



# AUDITED FINANCIAL STATEMENTS

(As of the Years Ended December 31, 2024 and 2023)

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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.

Public and Affordable Housing Research Corporation

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**HOUSING AUTHORITY INSURANCE, INC.**

**FINANCIAL STATEMENTS**

December 31, 2024 and 2023



## 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, 2024 and 2023, 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, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

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

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS, we:

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

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



Crowe LLP

West Hartford, Connecticut  
May 13, 2025

HOUSING AUTHORITY INSURANCE, INC.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 718,348	\$ 1,771,104
Prepaid expenses and other assets	<u>26,571</u>	<u>30,041</u>
 Total assets	 <u>\$ 744,919</u>	 <u>\$ 1,801,145</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 116,387	\$ 73,326
Due to affiliates	<u>81,000</u>	<u>376,487</u>
Total liabilities	197,387	449,813
 Net assets without donor restrictions	 <u>547,532</u>	 <u>1,351,332</u>
 Total liabilities and net assets	 <u>\$ 744,919</u>	 <u>\$ 1,801,145</u>

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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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>Changes in net assets without donor restrictions</b>		
Revenues		
Membership fees	\$ 3,000,001	\$ 500,001
Other income	121,104	112,919
Net assets released from donor restrictions	<u>-</u>	<u>336,309</u>
Total revenues	3,121,105	949,229
Expenses		
Salaries and benefits	378,497	230,559
General and administrative expenses	229,129	146,619
Grants and donations	1,129,249	436,704
Loss prevention fund expenses	1,912,884	1,337,263
Member benefits	<u>275,146</u>	<u>268,030</u>
Total expenses	<u>3,924,905</u>	<u>2,419,175</u>
Changes in net assets without donor restrictions	(803,800)	(1,469,946)
<b>Changes in net assets with donor restrictions</b>		
Net assets released from restrictions	<u>-</u>	<u>(336,309)</u>
Changes in net assets with donor restrictions	<u>-</u>	<u>(336,309)</u>
<b>Change in net assets</b>	(803,800)	(1,806,255)
Net assets, beginning of year	<u>1,351,332</u>	<u>3,157,587</u>
<b>Net assets, end of year</b>	<u>\$ 547,532</u>	<u>\$ 1,351,332</u>

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



HOUSING AUTHORITY INSURANCE, INC.  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (803,800)	\$ (1,806,255)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Changes in assets and liabilities:		
Due from affiliates	-	508,184
Prepaid expenses and other assets	3,470	(7,893)
Accounts payable	43,061	39,474
Due to affiliates	<u>(295,487)</u>	<u>290,296</u>
Net cash used in operating activities	<u>(1,052,756)</u>	<u>(976,194)</u>
Net change in cash and cash equivalents	(1,052,756)	(976,194)
Cash and cash equivalents, beginning of year	<u>1,771,104</u>	<u>2,747,298</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 718,348</u>	<u>\$ 1,771,104</u>

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

HOUSING AUTHORITY INSURANCE, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**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 investment sweep accounts and one cash account as of December 31, 2024 and 2023. 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.

The Company leverages sweep accounts, 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.

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.

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(Continued)

HOUSING AUTHORITY INSURANCE, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

There were no net assets with donor restrictions as of December 31, 2024 and 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.

Current Expected Credit Losses: The Company measures expected credit losses in accordance with FASB ASC 326 "*Financial Instruments – Credit Losses*" (ASC 326). ASC 326 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. As of December 31, 2024 and 2023, management determined that no allowance for credit losses was necessary for its in-scope financial instruments.

Subsequent Events: Subsequent events have been evaluated through May 13, 2025, which is the date the financial statements were available to be issued.

**NOTE 3 - INCOME TAXES**

The Company has received a determination letter from the Internal Revenue Service indicating that the Company qualifies under the provisions of Section 501(c)(4) of the Internal Revenue Code and is exempt from federal and state income taxes.

The Company accounts for income taxes in accordance with FASB ASC 740, "*Income Taxes*", with respect to how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Company did not record any unrecognized tax benefits as of December 31, 2024 and 2023. 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 2021 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, 2024 and 2023, the Company did not record any penalties or interest associated with unrecognized tax benefits.

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(Continued)

HOUSING AUTHORITY INSURANCE, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**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, 2024 and 2023, as follows:

	<u>2024</u>	<u>2023</u>
HARRG	\$ 1,496,003	\$ 246,003
HAPI	1,496,003	246,003
HEIC	6,150	6,150
HSIC	<u>1,845</u>	<u>1,845</u>
Total	<u>\$ 3,000,001</u>	<u>\$ 500,001</u>

During 2021 and 2020, as part of the membership agreement, HARRG and HAPI also contributed funds to a program, called the Loss Prevention Fund (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. Subsequent to 2021, HARRG and HAPI did not contribute to the HAI LPF specifically. HAI was able to use amounts received from membership fees to continue to provide reimbursements to members through the LPF. Distributions from the LPF were \$1,912,884 and \$1,337,263 for the years ended December 31, 2024 and 2023, respectively. No amounts were due from HARRG and HAPI as of December 31, 2024 and 2023. As of December 31, 2023, all net assets with donor restrictions were released.

The Company recorded a donation expense during 2024 in the amount of \$1,000,000 to Housing Telecommunications, Inc. (HTI), an affiliated entity through common management. The donation was made in furtherance of the Company's charitable pursuits and mission and is reflected within grants and donations on the statements of activities and changes in net assets. 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.

As of December 31, 2024, \$22,525 was due to Housing Insurance Services, Inc. (HIS), an affiliated entity through common management, for expenses paid on behalf of the Company and is reflected within due to affiliates on the statements of financial position.

The Company has common paymaster and facilities agreements with HARRG, in which HARRG is the common paymaster for the Company. HARRG provides various management services to the Company and charges the Company for its direct allocation of salaries, benefits and overhead, along with the use of its facility. Expenses incurred for HARRG's management services were \$591,552 and \$380,821 for the years ended December 31, 2024 and 2023, respectively. As of December 31, 2024 and 2023, \$58,475 and \$376,487, respectively, was due to HARRG under these agreements and is reflected within due to affiliates on the statements of financial position.

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

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HOUSING AUTHORITY INSURANCE, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**NOTE 5 - EMPLOYEE BENEFITS**

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

HARRG maintains a defined contribution profit sharing plan and is the sponsor of the Housing Authority Risk Retention Group 401(k) Plan, covering substantially all of its employee. The Company recorded profit sharing expenses of \$18,392 and \$11,936 and 401(k) expenses of \$13,094 and \$8,925, for the years ended December 31, 2024 and 2023, respectively. In addition, the Company recorded an expense for incentive compensation of \$39,844 and \$17,643, for the years ended December 31, 2024 and 2023, respectively, which is included within salaries and benefits within the statements of activities and changes in net assets.

**NOTE 6 - AVAILABLE RESOURCES AND LIQUIDITY**

The Company regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Company's main source of liquidity at its disposal consists of cash. At December 31, 2024 and 2023, the Company has financial assets available within one year of the statement of financial position date for general expenditure of \$718,348 and \$1,771,104, respectively.

In addition, during 2023, the Company entered into an Intercompany Loan Agreement with HARRG, by which the Company may borrow from HARRG from time to time for a period not to exceed 12 months, an amount at a competitive market-based interest rate charged to HARRG 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, 2024 and 2023, no funds were borrowed.

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

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(Continued)

HOUSING AUTHORITY INSURANCE, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**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, 2024.

	Program <u>Activities</u>	Management and General <u>Activities</u>	Total <u>Expenses</u>
Salaries and benefits	\$ 93,723	\$ 284,774	\$ 378,497
Member benefits	274,844	302	275,146
Grants and donations	1,129,249	-	1,129,249
Loss prevention fund expenses	1,912,884	-	1,912,884
Office and occupancy	14,717	51,589	66,306
Depreciation	1,827	5,583	7,410
Services and professional fees	24,830	84,301	109,131
Travel, meetings and professional development	4,703	27,042	31,745
Other	1,543	12,994	14,537
Total expenses	<u>\$ 3,458,320</u>	<u>\$ 466,585</u>	<u>\$ 3,924,905</u>

The table below presents expenses by both their nature and their function for the year ended December 31, 2023.

	Program <u>Activities</u>	Management and General <u>Activities</u>	Total <u>Expenses</u>
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	<u>\$ 2,132,903</u>	<u>\$ 286,272</u>	<u>\$ 2,419,175</u>

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and office and occupancy, which are allocated on a FTE basis, as well as salaries and benefits, member benefits, 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, 2024 and 2023

## 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, 2024 and 2023, 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, 2024 and 2023, 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, 2024 and 2023, 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.

### ***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, 2024 and for the year ended. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the statutory financial statements as a whole.

A handwritten signature in black ink, appearing to read "Crowe LLP", is positioned above the printed name.

Crowe LLP

West Hartford, Connecticut  
May 13, 2025

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS  
December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>ADMITTED ASSETS</b>		
Cash and invested assets		
Debt securities, at amortized cost or fair value	\$ 195,445,971	\$ 178,394,514
Equity securities, at fair value	25,138,252	26,974,941
Federal Home Loan Bank of Boston stock, at cost	150,300	135,600
Investment in affiliates	57,054,810	41,824,411
Cash, cash equivalents and short-term investments	<u>28,430,636</u>	<u>24,454,491</u>
Total cash and invested assets	306,219,969	271,783,957
Investment income due and accrued	1,838,576	1,539,118
Premiums receivable	27,821,666	26,299,828
Premium tax receivable	12,406	-
Reinsurance recoverable on paid losses	2,038,891	842,262
Due from affiliates	<u>9,513</u>	<u>5,635</u>
Total admitted assets	<u>\$ 337,941,021</u>	<u>\$ 300,470,800</u>
<b>LIABILITIES AND CAPITAL AND SURPLUS</b>		
Liabilities		
Unpaid losses and loss adjustment expenses	\$ 42,641,611	\$ 43,283,531
Taxes, licenses and fees	745,796	636,289
Unearned premiums	41,302,280	35,999,029
Accrued dividends	14,087,425	8,905,497
Ceded reinsurance premiums payable	353,240	801,068
Due to affiliates	1,304,932	1,230,250
Accrued expenses and other liabilities	<u>7,787,636</u>	<u>7,420,616</u>
Total liabilities	108,222,920	98,276,280
Capital and surplus		
Members' contributions	11,327,414	11,081,389
Unassigned funds	<u>218,390,687</u>	<u>191,113,131</u>
Total capital and surplus	229,718,101	202,194,520
Total liabilities and capital and surplus	<u>\$ 337,941,021</u>	<u>\$ 300,470,800</u>

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

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
STATUTORY STATEMENTS OF OPERATIONS  
Years Ended December 31, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
Underwriting income		
Net premiums earned	\$ 74,632,469	\$ 70,463,446
Losses and expenses		
Net losses and loss adjustment expenses incurred	32,715,260	38,795,847
Other underwriting expenses incurred	<u>19,495,111</u>	<u>15,527,438</u>
Total losses and expenses	<u>52,210,371</u>	<u>54,323,285</u>
<b>Net underwriting income</b>	22,422,098	16,140,161
Investment income		
Net investment income earned	13,528,465	8,089,705
Net realized capital loss	<u>(817,582)</u>	<u>(1,706,781)</u>
Total investment gain	12,710,883	6,382,924
Other income	<u>198,128</u>	<u>150,291</u>
<b>Net income before policyholder dividends</b>	35,331,109	22,673,376
Policyholder dividends	<u>(13,929,572)</u>	<u>(8,744,554)</u>
<b>Net income</b>	<u>\$ 21,401,537</u>	<u>\$ 13,928,822</u>

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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, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
Capital and surplus, beginning of year	\$ 202,194,520	\$ 179,960,882
Net income	21,401,537	13,928,822
Net unrealized capital gains	6,408,596	8,305,908
Equity dividends	(284,194)	(293,171)
Members' contributions, net	2,000	1,300
Change in non-admitted assets	(4,358)	59,819
Cumulative effect of changes in accounting error	<u>-</u>	<u>230,960</u>
Capital and surplus, end of year	<u>\$ 229,718,101</u>	<u>\$ 202,194,520</u>

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

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
STATUTORY STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>Cash flows from operations</b>		
Premiums collected, net of reinsurance	\$ 77,966,055	\$ 71,361,522
Net investment income	13,053,811	7,517,185
Miscellaneous income	198,128	150,291
Losses and loss related payments, net	(30,913,717)	(37,106,600)
Commissions, expenses paid and aggregate write-ins for deductions	(22,969,576)	(18,065,426)
Dividends paid to policyholders	<u>(8,747,644)</u>	<u>(7,639,843)</u>
Net cash from operations	28,587,057	16,217,129
<b>Cash flows from investments</b>		
Proceeds from investments sold, matured and repaid	63,429,712	77,270,685
Cost of investments acquired	<u>(88,218,931)</u>	<u>(79,168,310)</u>
Net cash from investments	(24,789,219)	(1,897,625)
<b>Cash flows from financing and miscellaneous sources</b>		
Members' contributions and distributions, net	(282,194)	(291,871)
Other cash provided	<u>460,501</u>	<u>429,318</u>
Net cash from financing and miscellaneous sources	<u>178,307</u>	<u>137,447</u>
Change in cash, cash equivalents and short-term investments	3,976,145	14,456,951
Cash, cash equivalents and short-term investments, beginning of year	<u>24,454,491</u>	<u>9,997,540</u>
<b>Cash, cash equivalents and short-term investments, end of year</b>	<u><u>\$ 28,430,636</u></u>	<u><u>\$ 24,454,491</u></u>

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

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**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, 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.

*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.

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(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**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 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 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.

*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.

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

*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*."

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(Continued)



HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

*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 and investments with initial maturities of three months or less. Short-term investments include investments with initial maturities of one year or less at date of purchase and are valued in accordance with the Purposes and Procedures Manual prepared by the NAIC Securities Valuation Office (SVO).

The Company leverages sweep accounts, 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.

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 is included in investment income.

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(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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, 2024 and 2023. No contributions were made during 2024 or 2023 to HIG. During 2024, the Company received a dividend payment from HIG of \$3,750,000, which was recorded in net investment income earned in the statutory statements of operations. There were no dividends declared or paid by HIG during 2023.

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 2024 and 2023. As of December 31, 2024 and 2023, 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. The Company owns 50% of HSIC as of December 31, 2024 and 2023. During 2024, the Company made a capital contribution to HSIC in the amount of \$12,000,000 to support expanding operations. No contributions were made during 2023 to HSIC.

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.

**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, 2024 and 2023, 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.

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(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

The Company recognizes OTTI of equities for declines in value that are other than temporary and reports those adjustments as realized capital losses in the statutory statements of operations. The Company recognized no OTTI losses during 2024 or 2023.

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.

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.

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(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

The Company did not record any income tax contingencies or interest and penalties related to any income tax contingencies as of December 31, 2024 and 2023. 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 2024 and 2023.

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.

Recent Accounting Pronouncements: Effective January 1, 2025, the NAIC has implemented significant revisions to the classification of bonds for statutory accounting purposes. These changes are part of the principles-based bond definition project, which redefines the criteria for investments to be treated as bonds. Bonds are now classified based on their economic substance rather than their legal form. The new definitions distinguish between issuer credit obligations and asset-backed securities. Issuer credit obligations are bonds for which the primary source of repayment is the general creditworthiness of an operating entity. Asset-backed securities are bonds backed by financial or cash-generating non-financial assets, where repayment primarily relies on the cash flows from the underlying collateral. SSAP No. 43R, “*Loan-Backed and Structured Securities*” have been updated to reflect these new classifications. Furthermore, SSAP No. 43R has been retitled to SSAP No. 43R, “*Asset-Backed Securities*”.

Under the new definitions, some securities previously reported as a bond may no longer meet the definition of a bond. These may include debt securities that don’t reflect a creditor relationship in substance, don’t qualify for bond reporting due to a lack of substantive credit enhancement, or don’t qualify for bond reporting due solely to a lack of meaningful cash flows. These securities will now fall under SSAP No. 21, “*Other Admitted Assets*”. All investments held as of January 1, 2025, will need to be evaluated under the revised definitions. This reclassification may affect the reported values and risk-based capital requirements of certain investments. These changes aim to enhance the accuracy and transparency of bond reporting, ensuring that the classification aligns more closely with the economic realities of the investments. The Company is currently evaluating the financial reporting effects of this updated guidance as of the issuance of these statutory financial statements.

