$ (14,545)
Total deferred tax liabilities	(1,038)	(1,558)	520
Net deferred tax asset	52,881	66,906	(14,025)
Tax effect of unrealized losses	(11,155)	(32,509)	21,354
Change in net deferred income tax	$ 41,726	$ 34,397	$ 7,329

(Continued)

NOTE 9 - FEDERAL INCOME TAXES (Continued)

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to net income before income taxes. The significant items causing this difference are as follows for the years ended December 31, 2023 and 2022:

	2023		2022	
Provision computed at statutory rate	$ 315,960	21.00 %	$ 26,370	21.00 %
Meals and entertainment	173	0.02	37	0.03
Tax exempt interest	(2,211)	(0.14)	(3,723)	(2.97)
Tax exempt expenses	80	0.02	192	0.16
Proration	533	0.05	883	0.70
Change in nonadmitted assets	(20)	(0.01)	21	0.02
True up	(14,435)	(1.00)	102	0.08
Total federal income taxes incurred	$ 300,080	19.94 %	$ 23,882	19.02 %
Reconciliation				
Federal income taxes	$ 307,409	20.43 %	$ 26,037	20.74 %
Change in net deferred income taxes	(7,329)	(0.49)	(2,155)	(1.72)
Total statutory income taxes	$ 300,080	19.94 %	$ 23,882	19.02 %

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

	Ordinary	Capital	Total
December 31, 2023 (current year)	$ 339,111	$ -	$ 339,111
December 31, 2022 (first preceding period)	$ 248,618	$ -	$ 248,618
December 31, 2021 (second preceding period)	$ -	$ 72,908	$ 72,908

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

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

(Continued)

NOTE 10 - NON-ADMITTED ASSETS

Certain assets designated as non-admitted, have been excluded from admitted assets and charged against capital and surplus. As of December 31, 2023 and 2022, amounts reflected as non-admitted assets were as follows:

	2023	2022
Prepaid insurance	$ 519	$ 422
Deferred tax assets	11,060	31,225
	$ 11,579	$ 31,647

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, 2023 and 2022.

1. The Company's total admitted assets as reported in the Statutory Statements of Admitted Assets, Liabilities and Capital and Surplus was $28,336,725 as of December 31, 2023.

2. The ten largest exposures to a single issuer/borrower/investment are as follows:

Issuer	Investment Category		Amount	Percentage of Total Admitted Assets
Enstar Group Limited	Long Term Bond	$	304,496	1.1%
Jpmorgan Chase & Co	Short Term	$	300,000	1.1%
HSBC Holding Plc	Long Term Bond	$	294,919	1.0%
Global Atlantic (Fin) Company	Long Term Bond	$	292,512	1.0%
SDCP 2022-1 A2	Long Term Bond	$	267,426	0.9%
The Port Authority of New York and New Jersey	Long Term Bond	$	262,261	0.9%
SBA Tower Trust 2020-1	Long Term Bond	$	260,000	0.9%
Royal Bank of Canada	Long Term Bond	$	254,796	0.9%
CARLYL 124RRR A1R SEQ FLT	Long Term Bond	$	250,000	0.9%
DRYLTD 72R AR FLT	Long Term Bond	$	250,000	0.9%

3. The amounts and percentages of the Company's total admitted assets held in bonds by NAIC rating are as follows:

Bond		Amount	Percentage of Total Admitted Assets
NAIC-1	$	17,070,004	60.2%
NAIC-2	$	7,691,466	28.1%
NAIC-3	$	915,802	3.2%

4. Assets held in foreign investments:

Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]

Total admitted assets held in foreign investments	$	4,228,868	14.9%

(Continued)

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating are as follows:

NAIC Rating		Amount	Percentage of Total Admitted Assets
Countries designated NAIC - 1	$	4,228,868	14.9%

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating are as follows:

Rating		Amount	Percentage of Total Admitted Assets
Countries rated NAIC-1			
Country 1: Bermuda	$	1,009,247	3.6%
Country 2: Cayman Islands	$	912,438	3.2%