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(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Subsequent Events: Subsequent events have been evaluated through May 13, 2025, 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, 2024, are as follows:

	Cost or Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	<u>Fair Value</u>
Debt securities, at amortized cost:				
U.S. government	\$ 40,054,482	\$ 30,350	\$ (2,483,870)	\$ 37,600,962
U.S. states, territories and possessions	340,864	13,657	(312)	354,209
U.S. political subdivisions of states, territories and possessions	575,563	48,204	(5,105)	618,662
U.S. special revenue and special assessment obligations	34,431,752	11,877	(2,664,955)	31,778,674
Industrial and miscellaneous	110,691,269	1,158,724	(2,578,092)	109,271,901
Hybrid securities	5,233,076	29,376	(185,468)	5,076,984
Other invested assets	<u>745,000</u>	<u>-</u>	<u>(126,762)</u>	<u>618,238</u>
Total debt securities, at amortized cost	192,072,006	1,292,188	(8,044,564)	185,319,630
Debt securities, at fair value:				
Industrial and miscellaneous	<u>3,532,988</u>	<u>-</u>	<u>(159,023)</u>	<u>3,373,965</u>
Total debt securities, at fair value	3,532,988	-	(159,023)	3,373,965
Equity securities, at fair value:				
Mutual funds	<u>15,369,874</u>	<u>9,783,855</u>	<u>(15,477)</u>	<u>25,138,252</u>
Total equity securities, at fair value	<u>15,369,874</u>	<u>9,783,855</u>	<u>(15,477)</u>	<u>25,138,252</u>
Total	<u>\$ 210,974,868</u>	<u>\$ 11,076,043</u>	<u>\$ (8,219,064)</u>	<u>\$ 213,831,847</u>

(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 3 - INVESTMENTS** (Continued)

Investments, carried at amortized cost and fair value, as of December 31, 2023, were 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	<u>\$ 198,899,209</u>	<u>\$ 8,772,573</u>	<u>\$ (9,016,448)</u>	<u>\$ 198,655,334</u>

As of December 31, 2024 and 2023, respectively, the Company held \$150,300 and \$135,600 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, 2024. 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	\$ 3,555,305	\$ 3,532,067
After one year through five years	45,054,853	44,424,077
After five years through ten years	59,145,422	57,216,390
After ten years	22,782,983	20,895,976
Collateralized debt obligations	20,597,794	20,542,638
Residential mortgage-backed securities	34,568,214	32,256,679
Commercial mortgage-backed securities	9,900,423	9,825,768
Total fixed income securities	<u>\$ 195,604,994</u>	<u>\$ 188,693,595</u>

(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
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**NOTE 3 - INVESTMENTS** (Continued)

Proceeds from sales of securities amounted to \$45,674,244 and \$62,614,044 in 2024 and 2023, respectively. Gross realized gains amounted to \$367,736 and \$741,343 on the sale of securities in 2024 and 2023, respectively. Gross realized losses amounted to \$1,185,755 and \$2,448,124 in 2024 and 2023, respectively.

The Company holds 472 securities that are in an unrealized loss position as of December 31, 2024, of which 348 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, 2024:

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Debt securities				
U.S. government	\$ 24,086,128	\$ (744,745)	\$ 9,455,295	\$ (1,739,125)
U.S. states, territories and possessions	-	-	99,718	(312)
U.S. political subdivisions of states, territories and possessions	89,283	(236)	55,802	(4,869)
U.S. special revenue and special assessment obligations	16,695,818	(254,267)	14,003,753	(2,410,688)
Industrial and miscellaneous	25,392,108	(335,323)	39,029,476	(2,401,792)
Hybrid securities	397,466	(2,534)	3,156,869	(182,934)
Other invested assets	-	-	618,238	(126,762)
Total debt securities	66,660,803	(1,337,105)	66,419,151	(6,866,482)
Equity securities				
Mutual funds	461,284	(15,477)	-	-
Total	<u>\$ 67,122,087</u>	<u>\$ (1,352,582)</u>	<u>\$ 66,419,151</u>	<u>\$ (6,866,482)</u>

(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 3 - INVESTMENTS (Continued)**

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

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Debt securities				
U.S. government	\$ 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	<u>\$ 22,643,932</u>	<u>\$ (343,719)</u>	<u>\$ 92,428,139</u>	<u>\$ (8,672,729)</u>

The Company had debt securities with amortized costs of \$5,288,778 and \$5,283,178 as of December 31, 2024 and 2023, 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)



HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
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**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, 2024 and 2023.

The Company's valuation techniques used to measure the fair value of investments, including money market funds, mutual 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, 2024:

	Admitted	Fair Value			
	<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial instruments (carried at fair value)					
Money market funds	\$ 25,886,880	\$ 25,886,880	\$ -	\$ -	\$ 25,886,880
Mutual funds	25,138,252	25,138,252	-	-	25,138,252
Debt securities	<u>3,373,965</u>	<u>-</u>	<u>3,373,965</u>	<u>-</u>	<u>3,373,965</u>
Total	54,399,097	51,025,132	3,373,965	-	54,399,097
Financial instruments (carried at amortized cost)					
Cash equivalents	5,469,154	-	5,468,431	-	5,468,431
Short-term investments	84,545	-	84,471	-	84,471
Debt securities	<u>192,072,006</u>	<u>-</u>	<u>185,319,630</u>	<u>-</u>	<u>185,319,630</u>
Total	<u>197,625,705</u>	<u>-</u>	<u>190,872,532</u>	<u>-</u>	<u>190,872,532</u>
Total	<u>\$ 252,024,802</u>	<u>\$ 51,025,132</u>	<u>\$ 194,246,497</u>	<u>\$ -</u>	<u>\$ 245,271,629</u>

(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
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**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:

	Admitted Assets	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial instruments (carried at fair value)					
Money market funds	\$ 26,719,256	\$ 26,719,256	\$ -	\$ -	\$ 26,719,256
Mutual funds	26,974,941	26,974,941	-	-	26,974,941
Debt securities	4,676,433	-	4,676,433	-	4,676,433
Total	58,370,630	53,694,197	4,676,433	-	58,370,630
Financial instruments (carried at amortized cost)					
Cash equivalents	549,757	-	549,840	-	549,840
Short-term investments	868,174	-	868,271	-	868,271
Debt securities	173,718,081	-	167,003,960	-	167,003,960
Total	175,136,012	-	168,422,071	-	168,422,071
Total	<u>\$ 233,506,642</u>	<u>\$ 53,694,197</u>	<u>\$ 173,098,504</u>	<u>\$ -</u>	<u>\$ 226,792,701</u>

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

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

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

*State and political subdivisions and special revenue and special 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.

As of December 31, 2024 and 2023, the Company held no level 3 investments.

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## **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 2024 and 2023, 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 2024 and 2023, the Company assumed \$866,777 and \$680,242, 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 2024 and 2023. 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 2024 and 2023, 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.

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(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**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, 2024 and 2023, are summarized as follows:

	<u>Premiums Written</u>		<u>Premiums Earned</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Direct premiums	\$ 109,165,438	\$ 96,718,775	\$ 102,628,734	\$ 92,701,401
Assumed premiums	3,423,241	2,822,221	3,220,351	2,708,868
Ceded premiums	<u>(32,652,959)</u>	<u>(25,876,328)</u>	<u>(31,216,616)</u>	<u>(24,946,823)</u>
Net premiums	<u>\$ 79,935,720</u>	<u>\$ 73,664,668</u>	<u>\$ 74,632,469</u>	<u>\$ 70,463,446</u>

A reconciliation of changes in unpaid losses and loss adjustment expenses for the years ended December 31, 2024 and 2023, are summarized as follows:

	<u>2024</u>	<u>2023</u>
Balance at beginning of year	\$ 43,283,531	\$ 44,759,755
Incurred related to:		
Current year	44,966,126	46,587,320
Prior years	<u>(12,250,866)</u>	<u>(7,791,473)</u>
Total incurred	32,715,260	38,795,847
Paid related to:		
Current year	(18,078,405)	(18,607,305)
Prior years	<u>(15,278,775)</u>	<u>(21,664,766)</u>
Total paid	<u>(33,357,180)</u>	<u>(40,272,071)</u>
Balance at end of year	<u>\$ 42,641,611</u>	<u>\$ 43,283,531</u>

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by \$12,250,866 and \$7,791,473 in 2024 and 2023, respectively. The development during 2024 relates primarily to favorable development of accident years 2021 through 2023. The development during 2023 relates primarily to favorable development of accident year 2022.

(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
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**NOTE 5 - INSURANCE ACTIVITY (Continued)**

The Company recorded net reinsurance recovery activity of \$1,744,386 and \$18,982,017 in 2024 and 2023, 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 \$12,220,466 and \$10,236,187 for the years ended December 31, 2024 and 2023, respectively. The amounts due to HARRG under these agreements, which are included in due to affiliates, amounted to \$1,294,548 and \$1,219,020 as of December 31, 2024 and 2023, 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 \$127,823 and \$107,099 for the years ended December 31, 2024 and 2023, 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 \$6,573 and \$3,450 as of December 31, 2024 and 2023, 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, 2024 and 2023, commission expense under this agreement amounted to \$5,458,349 and \$4,836,059, 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 accrued expenses and other liabilities, amounted to \$1,360,713 and \$1,291,525 as of December 31, 2024 and 2023, respectively.

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 \$1,496,003 and \$246,003 for the years ended December 31, 2024 and 2023, respectively. No amounts were due to HAI as of December 31, 2024 and 2023.

The Company has amounts due to HTI of \$7,444 and \$9,045 as of December 31, 2024 and 2023, 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 in 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.

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(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**NOTE 7 - EMPLOYEE BENEFITS (Continued)**

HARRG maintains a defined contribution profit sharing plan and is the sponsor of the Housing Authority Risk Retention Group 401(k) Plan, covering substantially all of its employees. The Company recorded profit sharing expenses of \$366,788 and \$329,951 and 401(k) expenses of \$254,199 and \$217,027 for the years ended December 31, 2024 and 2023, respectively. In addition, the Company recorded an expense for incentive compensation of \$845,540 and \$504,546, for the years ended December 31, 2024 and 2023, 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, 2024, policyholder dividends of \$14,000,000 were declared by the Company with \$13,300,000 related to Class "A" members. Dividends declared to Class "B" members amounted to \$700,000, with \$329,572 to be paid in cash and \$370,428 to be recorded as members' recapitalization dividends within the statements of changes in capital and surplus. 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. In total, policyholder dividends of \$13,629,572 and \$8,744,554 were expensed for the years ended December 31, 2024 and 2023, 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 current calendar year. These dividends are paid to the members upon policy expiration. For the year ended December 31, 2024, the Company declared and expensed \$300,000 of supplemental dividends. For the year ended December 31, 2023, the Company did not declare any supplemental dividends.

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

As of December 31, 2024 and 2023, 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 within the statutory statements of admitted assets, liabilities and capital and surplus. There are no member surplus refunds payable as of December 31, 2024 and 2023.

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(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**NOTE 8 - CAPITAL AND SURPLUS (Continued)**

The Company provides its members with equity dividends for the purchase of HAI Group products and services. Equity dividends used for approved company programs amounted to \$284,194 and \$293,171 in 2024 and 2023, 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, 2024 and 2023.

**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, 2024 and 2023, the Company has not accrued for or been assessed by any state insurance department.

As of December 31, 2024 and 2023, 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, 2024 and 2023. 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, 2024 and 2023, the Company has an irrevocable standby letter of credit from BBH of \$5,546,641 and \$3,997,669, 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, 2024 and 2023.

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 2024 and 2023, such credit protection was not considered necessary as amounts due from HEIC are current.

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(Continued)

HOUSING AUTHORITY PROPERTY INSURANCE, A MUTUAL COMPANY  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**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, 2024 and 2023, amounts reflected as non-admitted assets were as follows:

	<u>2024</u>	<u>2023</u>
Non admitted assets of investment in affiliate	\$ 12,170	\$ 14,537
Prepaid expenses	<u>18,661</u>	<u>11,936</u>
	<u>\$ 30,831</u>	<u>\$ 26,473</u>

**NOTE 11 - RECONCILIATION TO STATUTORY ANNUAL STATEMENT**

There are no material differences between net income and capital and surplus as reported herein and the Annual Statement as previously filed with the Department for the years ended December 31, 2024 and 2023.



**HOUSING AUTHORITY RISK RETENTION GROUP, INC.**

**STATUTORY FINANCIAL STATEMENTS**

December 31, 2024 and 2023

## 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, 2024 and 2023, 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, 2024 and 2023, 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, 2024 and 2023, 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.

### ***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.

### ***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, 2024 and for the year ended. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the statutory financial statements as a whole.



Crowe LLP

West Hartford, Connecticut  
May 13, 2025

HOUSING AUTHORITY RISK RETENTION GROUP, INC.  
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS  
December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>ADMITTED ASSETS</b>		
Cash and invested assets		
Debt securities, at amortized cost or fair value	\$ 264,094,344	\$ 257,949,480
Equity securities, at fair value	35,378,857	46,757,354
Federal Home Loan Bank of Boston stock, at cost	210,900	195,300
Investment in affiliates and majority owned subsidiaries	77,569,634	65,414,249
Real estate occupied by the Company, net	9,822,220	9,987,626
Cash, cash equivalents and short-term investments	<u>34,706,480</u>	<u>22,170,062</u>
Total cash and invested assets	421,782,435	402,474,071
Investment income due and accrued	2,371,547	2,169,618
Premiums receivable	6,862,694	6,814,593
Reinsurance recoverable on paid losses	124,631	191,194
Funds held by or deposited with reinsured companies	750,000	600,000
EDP equipment, net	7,188,339	4,355,201
Due from affiliates	4,809,636	4,233,409
Deductible receivables	807,526	746,192
Other assets	<u>107,567</u>	<u>53,704</u>
Total admitted assets	<u>\$ 444,804,375</u>	<u>\$ 421,637,982</u>
<b>LIABILITIES AND CAPITAL AND SURPLUS</b>		
Liabilities		
Unpaid losses and loss adjustment expenses	\$ 102,947,122	\$ 97,500,066
Taxes, licenses and fees	780,129	707,326
Unearned premiums	20,444,227	18,585,152
Advance premiums	591,534	134,811
Accrued dividends to policyholders	7,694,609	3,244,383
Ceded reinsurance premiums payable	1,450,577	1,052,263
Due to affiliates	444,998	3,343,207
Accrued expenses and other liabilities	<u>9,223,160</u>	<u>11,817,730</u>
Total liabilities	143,576,356	136,384,938
Capital and surplus		
Members' contributions	11,208,480	11,179,671
Unassigned funds	<u>290,019,539</u>	<u>274,073,373</u>
Total capital and surplus	<u>301,228,019</u>	<u>285,253,044</u>
Total liabilities and capital and surplus	<u>\$ 444,804,375</u>	<u>\$ 421,637,982</u>

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

HOUSING AUTHORITY RISK RETENTION GROUP, INC.  
STATUTORY STATEMENTS OF OPERATIONS  
Years Ended December 31, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
Underwriting income		
Net premiums earned	\$ 45,566,186	\$ 43,640,397
Losses and expenses		
Net losses and loss adjustment expenses incurred	35,316,114	36,200,061
Other underwriting expenses incurred	<u>13,739,157</u>	<u>10,556,525</u>
Total losses and expenses	<u>49,055,271</u>	<u>46,756,586</u>
<b>Net underwriting loss</b>	(3,489,085)	(3,116,189)
Investment income		
Net investment income earned	17,545,712	12,031,262
Net realized capital gains (losses)	<u>3,328,291</u>	<u>(2,082,720)</u>
Total investment gain	20,874,003	9,948,542
Other income	<u>15,390</u>	<u>18,527</u>
<b>Income before policyholder dividends</b>	17,400,308	6,850,880
Policyholder dividends	<u>(7,649,422)</u>	<u>(2,938,305)</u>
<b>Net income</b>	<u><u>\$ 9,750,886</u></u>	<u><u>\$ 3,912,575</u></u>

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

HOUSING AUTHORITY RISK RETENTION GROUP, INC.  
STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS  
Years Ended December 31, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
Capital and surplus, beginning of year	\$ 285,253,044	\$ 270,348,104
Net income	9,750,886	3,912,575
Net unrealized capital gains	6,630,294	11,589,322
Members' contributions	1,900	1,500
Member dividend withdrawals	(565,992)	(547,726)
Change in non-admitted assets	157,887	(177,822)
Cumulative effect of changes in accounting error	<u>-</u>	<u>127,091</u>
Capital and surplus, end of year	<u>\$ 301,228,019</u>	<u>\$ 285,253,044</u>

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

HOUSING AUTHORITY RISK RETENTION GROUP, INC.  
STATUTORY STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>Cash flows from operations</b>		
Premiums collected, net of reinsurance	\$ 48,082,196	\$ 44,224,180
Net investment income	17,467,611	11,947,170
Miscellaneous income	15,390	18,527
Losses and loss related payments, net	(17,881,992)	(15,829,960)
Commission, expenses paid and aggregate write-ins for deductions	(25,024,517)	(18,739,766)
Dividends paid to policyholders	<u>(3,199,196)</u>	<u>(7,284,992)</u>
Net cash from operations	19,459,492	14,335,159
<b>Cash flows from investments</b>		
Proceeds from investments sold, matured and repaid	93,174,440	110,679,704
Cost of investments acquired	(93,530,056)	(112,065,841)
Cost of real estate acquired	<u>(291,473)</u>	<u>(97,975)</u>
Net cash used in investments	(647,089)	(1,484,112)
<b>Cash flows from financing and miscellaneous sources</b>		
Capital and paid in surplus	(564,093)	(546,226)
Other cash applied	<u>(5,711,892)</u>	<u>(2,102,179)</u>
Net cash used in financing and miscellaneous sources	<u>(6,275,985)</u>	<u>(2,648,405)</u>
Change in cash, cash equivalents and short-term investments	12,536,418	10,202,642
Cash, cash equivalents and short-term investments, beginning of year	<u>22,170,062</u>	<u>11,967,420</u>
<b>Cash, cash equivalents and short-term investments, end of year</b>	<u><u>\$ 34,706,480</u></u>	<u><u>\$ 22,170,062</u></u>

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



HOUSING AUTHORITY RISK RETENTION GROUP, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**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, 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.