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues are as follows:

Issuer	NAIC Rating		Amount	Percentage of Total Admitted Assets
HSBC Holdings Plc	1	$	249,919	0.9%
CARLYL 124RRR A1R SEQ FLT	1	$	250,000	0.9%
DRYLTD 72R AR FLT	1	$	250,000	0.9%
Siriuspoint Ltd.	1	$	244,887	0.9%
NBGBRM 25R AR SEQ FLT	1	$	240,878	0.9%
Swiss Re Finance (Luxembourg) S.A.	1	$	238,159	0.8%
Enstar Group Limited	1	$	214,496	0.8%
Fidelis Insurance Holdings Limited	1	$	210,700	0.7%
Avolon Holdings Funding Limited	1	$	203,250	0.7%
Lloyds Banking Group Plc	1	$	200,000	0.7%

HOUSING SPECIALTY INSURANCE COMPANY, INC.
SUPPLEMENTAL SUMMARY INVESTMENT SCHEDULE
December 31, 2023

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
Bonds				
U.S. governments	$ 3,497,228	12.8%	$ 3,497,228	12.8%
U.S political subdivisions of states, territories and possessions, guaranteed	246,237	0.9%	246,237	0.9%
U.S special revenue and special assessment obligations, etc. nonguaranteed	941,425	3.5%	941,425	3.5%
Industrial and miscellaneous	20,046,184	73.8%	20,046,184	73.8%
Hybrid securities	916,198	3.4%	916,198	3.4%
Cash, cash equivalents and short-term investments	1,281,702	4.7%	1,281,702	4.7%
Other invested assets	246,530	0.9%	246,530	0.9%
Total invested assets	$ 27,175,504	100%	$ 27,175,504	100%

HOUSING TELECOMMUNICATIONS, INC.

FINANCIAL STATEMENTS
December 31, 2023 and 2022

Crowe LLP
Independent Member Crowe Global

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, 2023 and 2022, 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, 2023 and 2022, 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

Crowe LLP

West Hartford, Connecticut
May 3, 2024

HOUSING TELECOMMUNICATIONS, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	$ 1,938,816	$ 2,771,099
Accounts receivable	92,553	49,395
Refundable advance	-	353,839
Prepaid expenses and other asset	9,350	1,095
Due from affiliates	22,666	24,485
Total assets	$ 2,063,385	$ 3,199,913
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 215,932	$ 194,108
Due to affiliates	176,321	138,175
Unearned subscription fees	529,245	554,883
Total liabilities	921,498	887,166
Net assets without donor restrictions	1,141,887	2,312,747
Total liabilities and net assets	$ 2,063,385	$ 3,199,913

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

	2023	2022
Revenue without donor restrictions		
Subscription fees	$ 1,126,705	$ 1,104,650
Risk management service fees	-	100,000
Pay per view fees	934,299	1,161,134
Other income	275,504	188,250
Total revenue without donor restrictions	2,336,508	2,554,034
Expenses		
Salaries and benefits	1,347,027	1,209,979
Program acquisition	509,254	486,298
Grant expense	-	597,838
Donation expense	1,077,000	-
General and administrative expenses	574,087	556,800
Total expenses	3,507,368	2,850,915
Change in net assets without donor restrictions	(1,170,860)	(296,881)
Net assets without donor restrictions, beginning of year	2,312,747	2,609,628
Net assets without donor restrictions, end of year	$ 1,141,887	$ 2,312,747

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

HOUSING TELECOMMUNICATIONS, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	$ (1,170,860)	$ (296,881)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Changes in assets and liabilities:		
Accounts receivable	(43,158)	5,252
Refundable advance	353,839	(272,162)
Prepaid expenses and other asset	(8,255)	(50)
Due from affiliates	1,819	4,136
Accounts payable	21,824	(56,248)
Due to affiliates	38,146	45,958
Unearned subscription fees	(25,638)	1,017
Net cash used in operating activities	(832,283)	(568,978)
Net change in cash and cash equivalents	(832,283)	(568,978)
Cash and cash equivalents, beginning of year	2,771,099	3,340,077
Cash and cash equivalents, end of year	$ 1,938,816	$ 2,771,099