*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.

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(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.

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(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

*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 and investments with initial maturities of three months or less. Short-term investments include investments with initial maturities of one year or less at date of purchase and are valued in accordance with the Purposes and Procedures Manual prepared by the NAIC Securities Valuation Office (SVO).

The Company leverages sweep accounts, 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.

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(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, 2024 and 2023. No contributions were made during 2024 or 2023 to HIG. During 2024, the Company received a dividend payment from HIG of \$3,750,000, which was recorded in net investment income earned in the statutory statements of operations. There were no dividends declared or paid by HIG during 2023.

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 2024 and 2023. As of December 31, 2024 and 2023, 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. The Company owns 50% of HSIC as of December 31, 2024 and 2023. During 2024, the Company made a capital contribution to HSIC in the amount of \$12,000,000 to support expanding operations. No contributions were made during 2023 to HSIC.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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. As of December 31, 2024, both IHIC and HAGL were dissolved. Prior to dissolution, the Company owned 50 shares of no par, \$10,000 stated value common stock in IHIC. The Company made no contributions to IHIC during 2024 and 2023. HARRG had a 100% ownership interest in IHIC prior to dissolution. As a result of the dissolution, the net assets of IHIC were transferred to the Company. The Company recognized a gain of \$13,369, which is included in net realized capital gains (losses) in the statutory statement of operations for the year ended December 31, 2024.

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, 2024 and 2023, 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 2024 or 2023.

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(Continued)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property and EDP Equipment: Real estate occupied by the Company (excluding land of \$2,580,836 in 2024 and 2023) and Electronic Data Processing (EDP) equipment are depreciated over the estimated useful lives of the assets which range from 2 to 31 years. Depreciation is computed using the straight-line method for all fixed assets.

Unpaid Losses and Loss Adjustment Expense Reserves: Unpaid losses and loss adjustment expense reserves net of the related reinsurance recoverables represent estimated provisions for both reported and unreported claims incurred and related expenses. In determining unpaid losses and loss adjustment expense reserves and reinsurance recoverables, the Company 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 2024 and 2023.

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, 2024 and 2023, 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.

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(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

The Company did not record any income tax contingencies or interest and penalties related to any income tax contingencies as of December 31, 2024 and 2023. 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.

Recent Accounting Pronouncements: Effective January 1, 2025, the NAIC has implemented significant revisions to the classification of bonds for statutory accounting purposes. These changes are part of the principles-based bond definition project, which redefines the criteria for investments to be treated as bonds. Bonds are now classified based on their economic substance rather than their legal form. The new definitions distinguish between issuer credit obligations and asset-backed securities. Issuer credit obligations are bonds for which the primary source of repayment is the general creditworthiness of an operating entity. Asset-backed securities are bonds backed by financial or cash-generating non-financial assets, where repayment primarily relies on the cash flows from the underlying collateral. SSAP No. 43R, “*Loan-Backed and Structured Securities*” have been updated to reflect these new classifications. Furthermore, SSAP No. 43R has been retitled to SSAP No. 43R, “*Asset-Backed Securities*”.

Under the new definitions, some securities previously reported as a bond may no longer meet the definition of a bond. These may include debt securities that don’t reflect a creditor relationship in substance, don’t qualify for bond reporting due to a lack of substantive credit enhancement, or don’t qualify for bond reporting due solely to a lack of meaningful cash flows. These securities will now fall under SSAP No. 21, “*Other Admitted Assets*”. All investments held as of January 1, 2025, will need to be evaluated under the revised definitions. This reclassification may affect the reported values and risk-based capital requirements of certain investments. These changes aim to enhance the accuracy and transparency of bond reporting, ensuring that the classification aligns more closely with the economic realities of the investments. The Company is currently evaluating the financial reporting effects of this updated guidance as of the issuance of these statutory financial statements.

Subsequent Events: Subsequent events have been evaluated through May 13, 2025, which is the date the statutory financial statements were available to be issued.

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(Continued)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 3 - INVESTMENTS**

Investments, carried at amortized cost and fair value, as of December 31, 2024, are as follows:

	Cost or Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	<u>Fair Value</u>
Debt securities, at amortized cost				
U.S. government	\$ 53,256,992	\$ 19,990	\$ (3,651,855)	\$ 49,625,127
U.S. political subdivisions of states, territories and possessions, guaranteed	4,191,748	291,378	(19,778)	4,463,348
U.S. special revenue and special assessment obligations	36,024,696	38,307	(3,219,203)	32,843,800
Industrial and miscellaneous	156,323,338	1,762,135	(3,420,240)	154,665,233
Hybrid securities	8,665,978	47,927	(293,172)	8,420,733
Other invested assets	<u>1,280,000</u>	<u>-</u>	<u>(217,792)</u>	<u>1,062,208</u>
Total debt securities, at amortized cost	259,742,752	2,159,737	(10,822,040)	251,080,449
Debt securities, at fair value				
Industrial and miscellaneous	<u>4,524,866</u>	<u>-</u>	<u>(173,274)</u>	<u>4,351,592</u>
Total debt securities, at fair value	4,524,866	-	(173,274)	4,351,592
Equity securities, at fair value				
Mutual funds	<u>23,147,120</u>	<u>12,259,997</u>	<u>(28,260)</u>	<u>35,378,857</u>
Total	<u>\$ 287,414,738</u>	<u>\$ 14,419,734</u>	<u>\$ (11,023,574)</u>	<u>\$ 290,810,898</u>

(Continued)



HOUSING AUTHORITY RISK RETENTION GROUP, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 3 - INVESTMENTS** (Continued)

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

	Cost or Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	<u>Fair Value</u>
Debt securities, at amortized cost				
U.S. government	\$ 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	<u>2,005,608</u>	<u>-</u>	<u>(317,024)</u>	<u>1,688,584</u>
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	<u>6,948,855</u>	<u>-</u>	<u>(487,680)</u>	<u>6,461,175</u>
Total debt securities, at fair value	6,948,855	-	(487,680)	6,461,175
Equity securities, at fair value				
Mutual funds	<u>33,984,688</u>	<u>12,828,332</u>	<u>(55,666)</u>	<u>46,757,354</u>
Total	<u>\$ 292,421,848</u>	<u>\$ 15,314,879</u>	<u>\$ (12,315,422)</u>	<u>\$ 295,421,305</u>

As of December 31, 2024 and 2023, the Company held \$210,900 and \$195,300, respectively, of FHLBB stock which is carried at cost as further described in Note 2.

As of December 31, 2024 and 2023, the Company pledged securities to FHLBB with an amortized cost of \$25,144,566 and \$24,984,574, 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)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 3 - INVESTMENTS** (Continued)

The amortized cost and fair value of debt securities are shown by contractual maturity as of December 31, 2024. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized <u>Cost</u>	Fair <u>Value</u>
Due to mature		
One year or less	\$ 6,973,815	\$ 6,963,299
After one year through five years	51,821,289	51,214,743
After five years through ten years	86,785,002	83,707,376
After ten years	38,573,283	36,328,374
Residential mortgage-backed securities	33,729,938	31,110,940
Commercial mortgage-backed securities	15,119,140	14,932,073
Collateralized debt obligations	<u>31,265,151</u>	<u>31,175,236</u>
 Total debt securities	 <u>\$ 264,267,618</u>	 <u>\$ 255,432,041</u>

Proceeds from sales of securities amounted to \$62,698,147 and \$83,596,680 in 2024 and 2023, respectively. Gross realized gains of \$4,686,742 and \$1,072,255, and gross realized losses of \$1,372,442 and \$3,154,975 were realized on those sales during 2024 and 2023, respectively.

The Company holds 459 securities that are in an unrealized loss position as of December 31, 2024, of which 360 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, 2024:

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>	
	<u>Fair Value</u>	Unrealized <u>Loss</u>	<u>Fair Value</u>	Unrealized <u>Loss</u>
Debt securities				
U.S. government	\$ 28,479,891	\$ (1,074,175)	\$ 18,814,773	\$ (2,577,680)
U.S. political subdivisions of states, territories and possessions, guaranteed	279,733	(741)	218,192	(19,037)
U.S. special revenue and special assessment obligations	10,588,118	(218,607)	19,912,698	(3,000,596)
Industrial and miscellaneous	30,925,761	(389,260)	56,421,875	(3,204,254)
Hybrid securities	993,665	(6,335)	5,179,325	(286,837)
Other invested assets	<u>-</u>	<u>-</u>	<u>1,062,208</u>	<u>(217,792)</u>
Total debt securities	71,267,168	(1,689,118)	101,609,071	(9,306,196)
 Equity securities				
Mutual funds	<u>769,946</u>	<u>(28,260)</u>	<u>-</u>	<u>-</u>
 Total	 <u>\$ 72,037,114</u>	 <u>\$ (1,717,378)</u>	 <u>\$ 101,609,071</u>	 <u>\$ (9,306,196)</u>

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HOUSING AUTHORITY RISK RETENTION GROUP, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 3 - INVESTMENTS (Continued)**

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

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Debt securities				
U.S. government	\$ 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	<u>\$ 38,500,593</u>	<u>\$ (509,590)</u>	<u>\$ 136,769,862</u>	<u>\$ (11,805,832)</u>

**NOTE 4 - FAIR VALUE MEASUREMENTS**

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

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

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date.

Level 2 - Inputs to the valuation methodology include: (i) Quoted prices for similar assets or liabilities in active markets; (ii) Quoted prices for identical or similar assets or liabilities in inactive markets; (iii) Inputs other than quoted prices that are observable for the asset or liability; or (iv) Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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HOUSING AUTHORITY RISK RETENTION GROUP, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**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, 2024 and 2023.

The Company's valuation techniques used to measure the fair value of investments including money market funds, mutual 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, 2024:

	Admitted Assets	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial instruments (carried at fair value)					
Money market funds	\$ 32,677,465	\$ 32,677,465	\$ -	\$ -	\$ 32,677,465
Debt securities	4,351,592	-	4,351,592	-	4,351,592
Mutual funds	35,378,857	35,378,857	-	-	35,378,857
Total	72,407,914	68,056,322	4,351,592	-	72,407,914
Financial instruments (carried at amortized cost)					
Cash equivalents	1,926,475	-	1,926,241	-	1,926,241
Short-term investments	24,891	-	24,869	-	24,869
Debt securities	259,742,752	-	251,080,449	-	251,080,449
Total	261,694,118	-	253,031,559	-	253,031,559
Total	\$ 334,102,032	\$ 68,056,322	\$ 257,383,151	\$ -	\$ 325,439,473

(Continued)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**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:

	Admitted Assets	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial instruments (carried at fair value)					
Money market funds	\$ 23,618,785	\$ 23,618,785	\$ -	\$ -	\$ 23,618,785
Debt securities	6,461,175	-	6,461,175	-	6,461,175
Mutual funds	46,757,354	46,757,354	-	-	46,757,354
Total	76,837,314	70,376,139	6,461,175	-	76,837,314
Financial instruments (carried at amortized cost)					
Short-term investments	1,423,616	-	1,423,768	-	1,423,768
Debt securities	251,488,305	-	242,202,776	-	242,202,776
Total	252,911,921	-	243,626,544	-	243,626,544
Total	\$ 329,749,235	\$ 70,376,139	\$ 250,087,719	\$ -	\$ 320,463,858

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

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

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

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

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

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

As of December 31, 2024 and 2023, the Company held no level 3 investments.

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#### 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 principal 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, 2024 and 2023, 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.

**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 2024 and 2023. 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 2024 and 2023, 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, 2024 and 2023, 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, 2024 and 2023, 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.

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(Continued)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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

Premiums written, assumed and ceded for the years ended December 31, 2024 and 2023, are summarized as follows:

	Premiums Written		Premiums Earned	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Direct premiums	\$ 47,223,699	\$ 43,067,787	\$ 45,434,738	\$ 43,234,104
Assumed premiums	7,361,503	6,502,592	7,046,102	5,966,763
Ceded premiums	<u>(7,159,941)</u>	<u>(5,763,321)</u>	<u>(6,914,654)</u>	<u>(5,560,470)</u>
Net premiums	<u>\$ 47,425,261</u>	<u>\$ 43,807,058</u>	<u>\$ 45,566,186</u>	<u>\$ 43,640,397</u>

A reconciliation of changes in unpaid losses and loss adjustment expenses as of and for the years ended December 31, 2024 and 2023, are summarized as follows:

	<u>2024</u>	<u>2023</u>
Balance at beginning of year	\$ 97,500,066	\$ 85,966,206
Incurred related to		
Current year	36,816,449	35,336,543
Prior years	<u>(1,500,335)</u>	<u>863,518</u>
Total incurred	35,316,114	36,200,061
Paid related to		
Current year	(3,921,850)	(3,187,698)
Prior years	<u>(25,947,208)</u>	<u>(21,478,503)</u>
Total paid	<u>(29,869,058)</u>	<u>(24,666,201)</u>
Balance at end of year	<u>\$ 102,947,122</u>	<u>\$ 97,500,066</u>

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses (decreased) increased by \$(1,500,335) and \$863,518 in 2024 and 2023, respectively. The development during 2024 relates primarily to favorable development on HARRG's retained liability book of business for accident year 2023. The development during 2023 relates primarily to unfavorable development on HARRG's retained liability book of business for accident year 2020.

The Company recorded net reinsurance activity of \$5,923,320 and \$4,027,814 in 2024 and 2023, respectively, which is reflected as a decrease in net losses and loss adjustment expenses incurred in the statutory statements of operations.

(Continued)



HOUSING AUTHORITY RISK RETENTION GROUP, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 6 - PROPERTY AND EQUIPMENT**

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

	<u>2024</u>	<u>2023</u>
Land	\$ 2,580,836	\$ 2,580,836
Building	15,553,335	15,261,862
Furniture and equipment	<u>2,102,405</u>	<u>1,946,653</u>
	20,236,576	19,789,351
Less: accumulated depreciation	<u>(10,165,587)</u>	<u>(9,642,066)</u>
	10,070,989	10,147,285
Non-admitted assets	<u>(248,769)</u>	<u>(159,659)</u>
Total	<u>\$ 9,822,220</u>	<u>\$ 9,987,626</u>
EDP equipment	\$ 4,310,536	\$ 4,200,683
EDP software	<u>9,770,580</u>	<u>5,933,089</u>
	14,081,116	10,133,772
Less: accumulated depreciation	<u>(6,892,777)</u>	<u>(5,778,571)</u>
Total	<u>\$ 7,188,339</u>	<u>\$ 4,355,201</u>

Depreciation expense for the years ended December 31, 2024 and 2023 amounted to \$1,847,117 and \$1,037,775, respectively. Depreciation expense of \$1,434,729 and \$766,380 was allocated to affiliated entities per the management services agreement, as disclosed in Note 7, in 2024 and 2023, respectively.

**NOTE 7 - 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 \$1,496,003 and \$246,003 for the years ended December 31, 2024 and 2023, respectively. No amounts were due to HAI as of December 31, 2024 and 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 \$368,075 and \$325,130 for the years ended December 31, 2024 and 2023, respectively.

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, 2024 and 2023, no funds were lent or borrowed.