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

NOTE 1 - GENERAL

Reporting Entity and Operations: Housing Telecommunications, Inc. (the Company) was incorporated on September 15, 1993, as a non-stock Connecticut corporation. The Company is a nonprofit organization, which has been organized to provide education through a variety of media to employees and residents of public and low income and affordable housing authorities throughout the United States. The Company's main programming delivery method is through a web-based service. The operations of the Company are dependent on its affiliations with Housing Authority Risk Retention Group, Inc. (HARRG), Housing Authority Property Insurance, A Mutual Company (HAPI), Housing Enterprise Insurance Company, Inc. (HEIC) and Housing Specialty Insurance Company, Inc. (HSIC), which are affiliated through common management and common ownership. The Company is governed by the same Board of Directors as HARRG, HAPI, HEIC, HSIC (collectively, the Related Companies) and other affiliated companies.

The Company is part of an affiliated group of companies and has entered into various transactions with the group members. The accompanying financial statements have been prepared from the separate records maintained by the Company and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated company.

Concentrations of Risk: A portion of the Company's revenue is derived from risk management and sponsorship agreements with the Related Companies. In connection with the agreements, the Company provides broadcasting services to the Related Companies, their members and insureds.

Public Housing Authorities (PHAs) are governed and funded by the United States Department of Housing and Urban Development. Changes in public policy and/or funding of PHAs or the affiliated entities could have a significant impact on the operations of the Company. A reduction in revenue from these affiliated entities could have a significant impact on the operations of the Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and cash equivalents: Cash and cash equivalents are comprised of one investment sweep account and one cash account as of December 31, 2023. Cash and cash equivalents was comprised of one cash account as of December 31, 2022. 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.

Beginning in January 2023, sweep accounts were implemented, which transfer the operating cash balance at the close of each business day to a short-term investment option, typically a money market fund. These funds, while invested, are considered cash equivalents.

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, 2023 and 2022, management has not recorded an allowance for doubtful accounts against its outstanding accounts receivable as the balance is considered to be fully collectible.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

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, 2023 and 2022, 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, and interest income, which is recorded as revenue as earned.

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.

Adoption of New Accounting Standard: On January 1, 2023, the Company adopted Accounting Standards Update (ASU) No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*" (ASU 2016-13), which provides updated guidance for the accounting of credit losses for financial instruments. The updated guidance replaces the incurred loss methodology and applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for certain financial instruments and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts. The expected credit losses, and subsequent adjustments to such losses, are recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the balance sheet at the amount expected to be collected.

The adoption of this pronouncement had no financial impact on the Company's financial statements as of December 31, 2023, as management determined no allowance was necessary for its in scope financial instruments.

Subsequent Events: Subsequent events have been evaluated through May 3, 2024, which is the date the financial statements were available to be issued.

(Continued)

NOTE 3 - INCOME TAXES

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

The Company accounts for income taxes in accordance with FASB ASC 740, "*Income Taxes*", with respect to how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Company did not record any unrecognized tax benefits as of December 31, 2023 and 2022. 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 2020 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, 2023 and 2022, 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 $1,891,326 and $1,665,192 for the years ended December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, $176,321 and $138,175, 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 the year ended December 31, 2022. The risk management service agreement was not renewed in 2023.

As of December 31, 2023 and 2022, on the statements of financial position within due from affiliates, are receivables from HARRG in the amount $13,621 and $15,547, respectively, and from HAPI in the amount of $9,045 and $8,938, respectively, related to equity dividends declared by HARRG and HAPI that have been applied to the PHAs' current subscription fees.

The Company recorded grant expenditures during 2022 in the amount of $597,838, 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, 2022, PAHRC had unspent grant funds of $353,839, which was recorded as a refundable advance within the statements of financial position. During 2023, PAHRC returned the unspent grant funds of $353,839 to the Company. The Company did not provide PAHRC with a grant during 2023.

The Company recorded a donation expense during 2023 in the amount of $1,077,000 to PAHRC. The donation 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.

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 $77,258 and $63,186 and 401(k) expenses of $54,625 and $47,979, for the years ended December 31, 2023 and 2022. In addition, the Company recorded an expense for incentive compensation of $131,099 and $118,907, for the years ended December 31, 2023 and 2022, 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 cash equivalents, accounts receivable, and amounts due from affiliates. At December 31, 2023 and 2022, the Company has financial assets available within one year of the statement of financial position date for general expenditure of $2,054,035 and $2,844,979, 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.

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, 2023.

	Program Activities	Management and General Activities	Total Expenses
Salaries and benefits	$ 1,039,498	$ 307,529	$ 1,347,027
Donations	1,077,000	-	1,077,000
Program costs	509,254	-	509,254
Office and occupancy	176,319	134,290	310,609
Depreciation	29,354	8,780	38,134
Services and professional fees	42,673	55,263	97,936
Travel, meetings and professional development	88,637	25,336	113,973
Other	-	13,435	13,435
Total expenses	$ 2,962,735	$ 544,633	$ 3,507,368

(Continued)

NOTE 7 - FUNCTIONAL EXPENSES (Continued)

The table below presents expenses by both their nature and their function for the year ended December 31, 2022.

	Program Activities	Management and General Activities	Total Expenses
Salaries and benefits	$ 950,010	$ 259,969	$ 1,209,979
Grants	597,838	-	597,838
Program costs	486,298	-	486,298
Office and occupancy	157,591	137,632	295,223
Depreciation	46,267	11,490	57,757
Services and professional fees	65,185	48,519	113,704
Travel, meetings and professional development	44,310	13,862	58,172
Other	9,610	22,334	31,944
Total expenses	$ 2,357,109	$ 493,806	$ 2,850,915

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.

INNOVATIVE HOUSING INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS
December 31, 2023 and 2022

Crowe LLP
Independent Member Crowe Global

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, 2023 and 2022, 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, 2023 and 2022, 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

Crowe LLP

West Hartford, Connecticut
May 3, 2024

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
BALANCE SHEETS
December 31, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	$ 6,680,206	$ 4,653,960
Investment, available for sale, at fair value	-	1,910,606
Other assets	23,961	422
Total assets	$ 6,704,167	$ 6,564,988
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities		
Unearned premiums	$ 217,125	$ 243,200
Accounts payable and other liabilities	3,521	4,516
Due to affiliate	12,355	15,826
Total liabilities	233,001	263,542
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	(178,834)	(348,554)
Total shareholder's equity	6,471,166	6,301,446
Total liabilities and shareholder's equity	$ 6,704,167	$ 6,564,988

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

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
STATEMENTS OF OPERATIONS
Years Ended December 31, 2023 and 2022

	2023	2022
Revenues		
Premiums earned	$ 26,075	$ 58,917
Total revenues	26,075	58,917
Expenses		
Salaries and benefits	38,257	45,201
General and administrative expenses	69,007	75,253
Total expenses	107,264	120,454
Net investment gain (loss)	250,909	(110,318)
Net income (loss) before provision for federal income taxes	169,720	(171,855)
Federal income taxes incurred	-	18,526
Net income (loss)	$ 169,720	$ (190,381)

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, 2023 and 2022

	Common Stock		Contributed	Retained	Total Shareholder's
	Shares	Amount	Surplus	Deficit	Equity
Balance as of January 1, 2022	50	$ 500,000	$ 6,150,000	$ (158,173)	$ 6,491,827
Net loss	-	-	-	(190,381)	(190,381)
Balance as of December 31, 2022	50	500,000	6,150,000	(348,554)	6,301,446
Net income	-	-	-	169,720	169,720
Balance as of December 31, 2023	50	$ 500,000	$ 6,150,000	$ (178,834)	$ 6,471,166