(Continued)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 7 - AFFILIATE AND RELATED PARTY TRANSACTIONS** (Continued)

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:

	<u>Allocated Costs</u>	
	<u>2024</u>	<u>2023</u>
HAPI	\$ 12,220,466	\$ 10,236,187
HEIC	12,550,048	9,806,928
HSIC	1,158,458	996,445
HIG	321,925	293,682
HIS	5,242,577	6,192,097
IHIC	99,003	96,302
HAI	591,552	380,821
HTI	2,297,014	1,891,326
PAHRC	<u>1,099,645</u>	<u>982,512</u>
Total	<u>\$ 35,580,688</u>	<u>\$ 30,876,300</u>

In addition to the allocated costs, the Company is party to various intercompany agreements and activities, which from time-to-time result in amounts receivable from and payable to affiliated entities. As of December 31, 2024 and 2023, the Company had the following amounts receivable from and payable to affiliated entities:

	<u>2024</u>		<u>2023</u>	
	<u>Amounts Receivable</u>	<u>Amounts Payable</u>	<u>Amounts Receivable</u>	<u>Amounts Payable</u>
HAPI	\$ 1,294,548	\$ -	\$ 1,219,020	\$ -
HEIC	1,335,509	-	1,155,805	-
HSIC	136,337	11,981	104,115	-
HIG	48,558	-	30,353	-
HIS	1,619,536	418,125	1,052,584	3,329,586
IHIC	-	-	12,355	-
HAI	58,475	-	376,487	-
HTI	208,119	14,892	176,321	13,621
PAHRC	<u>108,554</u>	<u>-</u>	<u>106,369</u>	<u>-</u>
Total	<u>\$ 4,809,636</u>	<u>\$ 444,998</u>	<u>\$ 4,233,409</u>	<u>\$ 3,343,207</u>

(Continued)

#### **NOTE 8 - 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 \$761,162 and \$723,636 for the years ended December 31, 2024 and 2023, 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 provides incentive compensation to its employees, on a discretionary basis. Accrued incentive compensation expense amounted to \$1,230,614 and \$824,142 as of December 31, 2024 and 2023, 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 \$1,060,105 and \$693,329 of incentive compensation for the years ended December 31, 2024 and 2023, 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 \$1,868,334 and \$2,029,629 as of December 31, 2024 and 2023, respectively. Balances will be paid out as participants meet the plan requirements.

#### **NOTE 9 - 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.

HOUSING AUTHORITY RISK RETENTION GROUP, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**NOTE 9 - CAPITAL AND SURPLUS** (Continued)

The Company provides its members with discretionary policyholder dividends, which are calculated based upon the underwriting experience of each member and their capital contribution. The Company declared policyholder dividends of \$7,000,000 and \$3,000,000 for the years ended December 31, 2024 and 2023, respectively. For the years ended December 31, 2024 and 2023, \$6,930,000 and \$2,970,000 related to Class "A" members, respectively. During 2024 and 2023, dividends were declared to Class "B" members in the amount of \$70,000 and \$30,000, with \$17,881 and \$3,634 to be paid in cash and \$52,119 and \$26,366 to be recorded as members' recapitalization dividends within the statements of changes in capital and surplus, respectively. In total, policyholder dividends of \$6,949,422 and \$2,938,305 were expensed for the years ended December 31, 2024 and 2023, 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, 2024, the Company declared and expensed \$700,000 of supplemental dividends. For the year ended December 31, 2023, 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 used for approved company programs amounted to \$565,992 and \$547,726 in 2024 and 2023, respectively.

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

As of December 31, 2024 and 2023, 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, 2024 and 2023.

The Company is required by the Department to maintain a minimum statutory surplus of \$1,000,000 in 2024 and 2023.

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, 2024 and 2023.

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(Continued)

HOUSING AUTHORITY RISK RETENTION GROUP, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

As of December 31, 2024 and 2023, 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, 2024 and 2023. 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 \$13,281,472 and \$10,900,000 irrevocable letter of credit with BBH, related to the Company's fronted auto program as of December 31, 2024 and 2023, respectively. Travelers Indemnity Company is the beneficiary of the letter of credit. As of December 31, 2024 and 2023, the Company pledged \$14,609,619 and \$11,990,000, respectively, as collateral to secure the letter of credit. There were no draw downs on this letter of credit as of December 31, 2024 and 2023.

**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, 2024 and 2023, amounts reflected as non-admitted assets were as follows:

	<u>2024</u>	<u>2023</u>
Nonadmits on investment in affiliate	\$ 12,170	\$ 14,537
Furniture and equipment	248,769	159,659
Prepaid expenses	<u>904,184</u>	<u>1,148,814</u>
	<u>\$ 1,165,123</u>	<u>\$ 1,323,010</u>

**NOTE 12 - 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, 2024 and 2023.

**HOUSING ENTERPRISE INSURANCE COMPANY, INC.**

**STATUTORY FINANCIAL STATEMENTS**

December 31, 2024 and 2023

## 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, 2024 and 2023, 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, 2024 and 2023, 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, 2024 and 2023, 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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(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.



### ***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, 2024 and for the year ended. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the statutory financial statements as a whole.



Crowe LLP

West Hartford, Connecticut  
May 13, 2025

HOUSING ENTERPRISE INSURANCE COMPANY, INC.  
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS  
December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>ADMITTED ASSETS</b>		
Cash and invested assets:		
Debt securities, at amortized cost or fair value	\$ 116,808,716	\$ 110,848,949
Equity securities, at fair value	6,290,519	-
Cash, cash equivalents and short-term investments	<u>19,390,620</u>	<u>9,012,519</u>
Total cash and invested assets	142,489,855	119,861,468
Investment income due and accrued	816,499	723,155
Premiums receivable	30,901,612	32,227,503
Reinsurance recoverable on paid losses	7,560,621	4,098,470
Deferred tax asset	2,610,706	2,398,079
Federal income tax receivable	-	625,925
Due from affiliates	86,308	7,491
Other assets	<u>68,476</u>	<u>51,929</u>
Total admitted assets	<u><u>\$ 184,534,077</u></u>	<u><u>\$ 159,994,020</u></u>
<b>LIABILITIES AND CAPITAL AND SURPLUS</b>		
Liabilities		
Unpaid losses and loss adjustment expenses	\$ 59,024,507	\$ 52,545,031
Taxes, licenses and fees	871,807	858,536
Unearned premiums	41,616,437	39,806,826
Advance premiums	23,102	-
Ceded reinsurance premium payable	1,430,341	3,750,729
Federal income tax payable	2,546,236	-
Due to affiliates	1,365,495	1,155,805
Payables for securities	4,577,271	-
Accrued expenses and other liabilities	<u>3,868,277</u>	<u>3,985,266</u>
Total liabilities	115,323,473	102,102,193
Capital and surplus:		
Common stock, \$10,000 stated value, 10,000		
shares authorized, and 2,000 issued and outstanding	20,000,000	20,000,000
Contributed surplus	29,000,000	29,000,000
Unassigned funds	<u>20,210,604</u>	<u>8,891,827</u>
Total capital and surplus	69,210,604	57,891,827
Total liabilities and capital and surplus	<u><u>\$ 184,534,077</u></u>	<u><u>\$ 159,994,020</u></u>

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

HOUSING ENTERPRISE INSURANCE COMPANY, INC.  
STATUTORY STATEMENTS OF OPERATIONS  
Years Ended December 31, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
Underwriting income		
Net premiums earned	\$ 71,463,296	\$ 59,259,015
Losses and expenses		
Net losses and loss adjustment expenses incurred	40,485,893	40,714,048
Other underwriting expenses incurred	<u>21,712,228</u>	<u>18,615,658</u>
Total losses and expenses	<u>62,198,121</u>	<u>59,329,706</u>
<b>Net underwriting gain (loss)</b>	9,265,175	(70,691)
Investment income		
Net investment income earned	4,494,678	3,318,292
Net realized capital losses, net of taxes of \$0 in 2024 and 2023	<u>(87,479)</u>	<u>(751,026)</u>
Total investment income	4,407,199	2,567,266
Other income	<u>131,800</u>	<u>90,772</u>
<b>Net income before all other federal income taxes</b>	13,804,174	2,587,347
Federal income taxes incurred	<u>3,168,254</u>	<u>964,939</u>
<b>Net income</b>	<u><u>\$ 10,635,920</u></u>	<u><u>\$ 1,622,408</u></u>

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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, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
Capital and surplus, beginning of year	\$ 57,891,827	\$ 55,263,373
Net income	10,635,920	1,622,408
Change in net unrealized capital gains	473,195	76,588
Change in net deferred income taxes	285,151	422,646
Change in non-admitted assets	(75,489)	191,042
Change in provision for reinsurance	-	83,801
Cumulative effect of changes in accounting error	<u>-</u>	<u>231,969</u>
Capital and surplus, end of year	<u>\$ 69,210,604</u>	<u>\$ 57,891,827</u>

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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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>Cash flows from operations</b>		
Premiums collected, net of reinsurance	\$ 72,301,511	\$ 56,154,226
Net investment income	4,481,132	3,424,808
Miscellaneous income	131,800	90,772
Losses and loss related payments, net	(30,472,892)	(35,944,356)
Commissions, expenses paid and aggregate write-ins for deductions	(29,265,048)	(20,821,218)
Federal income taxes received (paid)	<u>3,907</u>	<u>(1,585,000)</u>
Net cash from operations	17,180,410	1,319,232
<b>Cash flows from investments</b>		
Proceeds from investments sold, matured and repaid	22,696,207	19,690,803
Cost of investments acquired	(30,061,885)	(18,693,067)
Other cash used	<u>-</u>	<u>(1,173,470)</u>
Net cash from investments	(7,365,678)	(175,734)
<b>Cash flows from financing and miscellaneous sources</b>		
Other cash provided	<u>563,369</u>	<u>302,258</u>
Net cash from financing and miscellaneous sources	<u>563,369</u>	<u>302,258</u>
Change in cash, cash equivalents and short-term investments	10,378,101	1,445,756
Cash, cash equivalents and short-term investments, beginning of year	<u>9,012,519</u>	<u>7,566,763</u>
<b>Cash, cash equivalents and short-term investments, end of year</b>	<u><u>\$ 19,390,620</u></u>	<u><u>\$ 9,012,519</u></u>

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

HOUSING ENTERPRISE INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**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, 2024 and 2023, 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:

*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.

*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. 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.

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(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*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.

*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 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.

*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. Changes to deferred income tax assets and liabilities are recorded in current operations under GAAP.

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

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(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

*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 and investments with initial maturities of three months or less. Short-term investments include investments with initial maturities of one year or less at date of purchase and are valued in accordance with the Purposes and Procedures Manual prepared by the NAIC Securities Valuation Office (SVO).

The Company leverages sweep accounts, 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.

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.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

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 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 2024 or 2023.

Unpaid Losses and Loss Adjustment Expense Reserves: Unpaid losses and loss adjustment expense reserves, including reinsurance recoverables, represent estimated provisions for both reported and unreported claims incurred and related expenses. In determining unpaid losses and loss adjustment expense reserves and reinsurance recoverables, the Company annually reviews its overall position, its reserving techniques and its reinsurance 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.

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**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 2024 and 2023.

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, 2024 and 2023, the Company recorded \$58,506 and \$72,660, respectively.

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: 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 2021 forward are open and subject to examination by the Internal Revenue Service.

As of December 31, 2024 and 2023, the Company has recorded a deferred tax liability of \$22,688 and \$45,376, 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.

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(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, 2024 and 2023. 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.

Recent Accounting Pronouncements: Effective January 1, 2025, the NAIC has implemented significant revisions to the classification of bonds for statutory accounting purposes. These changes are part of the principles-based bond definition project, which redefines the criteria for investments to be treated as bonds. Bonds are now classified based on their economic substance rather than their legal form. The new definitions distinguish between issuer credit obligations and asset-backed securities. Issuer credit obligations are bonds for which the primary source of repayment is the general creditworthiness of an operating entity. Asset-backed securities are bonds backed by financial or cash-generating non-financial assets, where repayment primarily relies on the cash flows from the underlying collateral. SSAP No. 43R, “*Loan-Backed and Structured Securities*” have been updated to reflect these new classifications. Furthermore, SSAP No. 43R has been retitled to SSAP No. 43R, “*Asset-Backed Securities*”.

Under the new definitions, some securities previously reported as a bond may no longer meet the definition of a bond. These may include debt securities that don’t reflect a creditor relationship in substance, don’t qualify for bond reporting due to a lack of substantive credit enhancement, or don’t qualify for bond reporting due solely to a lack of meaningful cash flows. These securities will now fall under SSAP No. 21, “*Other Admitted Assets*”. All investments held as of January 1, 2025, will need to be evaluated under the revised definitions. This reclassification may affect the reported values and risk-based capital requirements of certain investments. These changes aim to enhance the accuracy and transparency of bond reporting, ensuring that the classification aligns more closely with the economic realities of the investments. The Company is currently evaluating the financial reporting effects of this updated guidance as of the issuance of these statutory financial statements.

Subsequent Events: Subsequent events have been evaluated through May 13, 2025, which is the date the statutory financial statements were available to be issued.

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(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 3 - INVESTMENTS**

Investments, carried at amortized cost and fair value, as of December 31, 2024, are as follows:

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
Debt securities, at amortized cost				
U.S. government	\$ 27,236,752	\$ 63,092	\$ (2,446,787)	\$ 24,853,057
All other governments	54,387	-	(106)	54,281
U.S. states, territories and possessions	424,091	12,704	(623)	436,172
U.S. special revenue and special assessment obligations	39,307,811	25,066	(2,695,144)	36,637,733
Industrial and miscellaneous	49,751,667	204,793	(2,291,538)	47,664,922
Hybrid securities	<u>34,008</u>	<u>1,730</u>	<u>-</u>	<u>35,738</u>
Total debt securities, at amortized cost	116,808,716	307,385	(7,434,198)	109,681,903
Equity securities, at fair value				
Mutual funds	<u>5,946,851</u>	<u>361,134</u>	<u>(17,466)</u>	<u>6,290,519</u>
Total	<u>\$ 122,755,567</u>	<u>\$ 668,519</u>	<u>\$ (7,451,664)</u>	<u>\$ 115,972,422</u>

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

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
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	<u>34,624</u>	<u>551</u>	<u>-</u>	<u>35,175</u>
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	<u>272,293</u>	<u>-</u>	<u>(48,353)</u>	<u>223,940</u>
Total	<u>\$ 110,897,302</u>	<u>\$ 511,491</u>	<u>\$ (7,409,496)</u>	<u>\$ 103,999,297</u>

(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 3 - INVESTMENTS** (Continued)

The amortized cost and fair value of debt securities are shown by contractual maturity as of December 31, 2024. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized <u>Cost</u>	Fair <u>Value</u>
Due to mature:		
One year or less	\$ 8,337,952	\$ 8,289,083
After one year through five years	29,219,484	28,090,386
After five years through ten years	19,816,378	18,532,893
After ten years	10,090,188	8,487,026
Collateralized debt obligations	4,448,946	4,440,033
Residential mortgage-backed securities	41,837,201	38,919,166
Commercial mortgage-backed securities	<u>3,058,567</u>	<u>2,923,316</u>
Total	<u>\$ 116,808,716</u>	<u>\$ 109,681,903</u>

Proceeds from sales of securities amounted to \$6,078,429 and \$11,950,282 in 2024 and 2023, respectively. Gross realized gains amounted to \$19,268 and \$33,957 on the sale of securities in 2024 and 2023, respectively. Gross realized losses amounted to \$106,840 and \$784,983 in 2024 and 2023, respectively.

The Company holds 317 securities that are in an unrealized loss position as of December 31, 2024, of which 244 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, 2024:

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Debt securities				
U.S. government	\$ 186,719	\$ (10,265)	\$ 21,971,935	\$ (2,436,522)
All other governments	54,281	(106)	-	-
U.S. states, territories and possessions	-	-	199,436	(623)
U.S. special revenue and special assessment obligations	19,112,573	(379,633)	15,151,119	(2,315,511)
Industrial and miscellaneous	<u>9,123,368</u>	<u>(96,665)</u>	<u>27,635,671</u>	<u>(2,194,873)</u>
Total debt securities	28,476,941	(486,669)	64,958,161	(6,947,529)
Equity securities				
Mutual funds	<u>1,233,619</u>	<u>(17,466)</u>	-	-
Total	<u>\$ 29,710,560</u>	<u>\$ (504,135)</u>	<u>\$ 64,958,161</u>	<u>\$ (6,947,529)</u>

(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 3 - INVESTMENTS** (Continued)

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

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>	
	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>
	<u>Value</u>	<u>Loss</u>	<u>Value</u>	<u>Loss</u>
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	<u>897,806</u>	<u>(18,967)</u>	<u>35,686,264</u>	<u>(3,098,922)</u>
Total	<u>\$ 8,868,762</u>	<u>\$ (117,213)</u>	<u>\$ 74,484,400</u>	<u>\$ (7,292,283)</u>

The Company had debt securities with amortized costs of \$5,212,246 and \$5,256,405 as of December 31, 2024 and 2023, 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.

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HOUSING ENTERPRISE INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**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, 2024 and 2023.

The Company's valuation techniques used to measure the fair value of investments, including money market funds, mutual 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, 2024:

	Admitted Assets	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial instruments (carried at fair value)					
Money market funds	\$ 17,998,027	\$ 17,998,027	\$ -	\$ -	\$ 17,998,027
Mutual funds	6,290,519	6,290,519	-	-	6,290,519
Total	24,288,546	24,288,546	-	-	24,288,546
Financial instruments (carried at amortized cost)					
Cash equivalents	4,612,699	-	4,612,084	-	4,612,084
Debt securities	116,808,716	-	109,681,903	-	109,681,903
Total	121,421,415	-	114,293,987	-	114,293,987
Total	<u>\$ 145,709,961</u>	<u>\$ 24,288,546</u>	<u>\$ 114,293,987</u>	<u>\$ -</u>	<u>\$ 138,582,533</u>

(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**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:

	Admitted Assets	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial instruments (carried at fair value)					
Money market funds	\$ 9,511,200	\$ 9,511,200	\$ -	\$ -	\$ 9,511,200
Debt securities	<u>223,940</u>	<u>-</u>	<u>223,940</u>	<u>-</u>	<u>223,940</u>
Total	9,735,140	9,511,200	223,940	-	9,735,140
Financial instruments (carried at amortized cost)					
Short-term investments	2,362,854	-	2,363,099	-	2,363,099
Debt securities	<u>110,625,009</u>	<u>-</u>	<u>103,775,357</u>	<u>-</u>	<u>103,775,357</u>
Total	<u>112,987,863</u>	<u>-</u>	<u>106,138,456</u>	<u>-</u>	<u>106,138,456</u>
Total	<u>\$ 122,723,003</u>	<u>\$ 9,511,200</u>	<u>\$ 106,362,396</u>	<u>\$ -</u>	<u>\$ 115,873,596</u>

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

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

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

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

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

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

As of December 31, 2024 and 2023, the Company held no level 3 investments.

**NOTE 5 - INSURANCE ACTIVITY**

The Company writes both property and casualty coverages on a direct basis. In 2024 and 2023, the retained limits were \$500,000 and \$250,000, respectively, 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.

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

The Company secured reinsurance for amounts in excess of their retained limits up to \$300,000,000 per occurrence for property in 2024 and 2023. During 2023, 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. There was no retention of aggregate excess losses during 2024. The property limit of \$300,000,000 per occurrence in 2024 and 2023, 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, 2024 and 2023.

In 2024 and 2023, 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 2024 and 2023, the Company assumed \$77,738 and \$73,278 of premiums, respectively, from HSIC related to this contract. There were no ceded losses recorded for the years ended December 31, 2024 and 2023, 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 2024 and 2023. 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 2024 and 2023, 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, 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.

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(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**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 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, 2024 and 2023, are summarized as follows:

	<u>Premiums Written</u>		<u>Premiums Earned</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Direct premiums	\$ 107,228,950	\$ 98,120,500	\$ 106,896,330	\$ 88,686,162
Assumed premiums	77,738	73,278	66,587	43,987
Premiums ceded	<u>(34,033,781)</u>	<u>(31,295,019)</u>	<u>(35,499,621)</u>	<u>(29,471,134)</u>
Net premiums	<u>\$ 73,272,907</u>	<u>\$ 66,898,759</u>	<u>\$ 71,463,296</u>	<u>\$ 59,259,015</u>

A reconciliation of changes in the Company's unpaid losses and loss adjustment expenses, for the years ended December 31, 2024 and 2023, is summarized as follows:

	<u>2024</u>	<u>2023</u>
Balance at beginning of year	\$ 52,545,031	\$ 50,484,475
Incurred related to:		
Current year	47,168,062	45,417,853
Prior years	<u>(6,682,169)</u>	<u>(4,703,805)</u>
Total incurred	40,485,893	40,714,048
Paid related to:		
Current year	(15,992,784)	(16,103,619)
Prior years	<u>(18,013,633)</u>	<u>(22,549,873)</u>
Total paid	<u>(34,006,417)</u>	<u>(38,653,492)</u>
Balance at end of year	<u>\$ 59,024,507</u>	<u>\$ 52,545,031</u>

(Continued)

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

As a result of changes in loss development, the provision for loss and loss adjustment expenses decreased by \$6,682,169 and \$4,703,805 in 2024 and 2023, respectively. The decrease in 2024 is related to the favorable loss development on property claims related to the 2023 and 2022 accident years. The decrease in 2023 is related to favorable loss development on property claims related to the 2022 and 2021 accident years.

The Company recorded net reinsurance recovery activity of \$24,256,713 and \$19,348,072 in 2024 and 2023, 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 \$12,550,048 and \$9,806,928 for the years ended December 31, 2024 and 2023, respectively. The amounts due to HARRG under these agreements, which are included in due to affiliates, amounted to \$1,335,509 and \$1,155,805 as of December 31, 2024 and 2023, respectively.

The Company maintains a commission agreement with Housing Insurance Services, Inc. (HIS), a subsidiary of Housing Investment Group, Inc. (HIG), an affiliate through common management, for direct premium written. The commission agreement provides for a commission percentage to be paid based upon the direct written premium, which is expensed on a pro-rata basis by the Company in line with the underlying policies to which they relate. The commission percentage varies based on several underlying factors. For the years ended December 31, 2024 and 2023, commission expense under this agreement amounted to \$1,961,021 and \$1,779,589, 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 net amounts due from HIS of \$56,322 and \$7,491 as of December 31, 2024 and 2023, respectively, which are included in due from affiliates.

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 for the years ended December 31, 2024 and 2023.

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

**NOTE 7 - EMPLOYEE BENEFITS**

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

HARRG maintains a defined contribution profit sharing plan and is the sponsor of the Housing Authority Risk Retention Group 401(k) Plan, covering substantially all of its employees. The Company recorded profit sharing expenses of \$394,710 and \$350,948 and 401(k) expenses of \$275,992 and \$225,057 for the years ended December 31, 2024 and 2023, respectively. In addition, the Company recorded an expense for incentive compensation of \$925,041 and \$544,978, for the years ended December 31, 2024 and 2023, respectively, which is included within other underwriting expenses incurred on the statutory statements of operations.

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(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**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, 2024 and 2023.

No dividends were declared or paid in 2024 and 2023.

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, 2024 and 2023 are as follows:

	2024			2023		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets	\$ 2,857,216	\$ 39,108	\$ 2,896,324	\$ 2,613,161	\$ 20,700	\$ 2,633,861
Statutory valuation allowance adjustment	-	-	-	-	-	-
Adjusted gross deferred tax asset	2,857,216	39,108	2,896,324	2,613,161	20,700	2,633,861
Deferred tax asset non-admitted	190,760	-	190,760	119,655	-	119,655
Net deferred tax asset	2,666,456	39,108	2,705,564	2,493,506	20,700	2,514,206
Deferred tax liabilities	22,688	72,170	94,858	45,376	70,751	116,127
Net admitted deferred tax asset (liability)	\$ 2,643,768	\$ (33,062)	\$ 2,610,706	\$ 2,448,130	\$ (50,051)	\$ 2,398,079

The components of the admissibility calculation under paragraphs 11.a., 11.b. and 11.c. as of December 31, 2024 and 2023, are as follows:

	2024			2023		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Admitted pursuant to 11.a.	\$ 2,497,093	\$ -	\$ 2,497,093	\$ 2,325,478	\$ -	\$ 2,325,478
Admitted pursuant to 11.b.	113,613	-	113,613	51,901	20,700	72,601
Admitted pursuant to 11.c.	55,750	39,108	94,858	116,127	-	116,127
Admitted deferred tax asset	\$ 2,666,456	\$ 39,108	\$ 2,705,564	\$ 2,493,506	\$ 20,700	\$ 2,514,206

(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**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, 2023 to December 31, 2024, are as follows:

	Change During 2024		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Gross deferred tax assets	\$ 244,055	\$ 18,408	\$ 262,463
Statutory valuation allowance adjustment	-	-	-
Adjusted gross deferred tax assets	244,055	18,408	262,463
Deferred tax asset non-admitted	71,105	-	71,105
Net deferred tax asset	172,950	18,408	191,358
Deferred tax liabilities	(22,688)	1,419	(21,269)
Net admitted deferred tax asset	<u>\$ 195,638</u>	<u>\$ 16,989</u>	<u>\$ 212,627</u>
Admitted pursuant to 11.a.	\$ 171,615	\$ -	\$ 171,615
Admitted pursuant to 11.b.	61,712	(20,700)	41,012
Admitted pursuant to 11.c.	(60,377)	39,108	(21,269)
Admitted deferred tax asset	<u>\$ 172,950</u>	<u>\$ 18,408</u>	<u>\$ 191,358</u>

The threshold used by the Company for amounts admitted pursuant to 11.b. as of December 31, 2024 and 2023, is as follows:

	<u>2024</u>	<u>2023</u>
Ratio percentage used to determine recovery period and threshold limitation amount	747.62%	751.89%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	\$ 66,599,898	\$ 55,493,748

In 2024, 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, 2024 and 2023, are as follows:

	<u>2024</u>	<u>2023</u>
Federal	\$ 3,168,254	\$ 1,102,510
Foreign	-	-
Subtotal	3,168,254	1,102,510
Federal income tax on net capital gains	-	-
Capital loss carryback	-	(137,571)
Federal income taxes incurred	<u>\$ 3,168,254</u>	<u>\$ 964,939</u>

(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**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, 2024 and 2023, are as follows:

	<u>2024</u>	<u>2023</u>	<u>Change</u>
<b>Deferred tax assets</b>			
Ordinary:			
Unearned premiums	\$ 1,747,890	\$ 1,671,887	\$ 76,003
Discounting of unpaid losses	969,613	814,218	155,395
Treasury inflation protected securities	124,871	107,516	17,355
Other	<u>14,842</u>	<u>19,540</u>	<u>(4,698)</u>
Subtotal	2,857,216	2,613,161	244,055
Statutory valuation allowance adjustment	-	-	-
Non-admitted deferred tax assets	<u>(190,760)</u>	<u>(119,655)</u>	<u>(71,105)</u>
Admitted ordinary deferred tax assets	2,666,456	2,493,506	172,950
Capital:			
Investments	593	556	37
Capital loss carryforward	<u>38,515</u>	<u>20,144</u>	<u>18,371</u>
Subtotal	39,108	20,700	18,408
Statutory valuation allowance adjustment	-	-	-
Admitted deferred tax assets	<u>\$ 2,705,564</u>	<u>\$ 2,514,206</u>	<u>\$ 191,358</u>
<b>Deferred tax liabilities</b>			
Ordinary:			
TCJA transition adjustment	\$ <u>(22,688)</u>	\$ <u>(45,376)</u>	\$ 22,688
Capital:			
Unrealized gain	<u>(72,170)</u>	<u>(70,751)</u>	<u>(1,419)</u>
Deferred tax liabilities	<u>(94,858)</u>	<u>(116,127)</u>	<u>21,269</u>
Net admitted deferred tax assets	<u>\$ 2,610,706</u>	<u>\$ 2,398,079</u>	<u>\$ 212,627</u>

The Company has no net operating loss carry-forwards as of December 31, 2024. The Company has capital loss carry-forwards of \$183,404 and \$95,924 as of December 31, 2024 and 2023, respectively. During 2023, the Company utilized \$655,100 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.

(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 9 - FEDERAL INCOME TAXES** (Continued)

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 2024 and 2023, 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, 2024 and 2023, are comprised of the following:

	<u>2024</u>	<u>2023</u>	<u>Change</u>
Total deferred tax assets	\$ 2,896,324	\$ 2,633,861	\$ 262,463
Total deferred tax liabilities	<u>(94,858)</u>	<u>(116,127)</u>	<u>21,269</u>
Net deferred tax asset	2,801,466	2,517,734	283,732
Statutory valuation allowance adjustment allocation	<u>-</u>	<u>-</u>	<u>-</u>
Net deferred tax asset after statutory valuation allowance	2,801,466	2,517,734	283,732
Tax effect of unrealized gains	72,170	70,751	1,419
Statutory valuation allowance adjustment allocated to unrealized	<u>-</u>	<u>-</u>	<u>-</u>
Change in net deferred income tax	<u>\$ 2,873,636</u>	<u>\$ 2,588,485</u>	<u>\$ 285,151</u>

(Continued)

HOUSING ENTERPRISE INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 9 - FEDERAL INCOME TAXES** (Continued)

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference are as follows for the years ended December 31, 2024 and 2023:

	<u>2024</u>		<u>2023</u>	
Provision computed at statutory rate	\$ 2,907,095	21.00 %	\$ 543,343	21.00 %
Meals and entertainment	1,900	0.01	1,648	0.06
Tax exempt interest	(13,791)	(0.10)	(16,514)	(0.64)
Proration	5,743	0.04	3,929	0.15
Tax exempt expenses	553	0.01	799	0.03
Dividends received deduction	(9,733)	(0.07)	-	-
Change in nonadmitted assets	(921)	(0.01)	1,794	0.07
State income tax	(8,267)	(0.06)	-	-
Other	<u>524</u>	<u>0.01</u>	<u>7,294</u>	<u>0.28</u>
Total federal income taxes incurred	<u>\$ 2,883,103</u>	<u>20.83 %</u>	<u>\$ 542,293</u>	<u>20.95 %</u>
Reconciliation:				
Federal income taxes	\$ 3,168,254	22.89 %	\$ 964,939	37.29 %
Change in net deferred income taxes	<u>(285,151)</u>	<u>(2.06)</u>	<u>(422,646)</u>	<u>(16.34)</u>
Total statutory income taxes	<u>\$ 2,883,103</u>	<u>20.83 %</u>	<u>\$ 542,293</u>	<u>20.95 %</u>

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

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
December 31, 2024 (current year)	\$ 3,168,130	\$ -	\$ 3,168,130
December 31, 2023 (first preceding year)	\$ 1,092,795	\$ -	\$ 1,092,795
December 31, 2022 (second preceding year)	\$ 1,232,683	\$ -	\$ 1,232,683

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

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

(Continued)



HOUSING ENTERPRISE INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**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, 2024 and 2023, the Company has not accrued for or been assessed by any state insurance department.

As of December 31, 2024 and 2023, 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, 2024 and 2023. 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, 2024 and 2023, amounts reflected as non-admitted assets were as follows:

	<u>2024</u>	<u>2023</u>
Prepaid insurance	\$ 12,169	\$ 7,785
Deferred tax assets	<u>190,760</u>	<u>119,655</u>
	<u>\$ 202,929</u>	<u>\$ 127,440</u>

**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, 2024 and 2023.

**HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2024 and 2023

## 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, 2024 and 2023, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, 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 Consolidated 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 Consolidated 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.

## ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

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

In performing an audit in accordance with GAAS, we:

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

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

### ***Other Matter***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets, statements of operations, and cash flows are presented for purposes of additional analysis and are not required parts of the consolidated financial statements. The supplemental schedules are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Crowe LLP

West Hartford, Connecticut  
May 13, 2025

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 39,701,483	\$ 29,348,355
Agency and commission accounts receivables	33,749,428	49,437,851
Due from related parties	483,771	3,340,012
Prepaid contractual liability insurance (Note 2)	156,338	217,125
Other assets	168,139	256,277
Total current assets	74,259,159	82,599,620
Deferred tax asset	2,805,747	4,398,166
Total assets	<u>\$ 77,064,906</u>	<u>\$ 86,997,786</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Commission payable and accounts current	\$ 58,183,584	\$ 66,172,206
Deferred commissions and other revenues	2,063,559	1,961,219
Accounts payable and accrued expenses	783,950	1,209,591
Due to related parties	1,763,915	1,096,064
Income taxes payable	55,502	39,063
Total current liabilities	62,850,510	70,478,143
Stockholders' equity		
Common stock, Class A, no par value, \$5,000 per share stated value, 2 shares authorized, issued and outstanding in 2024 and 2023	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 2024 and 2023	39,400,000	39,400,000
Additional paid-in capital	482,234	482,234
Retained deficit	(25,677,838)	(23,372,591)
Total stockholders' equity	14,214,396	16,519,643
Total liabilities and stockholders' equity	<u>\$ 77,064,906</u>	<u>\$ 86,997,786</u>

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

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
Years Ended December 31, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
<b>Net revenues</b>		
Commission income	\$ 10,610,877	\$ 9,461,877
Insurance management services	483,218	411,420
Interest income	1,892,816	1,440,758
Other income	<u>54,829</u>	<u>128,109</u>
Total revenues	13,041,740	11,442,164
<b>Costs and expenses</b>		
Salaries and benefits	3,971,867	4,567,653
General and administrative	<u>1,932,031</u>	<u>1,881,289</u>
Total costs and expenses	<u>5,903,898</u>	<u>6,448,942</u>
<b>Income before provision for income taxes</b>	7,137,842	4,993,222
Income tax expense (benefit)	<u>1,943,089</u>	<u>(1,396,250)</u>
<b>Net income</b>	<u>\$ 5,194,753</u>	<u>\$ 6,389,472</u>

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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, 2024 and 2023

	Common Stock Class A		Common Stock Class B (1)		Additional Paid-In Capital	Retained Deficit	Total
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance as of January 1, 2023	2	\$ 10,000	198,700	\$ 39,400,000	\$ 482,234	\$ (29,762,063)	\$ 10,130,171
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,389,472</u>	<u>6,389,472</u>
Balance as of December 31, 2023	2	10,000	198,700	39,400,000	482,234	(23,372,591)	16,519,643
Dividends paid	-	-	-	-	-	(7,500,000)	(7,500,000)
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,194,753</u>	<u>5,194,753</u>
Balance as of December 31, 2024	<u>2</u>	<u>\$ 10,000</u>	<u>198,700</u>	<u>\$ 39,400,000</u>	<u>\$ 482,234</u>	<u>\$ (25,677,838)</u>	<u>\$ 14,214,396</u>

(1) 182,000 shares issued and outstanding at \$100 per share stated value as of December 31, 2024 and 2023, 500 shares issued and outstanding at \$10,000 per share stated value as of December 31, 2024 and 2023, 16,200 shares issued and outstanding at \$1,000 per share stated value as of December 31, 2024 and 2023.