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

INNOVATIVE HOUSING INSURANCE COMPANY, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Net income (loss)	$ 169,720	$ (190,381)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Deferred federal income taxes	-	18,526
Unrealized holding losses (gains) on investments	(89,338)	140,859
Realized holding losses on investments	64,707	-
Change in assets and liabilities		
Other assets	(23,539)	101
Unearned premiums	(26,075)	(58,917)
Accounts payable and other liabilities	(995)	168
Due to affiliate	(3,471)	905
Net cash provided by (used in) operating activities	91,009	(88,739)
Cash flows from investing activities		
Proceeds from investments sold	1,935,237	-
Net cash provided by investing activities	1,935,237	-
Net change in cash and cash equivalents	2,026,246	(88,739)
Cash and cash equivalents, beginning of year	4,653,960	4,742,699
Cash and cash equivalents, end of year	$ 6,680,206	$ 4,653,960

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

NOTE 1 - GENERAL

Reporting Entity and Operations: Innovative Housing Insurance Company, Inc. (the Company or IHIC) is a captive insurance company wholly owned by Housing Authority Risk Retention Group, Inc. (HARRG). The Company was formed for the purpose of engaging in the business of insuring and reinsuring various types of insurance risks. IHIC is licensed and domiciled in the State of Vermont and received its Certificate of Authority in July 2015. During 2023, the Board of Directors approved the discontinuation and dissolution of IHIC. Management is continuing to work through the discontinuation and dissolution during 2024.

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 and cash equivalents are comprised of one investment sweep account and one cash account as of December 31, 2023. Cash and cash equivalents was comprised of one cash account as of December 31, 2022. 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.

Beginning in January 2023, sweep accounts were implemented, which transfer the operating cash balance at the close of each business day to a short-term investment option, typically a money market fund. These funds, while invested, are considered cash equivalents.

Investments: The Company accounts for its equity investments in accordance with FASB ASC 321, "*Investments - Equity Securities*". Under FASB ASC 321, equity securities are carried at fair value, with changes in fair value reported in net income (loss).

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

The Company sold all of its investments during 2023.

Unpaid Losses and Loss Adjustment Expense Reserves: As of December 31, 2023 and 2022, management's best estimate of unpaid losses and loss adjustment expenses on its claims made written policies is zero. As of December 31, 2023 and 2022, the Company obtained a waiver from the Vermont Department of Financial Regulation (the Department) for the actuarial review and certification of reserves.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Bad Debts: The Company uses a credit loss model 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, 2023 and 2022, 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, 2023 and 2022. 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, 2023 and 2022, the Company did not record any penalties or interest associated with unrecognized tax benefits. Tax years from 2020 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.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standard: On January 1, 2023, the Company adopted Accounting Standards Update (ASU) No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*" (ASU 2016-13), which provides updated guidance for the accounting of credit losses for financial instruments. The updated guidance replaces the incurred loss methodology and applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for certain financial instruments and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts. The expected credit losses, and subsequent adjustments to such losses, are recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the balance sheet at the amount expected to be collected.

The adoption of this pronouncement had no financial impact on the Company's financial statements as of December 31, 2023, as management determined no allowance was necessary for its in scope financial instruments.

Subsequent Events: Subsequent events have been evaluated through May 3, 2024, which is the date the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

Investments, classified as available for sale and carried at fair value, as of December 31, 2022, were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Exchange traded fund	$ 1,999,944	$ -	$ (89,338)	$ 1,910,606

Proceeds from sales of securities amounted to $1,935,237 during 2023. Gross realized losses of $64,707 were realized on those sales during 2023. There were no sales or realized gains or losses during 2022.