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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 5,194,753	\$ 6,389,472
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred federal income taxes	1,592,419	(1,654,079)
Changes in assets and liabilities		
Agency and commission accounts receivables	15,688,423	(5,128,342)
Due from related parties	2,856,241	(2,974,381)
Income taxes receivable	-	37,089
Prepaid contractual liability insurance (Note 2)	60,787	26,075
Other assets	88,138	(228,853)
Commission payable and accounts current	(7,988,622)	7,593,221
Deferred commissions and other revenues	102,340	213,829
Accounts payable and accrued expenses	(425,641)	655,514
Due to related parties	667,851	(4,881)
Income taxes payable	16,439	39,063
Net cash provided by operating activities	<u>17,853,128</u>	<u>4,963,727</u>
<b>Cash flows from financing activities</b>		
Dividends paid to shareholders	<u>(7,500,000)</u>	<u>-</u>
Net cash used in financing activities	<u>(7,500,000)</u>	<u>-</u>
Net change in cash and cash equivalents	10,353,128	4,963,727
Cash and cash equivalents, beginning of year	<u>29,348,355</u>	<u>24,384,628</u>
Cash and cash equivalents, end of year	<u>\$ 39,701,483</u>	<u>\$ 29,348,355</u>
<b>Supplemental cash flow disclosure:</b>		
Income taxes paid during the year	<u>\$ 334,231</u>	<u>\$ 181,677</u>

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



HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**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. As of December 31, 2023, the Company had two wholly owned subsidiaries: Housing Insurance Services, Inc. (HIS) and Housing Alliance Group, LLC (HAGL). As of December 31, 2024, HAGL was dissolved, leaving HIS as the only remaining subsidiary.

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. During 2024, HIS paid a dividend in the amount of \$8,000,000 to HIG, which reduced the investment in HIS on the consolidated balance sheets. No dividends were declared or paid by HIS during 2023.

HAGL was incorporated in July 2015 under the laws of the State of Vermont. HAGL engaged in the business of assisting public housing authorities and their affiliates by sponsoring funding and assisting in transformation of their housing portfolio. HAGL was a limited liability company whose sole member was HIG. During 2024, prior to the dissolution of HAGL, HIG contributed capital in the amount of \$500,000 to HAGL. As a result of the dissolution, the net assets of HAGL were transferred to HIG as of December 31, 2024.

The Company declared and paid dividends of \$3,750,000 each to HARRG and HAPI during 2024. 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).

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(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of HIG and its wholly owned subsidiaries, HIS and HAGL, as of December 31, 2024 and 2023 and for the years then ended. All material intercompany transactions and accounts have been eliminated in the consolidated financial statements.

The operations of the Company are primarily determined by the activities and contractual relationships with HARRG, HAPI, HEIC, and HSIC, 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, 2024 and 2023, 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. As a result of the dissolution, the unearned association benefit fees were transferred to HIG.

Agency and Commission Accounts Receivable: Agency and commission accounts receivable consist of earned and uncollected commission and agency income. As of December 31, 2024 and 2023, management has not recorded a credit loss 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.

The Company leverages sweep accounts, 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.

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(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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. As a result of the dissolution, the prepaid contractual liability insurance was transferred to HIG.

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, 2024 and 2023. 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, 2024 and 2023, the Company did not record any penalties or interest associated with unrecognized tax benefits. Tax years from 2021 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.

Current Expected Credit Losses: The Company measures expected credit losses in accordance with FASB ASC 326, "*Financial Instruments - Credit Losses*" (ASC 326). ASC 326 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. As of December 31, 2024 and 2023, management determined that no allowance for credit losses was necessary for its in-scope financial instruments.

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(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Reclassifications: Certain reclassifications to the 2023 financial statements have been made in order to conform to the 2024 presentation. Such reclassifications did not have a material effect on the financial statements.

Subsequent Events: Subsequent events have been evaluated through May 13, 2025, which is the date the consolidated financial statements were available to be issued.

**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 2024 and 2023, commission income under these agreements amounted to \$7,833,552 and \$6,629,481, respectively, and the Company has recorded deferred commission income of \$1,531,291 and \$1,355,000, respectively, as of December 31, 2024 and 2023.

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, 2024 and 2023, commission income related to unaffiliated carriers amounted to \$2,656,129 and \$2,726,423, respectively, and the Company has deferred \$226,966 and \$254,762, 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, 2024 and 2023, program administration income amounted to \$121,196 and \$105,973, respectively, and the Company has recorded deferred program administration income of \$29,158 and \$27,248, respectively, as of December 31, 2024 and 2023.

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 2024 and 2023 amounted to \$483,218 and \$411,420, respectively, and the Company has recorded deferred management fee revenues of \$119,806 and \$107,126, respectively, as of December 31, 2024 and 2023. These fees are calculated based upon a percentage of gross written premium for the years ended December 31, 2024 and 2023. All business associated with these insurance management service agreements originates from the service agreement as discussed in the previous paragraph.

HAGL maintained 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, 2024 and 2023, there was no revenue from program fees.

Other income, which consists of HAGL association benefit fees and consulting fees, amounted to \$54,829 and \$128,109, respectively, and the Company has deferred revenue of \$156,338 and \$217,083, respectively, for the years ended December 31, 2024 and 2023. As a result of the dissolution, the HAGL deferred revenue as of December 31, 2024, was transferred to HIG.

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(Continued)

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 4 - INCOME TAXES**

The provision for income tax expense (benefit) consists of the following for the years ended December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Current federal and state tax	\$ 350,670	\$ 257,829
Deferred federal and state tax:		
Deferred tax expense exclusive of the effects of other components listed below	1,592,419	1,090,008
Decrease in beginning of year deferred tax asset valuation allowance	<u>-</u>	<u>(2,744,087)</u>
Total	<u>\$ 1,943,089</u>	<u>\$ (1,396,250)</u>

The tax effect of temporary differences, which result in deferred tax assets, as of December 31, 2024 and 2023, are as follows:

	<u>2024</u>	<u>2023</u>
Deferred tax assets:		
Net operating loss	\$ 1,933,481	\$ 3,372,996
Charitable carry forward	18	18
State taxes	201,740	350,228
Accrued retirement benefits	28,252	32,668
Research and development	<u>642,256</u>	<u>642,256</u>
Gross deferred tax asset	2,805,747	4,398,166
Valuation allowance	<u>-</u>	<u>-</u>
Net deferred tax asset	<u>\$ 2,805,747</u>	<u>\$ 4,398,166</u>

The 2024 and 2023 provision for income taxes differs from the amount of income tax expense (benefit) determined by applying the 21% U.S. statutory federal income tax rate, as follows:

	<u>2024</u>		<u>2023</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Federal tax at statutory rate	\$ 1,498,947	21.00%	\$ 1,048,577	21.00%
State taxes	423,203	5.93%	305,056	6.11%
Valuation allowance	-	0.00%	(2,744,087)	(54.96%)
Meals and entertainment	872	0.01%	875	0.02%
Other	<u>20,067</u>	<u>0.28%</u>	<u>(6,671)</u>	<u>-0.13%</u>
Income tax expense (benefit)	<u>\$ 1,943,089</u>	<u>27.22%</u>	<u>\$ (1,396,250)</u>	<u>(27.96%)</u>

(Continued)

HOUSING INVESTMENT GROUP, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 4 - INCOME TAXES (Continued)**

The Company has a net operating loss carry-forward of \$9,207,052 as of December 31, 2024, that will begin to expire in 2036. 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.

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.

**NOTE 5 - RELATED PARTY TRANSACTIONS**

The Company has common paymaster and facilities agreements with HARRG, in which HARRG is the common paymaster for the Company. HARRG provides various management services to the Company and charges the Company for its direct allocation of salaries, benefits and overhead, along with the use of its facility. Expenses incurred for HARRG's management services are as follows:

	<u>2024</u>	<u>2023</u>
HIS	\$ 5,242,577	\$ 6,192,097
HIG	<u>321,925</u>	<u>293,682</u>
Total	<u>\$ 5,564,502</u>	<u>\$ 6,485,779</u>

The Company is party to various intercompany agreements and activities, which from time to time result in amounts receivable from and payable to affiliated entities. As of December 31, 2024 and 2023, the Company had the following amounts receivable from and payable to affiliated entities:

	<u>2024</u>		<u>2023</u>	
	<u>Amounts</u>	<u>Amounts</u>	<u>Amounts</u>	<u>Amounts</u>
	<u>Receivable</u>	<u>Payable</u>	<u>Receivable</u>	<u>Payable</u>
HARRG	\$ 418,125	\$ 1,668,094	\$ 3,329,586	\$ 1,082,937
HAPI	2,940	9,513	2,185	5,635
HEIC	29,986	86,308	-	7,492
HSIC	10,195	-	8,241	-
Housing Authority Insurance, Inc.	<u>22,525</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 483,771</u>	<u>\$ 1,763,915</u>	<u>\$ 3,340,012</u>	<u>\$ 1,096,064</u>

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

(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 substantially all of its employees. The Company recorded profit sharing expenses of \$197,827 and \$259,345 and 401(k) expenses of \$135,525 and \$176,185, for the years ended December 31, 2024 and 2023, respectively. In addition, the Company recorded an expense for incentive compensation of \$492,310 and \$442,305, for the years ended December 31, 2024 and 2023, respectively, which is included within salaries and benefits within the consolidated statements of operations.

**HOUSING SPECIALTY INSURANCE COMPANY, INC.**

**STATUTORY FINANCIAL STATEMENTS**

December 31, 2024 and 2023



## 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, 2024 and 2023, 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, 2024 and 2023, 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, 2024 and 2023, 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.

### ***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.

### ***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, 2024 and for the year ended. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the statutory financial statements as a whole.



Crowe LLP

West Hartford, Connecticut  
May 13, 2025

HOUSING SPECIALTY INSURANCE COMPANY, INC.  
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS  
December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>ADMITTED ASSETS</b>		
Cash and invested assets		
Investments, at amortized cost or fair value	\$ 50,985,276	\$ 25,893,802
Cash, cash equivalents and short-term investments	<u>1,461,413</u>	<u>1,281,702</u>
Total cash and invested assets	52,446,689	27,175,504
Investment income due and accrued	592,271	239,430
Premiums receivable	716,023	628,066
Due from affiliates	11,981	-
State income tax receivable	21,440	-
Federal income tax receivable	373,430	251,904
Deferred tax asset	<u>57,721</u>	<u>41,821</u>
Total admitted assets	<u>\$ 54,219,555</u>	<u>\$ 28,336,725</u>
<b>LIABILITIES AND CAPITAL AND SURPLUS</b>		
Liabilities		
Unpaid losses and loss adjustment expenses	\$ 1,463,508	\$ 757,527
Unearned premiums	1,060,296	822,826
Ceded reinsurance premiums payable	191,564	149,500
Due to affiliates	146,532	112,356
Accrued expenses and other liabilities	<u>133,869</u>	<u>108,896</u>
Total liabilities	2,995,769	1,951,105
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	44,800,000	20,800,000
Unassigned funds	<u>4,423,786</u>	<u>3,585,620</u>
Total capital and surplus	<u>51,223,786</u>	<u>26,385,620</u>
Total liabilities and capital and surplus	<u>\$ 54,219,555</u>	<u>\$ 28,336,725</u>

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, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
Underwriting income		
Net premiums earned	\$ 2,676,030	\$ 2,414,830
Losses and expenses		
Net losses and loss adjustment expenses incurred	1,388,723	745,165
Other underwriting expenses incurred	<u>1,413,378</u>	<u>1,229,040</u>
Total losses and expenses	<u>2,802,101</u>	<u>1,974,205</u>
<b>Net underwriting (loss) gain</b>	(126,071)	440,625
Investment income		
Net investment income earned	1,363,199	1,144,572
Net realized capital loss, net of taxes of \$0 in 2024 and 2023	<u>(224,120)</u>	<u>(151,405)</u>
Total investment gain	<u>1,139,079</u>	<u>993,167</u>
<b>Net income before provision for federal income taxes</b>	1,013,008	1,433,792
Federal income taxes incurred	<u>228,474</u>	<u>307,409</u>
<b>Net income</b>	<u>\$ 784,534</u>	<u>\$ 1,126,383</u>

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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, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
Capital and surplus, beginning of year	\$ 26,385,620	\$ 25,166,207
Net income	784,534	1,126,383
Change in net unrealized capital losses	33,994	56,167
Change in non-admitted assets	2,825	20,068
Change in net deferred income tax	16,813	7,329
Paid in capital	24,000,000	-
Cumulative effect of changes in accounting error	<u>-</u>	<u>9,466</u>
Capital and surplus, end of year	<u>\$ 51,223,786</u>	<u>\$ 26,385,620</u>

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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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>Cash from operations</b>		
Premiums collected, net of reinsurance	\$ 2,867,606	\$ 2,376,512
Net investment income	977,408	1,037,134
Losses and loss related payments, net	(347,272)	(706,804)
Commissions, expenses paid and aggregate write-ins for deductions	(1,754,458)	(1,346,297)
Federal and foreign income taxes paid	(350,000)	(250,000)
Net cash from operations	1,393,284	1,110,545
<b>Cash from investments</b>		
Proceeds from investments sold, matured and repaid	17,917,710	13,875,276
Costs of investments acquired	(43,162,328)	(14,692,446)
Net cash from investments	(25,244,618)	(817,170)
<b>Cash from financing and miscellaneous sources</b>		
Capital and paid in surplus	24,000,000	-
Other cash provided	31,045	84,159
Net cash from financing and miscellaneous sources	24,031,045	84,159
Change in cash, cash equivalents and short-term investments	179,711	377,534
Cash, cash equivalents and short-term investments, beginning of year	1,281,702	904,168
<b>Cash, cash equivalents and short-term investments, end of year</b>	<u>\$ 1,461,413</u>	<u>\$ 1,281,702</u>

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

HOUSING SPECIALTY INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**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, 2024 and 2023, 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:

*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.

*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.

*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.

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(Continued)



HOUSING SPECIALTY INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*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.

*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 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.

*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.

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(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.

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 and investments with initial maturities of three months or less. Short-term investments include investments with initial maturities of one year or less at date of purchase and are valued in accordance with the Purposes and Procedures Manual prepared by the NAIC Securities Valuation Office (SVO).

The Company leverages sweep accounts, 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. 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.

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

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(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 2024 or 2023.

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 2024 and 2023.

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.

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(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

As of December 31, 2024 and 2023, the Company has recorded a deferred tax liability of \$519 and \$1,038 respectively, referred to as the Tax Cut and Jobs Act (TCJA) transition adjustment, within the net deferred tax asset related to the re-measurement of the Company's discounted loss reserves as a result of IRS Revenue Procedure 2019-06 (RP 2019-06) and Revenue Procedure 2019-31 (RP 2019-31), which were issued in December 2018 and August 2019, respectively, and required the Company to amortize the impact of the retroactive change in discounting over eight years within taxable income. The additional loss reserve discount has been recorded as a deferred tax asset with an offsetting deferred tax liability representing the portion of the retroactive re-measurement of the tax discount to be amortized to income in future years.

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

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

The Company did not record any income tax contingencies or interest and penalties related to any income tax contingencies as of December 31, 2024 and 2023. 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.

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(Continued)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 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.

Recent Accounting Pronouncements: Effective January 1, 2025, the NAIC has implemented significant revisions to the classification of bonds for statutory accounting purposes. These changes are part of the principles-based bond definition project, which redefines the criteria for investments to be treated as bonds. Bonds are now classified based on their economic substance rather than their legal form. The new definitions distinguish between issuer credit obligations and asset-backed securities. Issuer credit obligations are bonds for which the primary source of repayment is the general creditworthiness of an operating entity. Asset-backed securities are bonds backed by financial or cash-generating non-financial assets, where repayment primarily relies on the cash flows from the underlying collateral. SSAP No. 43R, "*Loan-Backed and Structured Securities*" have been updated to reflect these new classifications. Furthermore, SSAP No. 43R has been retitled to SSAP No. 43R, "*Asset-Backed Securities*".