Net investment gain (loss) for the years ended December 31, 2023 and 2022, consists of the following:

	2023	2022
Interest and investment income	$ 226,278	$ 30,541
Holding losses on investments	89,338	(140,859)
Realized loss on investments	(64,707)	-
Net investment gain (loss)	$ 250,909	$ (110,318)

(Continued)

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.
>
> 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 table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2022:

	Level 1	Level 2	Level 3
Money market fund	$ 138,050	$ -	$ -
Exchange traded fund	1,910,606	-	-
Total	$ 2,048,656	$ -	$ -

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument. For the years ended December 31, 2023 and 2022, there were no significant transfers 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 2023 and 2022, the Company did not write any policies to HAGL.

NOTE 5 - **INSURANCE ACTIVITY** (Continued)

Premiums written and earned for the years ended December 31, 2023 and 2022 are summarized as follows:

	Premiums Written		Premiums Earned	
	2023	2022	2023	2022
Direct premiums	$ -	$ -	$ 26,075	$ 58,917

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, 2023 and 2022:, 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 $96,302 and $110,406 for the years ended December 31, 2023 and 2022, respectively. The amounts due to HARRG under these agreements, which are included in due to affiliate, amounted to $12,355 and $15,826 as of December 31, 2023 and 2022, 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 all employees 21 years or older. The Company recorded profit sharing expenses of $2,319 and $2,324 and 401(k) expenses of $1,331 and $1,593, for the years ended December 31, 2023 and 2022, respectively. In addition, the Company recorded an expense for incentive compensation of $2,941 and $3,842, for the years ended December 31, 2023 and 2022, 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)

NOTE 9 - FEDERAL INCOME TAXES

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

	2023		2022	
Federal income taxes computed at the statutory rate	$ 35,641	21.00%	$ (36,090)	(21.00)%
Valuation allowance	(35,669)	(21.02)%	54,612	31.78%
Other	28	0.02%	4	0.00%
Total	$ -	0.00%	$ 18,526	10.78%

Federal income tax expense consists of the following for the years ended December 31, 2023 and 2022:

	2023	2022
Current	$ -	$ -
Deferred	-	18,526
Total	$ -	$ 18,526

The tax effect of temporary differences, which result in a net deferred tax asset, are as follows:

	2023	2022
Deferred tax assets		
Net operating loss carry-forward	$ 14,762	$ 44,163
Unearned premiums	9,119	10,214
Unrealized losses on investments	-	18,761
Capital loss carry-forward	13,588	-
Gross deferred tax assets	37,469	73,138
Valuation allowance	(37,469)	(73,138)
Total deferred tax asset, net	$ -	$ -

The Company has net operating loss carry-forwards as of December 31, 2023 of $70,294, which will begin to expire in 2036. The Company has capital loss carry-forwards as of December 31, 2023 of $64,707, which will begin to expire in 2028. The Company has no AMT Credit carryovers available.

A valuation allowance on the deferred tax assets is evaluated based on management's assessment of the recoverability. As of December 31, 2023, the Company recorded a valuation allowance against the deferred tax asset of $37,469 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.

(Continued)

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, 2023 and 2022, to the amounts shown in the accompanying financial statements.

PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION

FINANCIAL STATEMENTS
December 31, 2023 and 2022

Crowe LLP
Independent Member Crowe Global

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, 2023 and 2022, 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, 2023 and 2022, 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

Crowe LLP

West Hartford, Connecticut
May 3, 2024

PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	$ 216,854	$ 387,652
Accounts receivable	15,850	5,000
Prepaid expenses and other assets	1,627	454
Total assets	$ 234,331	$ 393,106
LIABILITIES AND NET ASSETS		
Liabilites		
Accounts payable	$ 74,522	$ 83,385
Unearned revenue	30,812	37,311
Due to affiliate	106,369	82,642
Deferred grant revenue	-	353,839
Total liabilities	211,703	557,177
Net assets without donor restrictions	22,628	(164,071)
Total liabilities and net assets	$ 234,331	$ 393,106

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, 2023 and 2022

	2023	2022
Revenue without donor restrictions		
Grant revenue	$ -	$ 597,838
Contribution revenue	1,095,667	34,097
Other revenue	77,881	76,531
Total revenue without donor restrictions	1,173,548	708,466
Expenses		
Salaries and benefits	667,881	491,469
General and administrative expenses	318,968	245,713
Total expenses	986,849	737,182
Change in net assets without donor restrictions	186,699	(28,716)
Net assets without donor restrictions, beginning of year	(164,071)	(135,355)
Net assets without donor restrictions, end of year	$ 22,628	$ (164,071)

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, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	$ 186,699	$ (28,716)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Changes in assets and liabilities:		
Accounts receivable	(10,850)	(5,000)
Prepaid expenses and other assets	(1,173)	1,711
Accounts payable	(8,863)	(10,078)
Unearned revenue	(6,499)	(1,231)
Due to affiliate	23,727	43,711
Deferred grant revenue	(353,839)	272,162
Net cash (used in) provided by operating activities	(170,798)	272,559
Net change in cash and cash equivalents	(170,798)	272,559
Cash and cash equivalents, beginning of year	387,652	115,093
Cash and cash equivalents, end of year	$ 216,854	$ 387,652

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

NOTE 1 - GENERAL

Reporting Entity and Operations: Public and Affordable Housing Research Corporation (the Company or PAHRC) was incorporated on March 15, 2011, as a non-stock, State of Connecticut corporation. The Company is a nonprofit organization, which has undertaken the responsibility of carrying out research projects that will inform and educate residents, owners, operators, developers, vendors and regulators of public and affordable housing throughout the United States. The Company is governed by the same Board of Directors as Housing Authority Risk Retention Group, Inc. (HARRG), Housing Authority Property Insurance, A Mutual Company (HAPI), Housing Enterprise Insurance Company, Inc. (HEIC), Housing Specialty Insurance Company, Inc. (HSIC), and other affiliated companies.

The Company is part of an affiliated group of companies and has entered into various transactions with the group members. The accompanying financial statements have been prepared from the separate records maintained by the Company and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated company.

Concentrations of Risk: A majority of the Company's revenue is derived from revenue received from Housing Telecommunications, Inc. (HTI), which is an affiliated entity through common management, for the years ended December 31, 2023 and 2022. 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.

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 and Cash Equivalents: Cash and cash equivalents are comprised of one investment sweep account and one cash account as of December 31, 2023. Cash and cash equivalents was comprised of one cash account as of December 31, 2022. 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.

Beginning in January 2023, sweep accounts were implemented, which transfer the operating cash balance at the close of each business day to a short-term investment option, typically a money market fund. These funds, while invested, are considered cash equivalents.

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, 2023 and 2022, management has not recorded an allowance for doubtful accounts against its outstanding accounts receivable as the balance is considered to be fully collectible.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets: The Company follows the provisions of FASB ASC 958, "*Not-for-Profit Entities*". FASB ASC 958 establishes standards for external financial reporting by not-for-profit organizations. Resources are reported for accounting purposes, in separate classes of net assets based on the existence or absence of donor-imposed restrictions. Within the financial statements, net assets that have similar characteristics are combined into the following categories:

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

With Donor Restrictions - Net assets that are subject to donor-imposed restrictions.

As of December 31, 2023 and 2022, 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. There were no grants received in 2023.

Contribution revenue is recorded when an unconditional promise to give cash and other assets is made.

Other revenue includes subscriptions, sponsorships, and consulting fees. 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.

Adoption of New Accounting Standard: On January 1, 2023, the Company adopted Accounting Standards Update (ASU) No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*" (ASU 2016-13), which provides updated guidance for the accounting of credit losses for financial instruments. The updated guidance replaces the incurred loss methodology and applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for certain financial instruments and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts. The expected credit losses, and subsequent adjustments to such losses, are recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the balance sheet at the amount expected to be collected.

The adoption of this pronouncement had no financial impact on the Company's financial statements as of December 31, 2023, as management determined no allowance was necessary for its in scope financial instruments.