Under the new definitions, some securities previously reported as a bond may no longer meet the definition of a bond. These may include debt securities that don't reflect a creditor relationship in substance, don't qualify for bond reporting due to a lack of substantive credit enhancement, or don't qualify for bond reporting due solely to a lack of meaningful cash flows. These securities will now fall under SSAP No. 21, "*Other Admitted Assets*". All investments held as of January 1, 2025, will need to be evaluated under the revised definitions. This reclassification may affect the reported values and risk-based capital requirements of certain investments. These changes aim to enhance the accuracy and transparency of bond reporting, ensuring that the classification aligns more closely with the economic realities of the investments. The Company is currently evaluating the financial reporting effects of this updated guidance as of the issuance of these statutory financial statements.

Subsequent Events: Subsequent events have been evaluated through May 13, 2025, which is the date the statutory financial statements were available to be issued.

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(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 3 - INVESTMENTS**

Investments, carried at amortized cost and fair value, as of December 31, 2024, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities, at amortized cost				
U.S. government	\$ 27,203,718	\$ 2,365	\$ (554,222)	\$ 26,651,861
U.S. political subdivisions of states, territories and possessions	236,670	-	(18,992)	217,678
U.S. special revenue and special assessment obligations	699,604	-	(119,393)	580,211
Industrial and miscellaneous	20,915,922	256,919	(283,166)	20,889,675
Hybrid securities	925,971	8,652	(17,978)	916,645
Other invested assets	<u>175,000</u>	<u>-</u>	<u>(29,776)</u>	<u>145,224</u>
Total debt securities, at amortized cost	50,156,885	267,936	(1,023,527)	49,401,294
Debt securities, at fair value				
Industrial and miscellaneous	<u>867,749</u>	<u>-</u>	<u>(39,358)</u>	<u>828,391</u>
Total debt securities, at fair value	<u>867,749</u>	<u>-</u>	<u>(39,358)</u>	<u>828,391</u>
Total	<u>\$ 51,024,634</u>	<u>\$ 267,936</u>	<u>\$ (1,062,885)</u>	<u>\$ 50,229,685</u>

Investments, carried at amortized cost and fair value, as of December 31, 2023, were 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	<u>246,530</u>	<u>-</u>	<u>(41,300)</u>	<u>205,230</u>
Total debt securities, at amortized cost	24,978,000	366,545	(872,585)	24,471,960
Debt securities, at fair value				
Industrial and miscellaneous	<u>993,187</u>	<u>-</u>	<u>(77,385)</u>	<u>915,802</u>
Total debt securities, at fair value	<u>993,187</u>	<u>-</u>	<u>(77,385)</u>	<u>915,802</u>
Total	<u>\$ 25,971,187</u>	<u>\$ 366,545</u>	<u>\$ (949,970)</u>	<u>\$ 25,387,762</u>

(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 3 - INVESTMENTS** (Continued)

The amortized cost and fair value of debt securities are shown by contractual maturity as of December 31, 2024. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized <u>Cost</u>	Fair <u>Value</u>
Due to mature		
One year or less	\$ 374,959	\$ 373,733
After one year through five years	19,966,253	19,858,406
After five years through ten years	19,136,073	18,753,389
After ten years	5,333,671	5,032,470
Collateralized debt obligations	3,572,422	3,567,541
Commercial mortgage-backed securities	<u>2,641,256</u>	<u>2,644,146</u>
Total	<u>\$ 51,024,634</u>	<u>\$ 50,229,685</u>

Proceeds from sales of securities amounted to \$14,959,676 and \$12,433,449 in 2024 and 2023, respectively. Gross realized gains amounted to \$89,761 and \$176,995 on the sale of securities in 2024 and 2023, respectively. Gross realized losses amounted to \$313,947 and \$328,400 in 2024 and 2023, respectively.

The Company holds 96 securities that are in an unrealized loss position as of December 31, 2024, of which 54 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, 2024:

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
U.S. government	\$ 20,903,839	\$ (494,554)	\$ 313,053	\$ (59,668)
U.S. political subdivisions of states, territories and possessions	-	-	217,678	(18,992)
U.S. special revenue and special assessment obligations	-	-	580,211	(119,393)
Industrial and miscellaneous	5,444,417	(65,030)	5,484,597	(257,494)
Hybrid securities	198,733	(1,267)	261,503	(16,711)
Other invested assets	<u>-</u>	<u>-</u>	<u>145,224</u>	<u>(29,776)</u>
Total	<u>\$ 26,546,989</u>	<u>\$ (560,851)</u>	<u>\$ 7,002,266</u>	<u>\$ (502,034)</u>

(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 3 - INVESTMENTS (Continued)**

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

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
U.S. government	\$ 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	<u>\$ 3,525,815</u>	<u>\$ (55,982)</u>	<u>\$ 12,441,914</u>	<u>\$ (893,988)</u>

**NOTE 4 - FAIR VALUE MEASUREMENTS**

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

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

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date.

Level 2 - Inputs to the valuation methodology include: (i) Quoted prices for similar assets or liabilities in active markets; (ii) Quoted prices for identical or similar assets or liabilities in inactive markets; (iii) Inputs other than quoted prices that are observable for the asset or liability; or (iv) Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

The following is a description of the valuation methodologies used to measure financial instruments at fair value. The same methodologies were used as of December 31, 2024 and 2023.

(Continued)



HOUSING SPECIALTY INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 4 - FAIR VALUE MEASUREMENTS** (Continued)

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, 2024:

	Admitted Assets	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial instruments (carried at fair value)					
Money market funds	\$ 1,461,413	\$ 1,461,413	\$ -	\$ -	\$ 1,461,413
Debt securities	828,391	-	828,391	-	828,391
Total	2,289,804	1,461,413	828,391	-	2,289,804
Financial instruments (carried at amortized cost)					
Debt securities	50,156,885	-	49,401,294	-	49,401,294
Total	50,156,885	-	49,401,294	-	49,401,294
Total	<u>\$ 52,446,689</u>	<u>\$ 1,461,413</u>	<u>\$ 50,229,685</u>	<u>\$ -</u>	<u>\$ 51,691,098</u>

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

	Admitted Assets	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial instruments (carried at fair value)					
Money market funds	\$ 1,102,443	\$ 1,102,443	\$ -	\$ -	\$ 1,102,443
Debt securities	915,802	-	915,802	-	915,802
Total	2,018,245	1,102,443	915,802	-	2,018,245
Financial instruments (carried at amortized cost)					
Repurchase agreements	300,000	-	300,000	-	300,000
Debt securities	24,978,000	-	24,771,960	-	24,771,960
Total	25,278,000	-	25,071,960	-	25,071,960
Total	<u>\$ 27,296,245</u>	<u>\$ 1,102,443</u>	<u>\$ 25,987,762</u>	<u>\$ -</u>	<u>\$ 27,090,205</u>

(Continued)

**NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)**

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

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

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

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

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

*Collateralized debt obligations 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, 2024 and 2023, 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 2024, the Company ceded \$866,777 and \$77,738 of premium to HAPI and HEIC, respectively, related to this contract. During 2023, the Company ceded \$680,242 and \$73,278 of premium to HAPI and HEIC, respectively, related to this contract.

Effective December 31, 2024, the Company entered into a novation agreement with Innovative Housing Insurance Company (IHIC) and began providing contractual liability insurance coverage to Housing Investment Group, Inc. (HIG), an affiliated company through common management, on a claims made basis. The Company will indemnify HIG against losses arising out of the payment of contractual reimbursement benefits to any of HIG's associates in accordance with the certificate of benefits issued to such associates. Policy limits are defined in each individual certificate of benefit issued. Under the novation agreement, HSIC assumed \$156,338 of premium for the outstanding liabilities at December 31, 2024. No gain or loss was recorded as a result of the novation.

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(Continued)

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

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 2024 and 2023. 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 2024 and 2023, 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, 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.

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(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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

Direct, assumed, and ceded premiums written and earned by the Company for the years ended December 31, 2024 and 2023, are summarized as follows:

	<u>Premiums Written</u>		<u>Premiums Earned</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Direct premiums	\$ 3,720,495	\$ 3,353,717	\$ 3,568,155	\$ 3,130,427
Assumed premiums	156,338	-	-	-
Ceded premiums	<u>(963,333)</u>	<u>(771,000)</u>	<u>(892,125)</u>	<u>(715,597)</u>
Net premiums	<u>\$ 2,913,500</u>	<u>\$ 2,582,717</u>	<u>\$ 2,676,030</u>	<u>\$ 2,414,830</u>

A reconciliation of changes in unpaid losses and loss adjustment expenses, for the years ended December 31, 2024 and 2023, are summarized as follows:

	<u>2024</u>	<u>2023</u>
Balance at beginning of year	\$ 757,527	\$ 877,839
Incurred related to		
Current year	1,749,254	1,151,150
Prior years	<u>(360,531)</u>	<u>(405,985)</u>
Total incurred	1,388,723	745,165
Paid related to:		
Current year	(340,673)	(619,349)
Prior years	<u>(342,069)</u>	<u>(246,128)</u>
Total paid	<u>(682,742)</u>	<u>(865,477)</u>
Balance at end of year	<u>\$ 1,463,508</u>	<u>\$ 757,527</u>

As a result of changes in loss development, the provision for losses and loss adjustment expenses decreased by \$360,531 and \$405,985 in 2024 and 2023, respectively. The decrease in 2024 is mainly related to favorable loss development on property claims related to the 2023 and 2022 accident years. The decrease in 2023 is mainly related to favorable loss development on property claims related to the 2022 accident year.

The Company recorded net reinsurance recovery activity of \$(175,354) and \$22,023 in 2024 and 2023, respectively, which is reflected as a (decrease) increase in losses and loss adjustment expenses incurred in the statutory statements of operations. All losses ceded for the years ended December 31, 2024 and 2023, related to the Company's reinsurance contract with HAPI.

(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**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 \$1,158,458 and \$996,445 for the years ended December 31, 2024 and 2023, respectively. The net amounts due to HARRG under these agreements, which are included in due to affiliates, amounted to \$124,356 and \$104,115 as of December 31, 2024 and 2023, 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 under this agreement in each of the years ended December 31, 2024 and 2023.

The Company maintains a commission agreement with Housing Insurance Services, Inc. (HIS), a subsidiary of HIG 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, 2024 and 2023, commission expense under this agreement amounted to \$186,026 and \$167,684, respectively, which is included in underwriting expenses incurred on the statutory statement of operations. As of December 31, 2024 and 2023, the Company has amounts due to HIS of \$10,195 and \$8,241, respectively, which is included in due to affiliates.

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**

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

HARRG maintains a defined contribution profit sharing plan and is the sponsor of the Housing Authority Risk Retention Group 401(k) Plan, covering substantially all of its employees. The Company recorded profit sharing expenses of \$36,046 and \$36,251 and 401(k) expenses of \$25,992 and \$23,578, for the years ended December 31, 2024 and 2023, respectively. In addition, the Company recorded an expense for incentive compensation of \$83,953 and \$56,360, for the years ended December 31, 2024 and 2023, respectively, which is included within other underwriting expenses incurred on the statutory statements of operations.

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(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**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, 2024 and 2023.

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

During 2024, the Company received capital contributions in the amount of \$24,000,000 from HARRG and HAPI. The capital contributions were provided to assist HSIC in expanding into states with high capital requirements. No capital contributions were received during 2023.

No dividends were declared or paid in 2024 or 2023.

**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, 2024 and 2023 are as follows:

	2024			2023		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Gross deferred tax assets	\$ 59,058	\$ 7,125	66,183	\$ 42,764	\$ 11,155	\$ 53,919
Statutory valuation allowance adjustment	-	-	-	-	-	-
Adjusted gross deferred tax assets	59,058	7,125	66,183	42,764	11,155	53,919
Deferred tax asset non-admitted	818	7,125	7,943	11,060	-	11,060
Net deferred tax asset	58,240	-	58,240	31,704	11,155	42,859
Deferred tax liabilities	(519)	-	(519)	(1,038)	-	(1,038)
Net admitted deferred tax asset	<u>\$ 57,721</u>	<u>\$ -</u>	<u>\$ 57,721</u>	<u>\$ 30,666</u>	<u>\$ 11,155</u>	<u>\$ 41,821</u>

The components of the admissibility calculation under paragraphs 11.a., 11.b. and 11.c. as of December 31, 2024 and 2023, are as follows:

	2024			2023		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Admitted pursuant to 11.a.	\$ 56,431	\$ -	\$ 56,431	\$ 41,000	\$ -	\$ 41,000
Admitted pursuant to 11.b.	1,290	-	1,290	(10,334)	11,155	821
Admitted pursuant to 11.c.	519	-	519	1,038	-	1,038
Admitted deferred tax asset	<u>\$ 58,240</u>	<u>\$ -</u>	<u>\$ 58,240</u>	<u>\$ 31,704</u>	<u>\$ 11,155</u>	<u>\$ 42,859</u>

(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**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, 2023 to December 31, 2024, are as follows:

	Change During 2024		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Gross deferred tax assets	\$ 16,294	\$ (4,030)	\$ 12,264
Statutory valuation allowance adjustment	-	-	-
Adjusted gross deferred tax assets	16,294	(4,030)	12,264
Deferred tax asset non-admitted	<u>(10,242)</u>	<u>7,125</u>	<u>(3,117)</u>
Net deferred tax asset	26,536	(11,155)	15,381
Deferred tax liabilities	<u>519</u>	<u>-</u>	<u>519</u>
Net admitted deferred tax asset	<u>\$ 27,055</u>	<u>\$ (11,155)</u>	<u>\$ 15,900</u>
Admitted pursuant to 11.a.	\$ 15,431	\$ -	\$ 15,431
Admitted pursuant to 11.b.	11,624	(11,155)	469
Admitted pursuant to 11.c.	<u>(519)</u>	<u>-</u>	<u>(519)</u>
Admitted deferred tax asset	<u>\$ 26,536</u>	<u>\$ (11,155)</u>	<u>\$ 15,381</u>

In 2024 and 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 threshold used by the Company for amounts admitted pursuant to 11.b. as of December 31, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Ratio percentage used to determine recovery period and threshold limitation amount	4481%	2631%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	51,166,065	\$ 26,343,799

(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**NOTE 9 - FEDERAL INCOME TAXES** (Continued)

The provisions for incurred taxes on earnings for the years ended December 31, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>	<u>Change</u>
Federal	\$ 275,539	\$ 339,204	\$ (63,665)
Foreign	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	275,539	339,204	(63,665)
Federal income tax on net capital gains	-	-	-
Capital loss carryback	<u>(47,065)</u>	<u>(31,795)</u>	<u>(15,270)</u>
Federal income taxes incurred	<u>\$ 228,474</u>	<u>\$ 307,409</u>	<u>\$ (78,935)</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets as of December 31, 2024 and 2023, are as follows:

	<u>2024</u>	<u>2023</u>	<u>Change</u>
Deferred tax assets			
Ordinary			
Discounting of unpaid losses	\$ 14,105	\$ 7,782	\$ 6,323
Unearned premium reserves	44,532	34,559	9,973
Other	171	109	62
Organization costs	<u>250</u>	<u>314</u>	<u>(64)</u>
Subtotal	59,058	42,764	16,294
Non-admitted ordinary deferred tax assets	<u>(818)</u>	<u>(11,060)</u>	<u>10,242</u>
Admitted ordinary deferred tax assets	58,240	31,704	26,536
Capital			
Unrealized loss	<u>7,125</u>	<u>11,155</u>	<u>(4,030)</u>
Subtotal	7,125	11,155	(4,030)
Non-admitted capital deferred tax assets	<u>(7,125)</u>	<u>-</u>	<u>(7,125)</u>
Admitted capital deferred tax assets	<u>-</u>	<u>11,155</u>	<u>(11,155)</u>
Admitted deferred tax assets	58,240	42,859	15,381
Deferred tax liabilities			
Ordinary			
TCJA transition adjustment	<u>(519)</u>	<u>(1,038)</u>	<u>519</u>
Deferred tax liabilities	<u>(519)</u>	<u>(1,038)</u>	<u>519</u>
Net admitted deferred tax assets	<u>\$ 57,721</u>	<u>\$ 41,821</u>	<u>\$ 15,900</u>

(Continued)



HOUSING SPECIALTY INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**NOTE 9 - FEDERAL INCOME TAXES** (Continued)

The Company has no net operating loss carry-forwards as of December 31, 2024. The Company has no capital loss carry-forwards as of December 31, 2024. During 2024 and 2023, the Company utilized \$224,119 and \$151,405 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 2024 and 2023, 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, 2024 and 2023, are comprised of the following:

	<u>2024</u>	<u>2023</u>	<u>Change</u>
Total deferred tax assets	\$ 66,183	\$ 53,919	\$ 12,264
Total deferred tax liabilities	<u>(519)</u>	<u>(1,038)</u>	<u>519</u>
Net deferred tax asset	65,664	52,881	12,783
Tax effect of unrealized losses	<u>(7,125)</u>	<u>(11,155)</u>	<u>4,030</u>
Change in net deferred income tax	<u>\$ 58,539</u>	<u>\$ 41,726</u>	<u>\$ 16,813</u>

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(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

**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, 2024 and 2023:

	<u>2024</u>			<u>2023</u>		
Provision computed at statutory rate	\$	223,768	21.00 %	\$	315,960	21.00 %
Meals and entertainment		199	0.02		173	0.02
Tax exempt interest		(1,052)	(0.10)		(2,211)	(0.14)
Tax exempt expenses		36	0.00		80	0.02
Proration		254	0.02		533	0.05
State income taxes		(11,218)	(1.05)		-	-
Change in nonadmitted assets		(61)	(0.01)		(20)	(0.01)
True up		<u>(265)</u>	<u>(0.02)</u>		<u>(14,435)</u>	<u>(1.00)</u>
Total federal income taxes incurred	\$	<u>211,661</u>	<u>19.86 %</u>	\$	<u>300,080</u>	<u>19.94 %</u>
Reconciliation						
Federal income taxes	\$	228,474	21.44 %	\$	307,409	20.43 %
Change in net deferred income taxes		<u>(16,813)</u>	<u>(1.58)</u>		<u>(7,329)</u>	<u>(0.49)</u>
Total statutory income taxes	\$	<u>211,661</u>	<u>19.86 %</u>	\$	<u>300,080</u>	<u>19.94 %</u>

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

	<u>Ordinary</u>		<u>Capital</u>		<u>Total</u>
December 31, 2024 (current year)	\$	275,799	\$	-	\$ 275,799
December 31, 2023 (first preceding period)	\$	338,851	\$	-	\$ 338,851
December 31, 2022 (second preceding period)	\$	-	\$	-	\$ -

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

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

(Continued)

HOUSING SPECIALTY INSURANCE COMPANY, INC.  
NOTES TO THE STATUTORY FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**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, 2024 and 2023, amounts reflected as non-admitted assets were as follows:

	<u>2024</u>	<u>2023</u>
Prepaid insurance	\$ 811	\$ 519
Deferred tax assets	<u>7,943</u>	<u>11,060</u>
	<u>\$ 8,754</u>	<u>\$ 11,579</u>

**NOTE 11 - RECONCILIATION TO THE STATUTORY ANNUAL STATEMENT**

There are no material differences between net income and capital and surplus, as reported herein and the Annual Statement as previously filed with the Department for the years ended December 31, 2024 and 2023.