Reclassifications: Certain reclassifications to the 2022 financial statements have been made in order to conform to the 2023 presentation. Such reclassifications did not have a material effect on the financial statements. Such reclassifications did not have an effect on the change in net assets and total net assets.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: Subsequent events have been evaluated through May 3, 2024, which is the date the financial statements were available to be issued.

NOTE 3 - INCOME TAXES

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

The Company accounts for income taxes in accordance with FASB ASC 740, "*Income Taxes*", with respect to how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Company did not record any unrecognized tax benefits as of December 31, 2023 and 2022. 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 2020 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, 2023 and 2022, the Company did not record any penalties or interest associated with unrecognized tax benefits.

NOTE 4 - CONTRIBUTION REVENUE AND OTHER REVENUE

During 2023 and 2022, the Company received contributions from several donors amounting to $1,095,667 and $34,097, 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.

For the years ended December 31, 2023 and 2022, the Company recorded $51,549 and $76,531, respectively, of earned subscription fee revenue, recorded within other revenue on the statement of activities and changes in net assets. 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, 2023 and 2022, the Company recorded $30,812 and $37,311, respectively, of unearned subscription fee revenue, which represents the unexpired portion of the subscriptions at year-end and is included in unearned revenue on the statements of financial position.

For the year ended December 31, 2023, the Company recorded $26,332 of interest income relating to its sweep account, recorded within other revenue on the statement of activities and changes in net assets.

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 $982,512 and $709,148 for the years ended December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, $106,369 and $82,642, respectively, was due to HARRG under these agreements and is reflected within due to affiliate on the statements of financial position.

(Continued)

NOTE 5 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)

The Company recorded grant revenue in the amount of $597,838, from HTI in 2022. The grant was made to support the Company's primary function, on behalf of HTI, 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, 2022, the Company had unspent grant funds of $353,839, which are included within deferred grant revenue on the statements of financial position. During 2023, the Company returned the unspent funds of $353,839 to HTI. HTI did not provide PAHRC with a grant during 2023.

The Company recorded contributions of $1,077,000 from HTI during 2023. The donation was made in furtherance of the Company's charitable pursuits and mission. The Company is able to utilize the funds as it sees fit so long as the funding is used within the scope of carrying out its non-profit charitable activities.

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 all employees 21 years or older. The Company recorded profit sharing expenses of $38,088 and $25,065, and 401(k) expenses of $23,486 and $17,361, for the years ended December 31, 2023 and 2022, respectively. In addition, the Company recorded an expense for incentive compensation of $62,241 and $52,897, for the years ended December 31, 2023 and 2022, 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 cash equivalents and accounts receivable. At December 31, 2023 and 2022, the Company has financial assets available within one year of the statement of financial position date for general expenditure of $232,704 and $392,652, 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)

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, 2023.

	Program Activities	Management and General Activities	Fundraising Activities	Total Expenses
Salaries and benefits	$ 474,844	$ 187,087	$ 5,950	$ 667,881
Services and professional fees	61,039	33,155	15	94,209
Travel, meetings and professional development	44,233	24,120	586	68,939
Office and occupancy	59,162	66,306	398	125,866
Depreciation	12,835	5,110	160	18,105
Other	518	11,331	-	11,849
Total expenses	$ 652,631	$ 327,109	$ 7,109	$ 986,849

The table below presents expenses by both their nature and their function for the year ended December 31, 2022.

	Program Activities	Management and General Activities	Fundraising Activities	Total Expenses
Salaries and benefits	$ 290,593	$ 191,896	$ 8,980	$ 491,469
Services and professional fees	34,527	34,893	-	69,420
Travel, meetings and professional development	22,341	12,433	876	35,650
Office and occupancy	26,527	51,081	700	78,308
Depreciation	15,967	10,368	492	26,827
Other	-	14,281	-	14,281
Program costs	20,166	-	1,061	21,227
Total expenses	$ 410,121	$ 314,952	$ 12,109	$ 737,182

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, services and professional fees, program costs, and travel, meetings and professional development, which are allocated on the basis of estimates of time and effort.