**HOUSING TELECOMMUNICATIONS, INC.**

**FINANCIAL STATEMENTS**

December 31, 2024 and 2023

## 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, 2024 and 2023, 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, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

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

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS, we:

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

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



Crowe LLP

West Hartford, Connecticut  
May 13, 2025

HOUSING TELECOMMUNICATIONS, INC.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 934,291	\$ 1,938,816
Accounts receivable	43,760	92,553
Prepaid expenses and other asset	3,240	9,350
Due from affiliates	<u>22,336</u>	<u>22,666</u>
 Total assets	 <u>\$ 1,003,627</u>	 <u>\$ 2,063,385</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 333,466	\$ 215,932
Due to affiliates	208,119	176,321
Unearned subscription fees	<u>537,657</u>	<u>529,245</u>
Total liabilities	1,079,242	921,498
 Net assets without donor restrictions	 <u>(75,615)</u>	 <u>1,141,887</u>
 Total liabilities and net assets	 <u>\$ 1,003,627</u>	 <u>\$ 2,063,385</u>

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

HOUSING TELECOMMUNICATIONS, INC.  
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
Years Ended December 31, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
<b>Revenue without donor restrictions:</b>		
Subscription fees	\$ 1,102,608	\$ 1,126,705
Contribution revenue	1,000,000	-
Pay per view fees	843,452	934,299
Other income	<u>40,984</u>	<u>275,504</u>
Total revenue without donor restrictions	2,987,044	2,336,508
<b>Expenses</b>		
Salaries and benefits	1,733,888	1,347,027
Program acquisition	567,747	509,254
Donation expense	1,198,000	1,077,000
General and administrative expenses	<u>704,911</u>	<u>574,087</u>
Total expenses	<u>4,204,546</u>	<u>3,507,368</u>
<b>Change in net assets without donor restrictions</b>	(1,217,502)	(1,170,860)
Net assets without donor restrictions, beginning of year	<u>1,141,887</u>	<u>2,312,747</u>
<b>Net assets without donor restrictions, end of year</b>	<u><u>\$ (75,615)</u></u>	<u><u>\$ 1,141,887</u></u>

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



HOUSING TELECOMMUNICATIONS, INC.  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (1,217,502)	\$ (1,170,860)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Changes in assets and liabilities:		
Accounts receivable	48,793	(43,158)
Refundable advance	-	353,839
Prepaid expenses and other asset	6,110	(8,255)
Due from affiliates	330	1,819
Accounts payable	117,534	21,824
Due to affiliates	31,798	38,146
Unearned subscription fees	<u>8,412</u>	<u>(25,638)</u>
Net cash used in operating activities	<u>(1,004,525)</u>	<u>(832,283)</u>
 Net change in cash and cash equivalents	 (1,004,525)	 (832,283)
 Cash and cash equivalents, beginning of year	 <u>1,938,816</u>	 <u>2,771,099</u>
 <b>Cash and cash equivalents, end of year</b>	 <u><u>\$ 934,291</u></u>	 <u><u>\$ 1,938,816</u></u>

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

HOUSING TELECOMMUNICATIONS, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**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 a donation received from Housing Authority Insurance, Inc. (HAI). HAI is an affiliated entity through common management, which 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.

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).

Reclassifications: Certain reclassifications to the 2023 financial statements have been made in order to conform to the 2024 presentation. Such reclassifications did not have a material effect on the financial statements.

Cash and Cash Equivalents: Cash and cash equivalents are comprised of investment sweep accounts and one cash account as of December 31, 2024 and 2023. 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.

The Company leverages sweep accounts, 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.

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(Continued)

HOUSING TELECOMMUNICATIONS, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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, 2024 and 2023, management has not recorded a credit loss against its outstanding accounts receivable as the balance is considered to be fully collectible.

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.

There were no net assets with donor restrictions as of December 31, 2024 and 2023.

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. 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.

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

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.

Current Expected Credit Losses: The Company measures expected credit losses in accordance with FASB ASC 326 "*Financial Instruments – Credit Losses*" (ASC 326). ASC 326 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. As of December 31, 2024 and 2023, management determined that no allowance for credit losses was necessary for its in scope financial instruments.

Subsequent Events: Subsequent events have been evaluated through May 13, 2025, which is the date the financial statements were available to be issued.

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(Continued)

HOUSING TELECOMMUNICATIONS, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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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 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, 2024 and 2023. 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 2021 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, 2024 and 2023, 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 \$2,297,014 and \$1,891,326 for the years ended December 31, 2024 and 2023, respectively. As of December 31, 2024 and 2023, \$208,119 and \$176,321, respectively, was due to HARRG under these agreements and is reflected within due to affiliates on the statements of financial position.

As of December 31, 2024 and 2023, on the statements of financial position within due from affiliates, are receivables from HARRG in the amount \$14,892 and \$13,621, respectively, and from HAPI in the amount of \$7,444 and \$9,045, respectively, related to equity dividends declared by HARRG and HAPI that have been applied to the PHAs' current subscription fees.

The Company recorded a contribution of \$1,000,000 from HAI during 2024. 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 recorded a donation expense during 2024 and 2023 in the amounts of \$1,198,000 and \$1,077,000 to Public and Affordable Housing Research Corporation (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.

**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.

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(Continued)

HOUSING TELECOMMUNICATIONS, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**NOTE 5 - EMPLOYEE BENEFITS (Continued)**

HARRG maintains a defined contribution profit sharing plan and is the sponsor of the Housing Authority Risk Retention Group 401(k) Plan, covering substantially all of its employees. The Company recorded profit sharing expenses of \$87,449 and \$77,258 and 401(k) expenses of \$60,762 and \$54,625, for the years ended December 31, 2024 and 2023. In addition, the Company recorded an expense for incentive compensation of \$212,470 and \$131,099, for the years ended December 31, 2024 and 2023, 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, 2024 and 2023, the Company has financial assets available within one year of the statement of financial position date for general expenditure of \$1,000,387 and \$2,054,035, respectively.

In addition, during 2023, the Company entered into an Intercompany Loan Agreement with HARRG, by which the Company may borrow from HARRG from time to time for a period not to exceed 12 months, an amount at a competitive market-based interest rate charged to HARRG 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, 2024 and 2023, no funds were borrowed.

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, 2024.

	Program <u>Activities</u>	Management and General <u>Activities</u>	Total <u>Expenses</u>
Salaries and benefits	\$ 1,216,890	\$ 516,998	\$ 1,733,888
Donations	1,198,000	-	1,198,000
Program costs	567,747	-	567,747
Office and occupancy	206,132	180,902	387,034
Depreciation	27,890	11,747	39,637
Services and professional fees	66,886	71,465	138,351
Travel, meetings and professional development	80,846	30,482	111,328
Other	<u>5,812</u>	<u>22,749</u>	<u>28,561</u>
Total expenses	<u>\$ 3,370,203</u>	<u>\$ 834,343</u>	<u>\$ 4,204,546</u>

(Continued)

HOUSING TELECOMMUNICATIONS, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**NOTE 7 - FUNCTIONAL EXPENSES** (Continued)

The table below presents expenses by both their nature and their function for the year ended December 31, 2023.

	Program <u>Activities</u>	Management and General <u>Activities</u>	Total <u>Expenses</u>
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	76,234	25,336	101,570
Other	<u>12,403</u>	<u>13,435</u>	<u>25,838</u>
Total expenses	<u>\$ 2,962,735</u>	<u>\$ 544,633</u>	<u>\$ 3,507,368</u>

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

**PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION**

**FINANCIAL STATEMENTS**

December 31, 2024 and 2023

## 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, 2024 and 2023, 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, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

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

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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



## ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS, we:

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

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



Crowe LLP

West Hartford, Connecticut  
May 13, 2025

PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 449,977	\$ 216,854
Accounts receivable	-	15,850
Prepaid expenses and other assets	<u>2,545</u>	<u>1,627</u>
 Total assets	 <u>\$ 452,522</u>	 <u>\$ 234,331</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 109,587	\$ 74,522
Unearned revenue	37,916	30,812
Due to affiliate	<u>108,554</u>	<u>106,369</u>
Total liabilities	256,057	211,703
 Net assets without donor restrictions	 <u>196,465</u>	 <u>22,628</u>
 Total liabilities and net assets	 <u>\$ 452,522</u>	 <u>\$ 234,331</u>

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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, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
<b>Revenue without donor restrictions:</b>		
Contribution revenue	\$ 1,218,500	\$ 1,095,667
Other revenue	<u>96,311</u>	<u>77,881</u>
Total revenue without donor restrictions	1,314,811	1,173,548
<b>Expenses:</b>		
Salaries and benefits	807,530	667,881
General and administrative expenses	<u>333,444</u>	<u>318,968</u>
Total expenses	<u>1,140,974</u>	<u>986,849</u>
<b>Change in net assets without donor restrictions</b>	173,837	186,699
Net assets without donor restrictions, beginning of year	<u>22,628</u>	<u>(164,071)</u>
<b>Net assets without donor restrictions, end of year</b>	<u><u>\$ 196,465</u></u>	<u><u>\$ 22,628</u></u>

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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, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 173,837	\$ 186,699
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Accounts receivable	15,850	(10,850)
Prepaid expenses and other assets	(918)	(1,173)
Accounts payable	35,065	(8,863)
Unearned revenue	7,104	(6,499)
Due to affiliate	2,185	23,727
Deferred grant revenue	-	(353,839)
Net cash provided by (used in) operating activities	<u>233,123</u>	<u>(170,798)</u>
Net change in cash and cash equivalents	233,123	(170,798)
Cash and cash equivalents, beginning of year	<u>216,854</u>	<u>387,652</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 449,977</u></u>	<u><u>\$ 216,854</u></u>

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

PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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**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 contributions received from Housing Telecommunications, Inc. (HTI), which is an affiliated entity through common management, for the years ended December 31, 2024 and 2023. 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 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 investment sweep accounts and one cash account as of December 31, 2024 and 2023. 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.

The Company leverages sweep accounts, 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, 2024 and 2023, management has not recorded a credit loss against its outstanding accounts receivable as the balance is considered to be fully collectible.

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PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION  
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**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.

There were no net assets with donor restrictions as of December 31, 2024 and 2023.

Revenue Recognition: 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 revenue on the statements of financial position. Sponsorship revenue is recorded as revenue pro-rata over the term of the agreement. Consulting income is recognized 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.

Current Expected Credit Losses: The Company measures expected credit losses in accordance with FASB ASC 326 “*Financial Instruments – Credit Losses*” (ASC 326). ASC 326 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. As of December 31, 2024 and 2023, management determined that no allowance for credit losses was necessary for its in-scope financial instruments.

Subsequent Events: Subsequent events have been evaluated through May 13, 2025, 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.

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PUBLIC AND AFFORDABLE HOUSING RESEARCH CORPORATION  
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**NOTE 3 - INCOME TAXES** (Continued)

The Company accounts for income taxes in accordance with FASB ASC 740, "*Income Taxes*", with respect to how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Company did not record any unrecognized tax benefits as of December 31, 2024 and 2023. 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 2021 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, 2024 and 2023, the Company did not record any penalties or interest associated with unrecognized tax benefits.

**NOTE 4 - CONTRIBUTION REVENUE AND OTHER REVENUE**

During 2024 and 2023, the Company received contributions from several donors amounting to \$1,218,500 and \$1,095,667, 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, 2024 and 2023, the Company recorded \$49,679 and \$51,549, respectively, of earned subscription fee revenue, recorded within other revenue on the statements 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, 2024 and 2023, the Company recorded \$29,783 and \$30,812, 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, 2024, the Company recorded \$6,867 of earned consulting fees, recorded within other revenue on the statements of activities and changes in net assets. As of December 31, 2024, the Company recorded \$8,133 of unearned consulting revenue, which represents the unexpired portion of the agreement at year-end and is included in unearned revenue on the statements of financial position.

For the years ended December 31, 2024 and 2023, the Company recorded \$39,765 and \$26,332 of interest income relating to its sweep account, recorded within other revenue on the statements 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 \$1,099,645 and \$982,512 for the years ended December 31, 2024 and 2023, respectively. As of December 31, 2024 and 2023, \$108,554 and \$106,369, respectively, was due to HARRG under these agreements and is reflected within due to affiliate on the statements of financial position.

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**NOTE 5 - AFFILIATE AND RELATED PARTY TRANSACTIONS (Continued)**

The Company recorded contributions of \$1,198,000 and \$1,077,000 from HTI during 2024 and 2023, respectively. The donations were 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 substantially all of its employees. The Company recorded profit sharing expenses of \$40,033 and \$38,088 and 401(k) expenses of \$27,166 and \$23,486, for the years ended December 31, 2024 and 2023, respectively. In addition, the Company recorded an expense for incentive compensation of \$91,892 and \$62,241, for the years ended December 31, 2024 and 2023, 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, 2024 and 2023, the Company has financial assets available within one year of the statement of financial position date for general expenditure of \$449,977 and \$232,704, respectively.

In addition, during 2023, the Company entered into an Intercompany Loan Agreement with HARRG, by which the Company may borrow from HARRG from time to time for a period not to exceed 12 months, an amount at a competitive market-based interest rate charged to HARRG 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, 2024 and 2023, no funds were borrowed.

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

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**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, 2024.

	<u>Program Activities</u>	<u>Management and General Activities</u>	<u>Fundraising Activities</u>	<u>Total Expenses</u>
Salaries and benefits	\$ 533,406	\$ 274,124	\$ -	\$ 807,530
Services and professional fees	59,431	43,147	-	102,578
Travel, meetings and professional development	43,298	23,738	-	67,036
Office and occupancy	59,516	71,537	-	131,053
Depreciation	11,305	5,822	-	17,127
Other	<u>1,049</u>	<u>14,601</u>	<u>-</u>	<u>15,650</u>
Total expenses	<u>\$ 708,005</u>	<u>\$ 432,969</u>	<u>\$ -</u>	<u>\$ 1,140,974</u>

The table below presents expenses by both their nature and their function for the year ended December 31, 2023.

	<u>Program Activities</u>	<u>Management and General Activities</u>	<u>Fundraising Activities</u>	<u>Total Expenses</u>
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	<u>518</u>	<u>11,331</u>	<u>-</u>	<u>11,849</u>
Total expenses	<u>\$ 652,631</u>	<u>\$ 327,109</u>	<u>\$ 7,109</u>	<u>\$ 986,849</u>

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