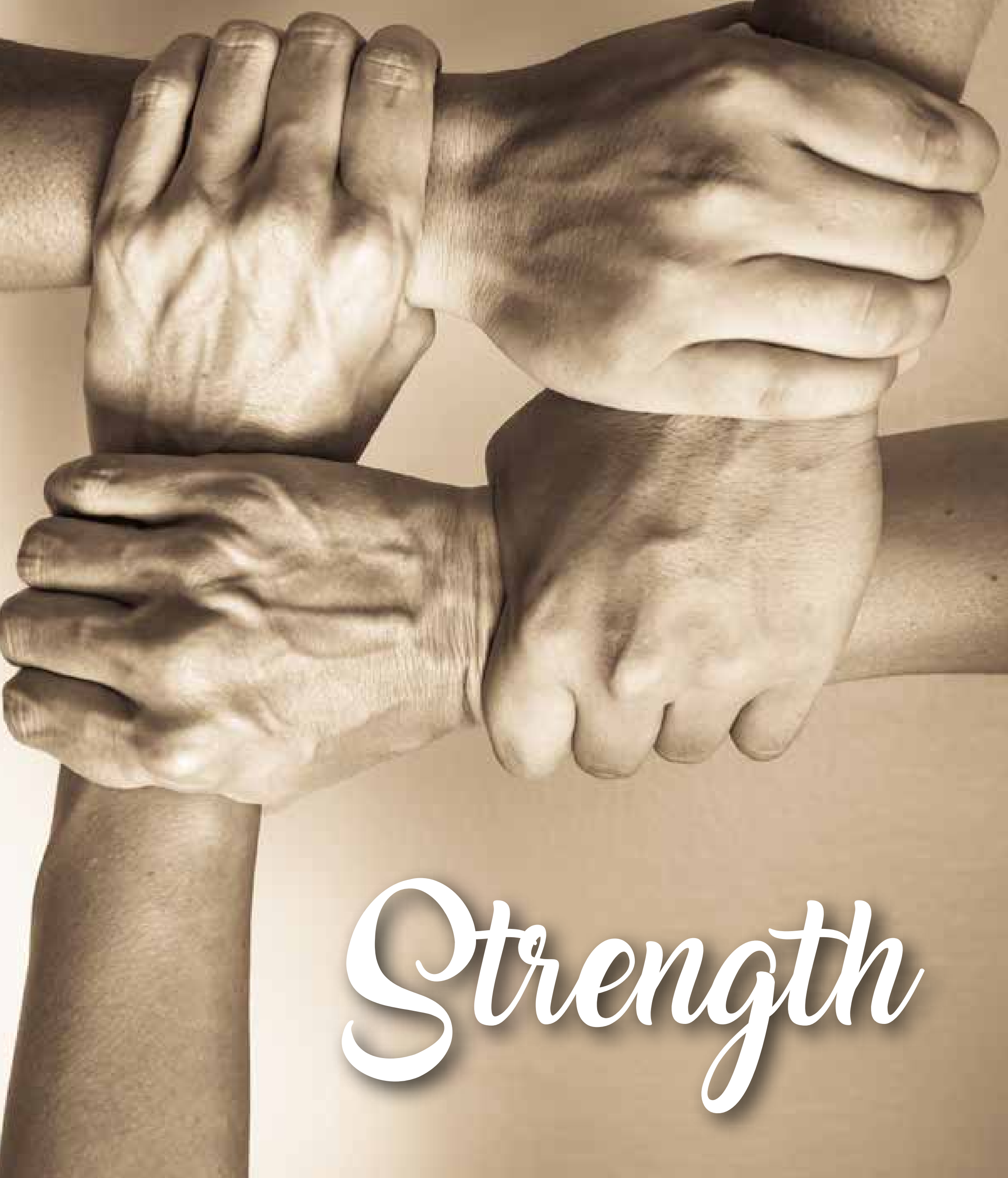
AFFORDABLE
AHRP
HOUSING RISK POOL

2018 ANNUAL REPORT



Strength


AFFORDABLE
AHRP
HOUSING RISK POOL

by the Numbers

Number of Policies Issued:
336

Number of Units:
23,938

Retention Rate:
99%

Number of Certificates of Insurance Issued:
4,752

Number of Claims Opened:
60

Total Insured Value:
$3,267,818,259

MESSAGE from the President & Executive Director

It is a pleasure and a privilege to present the 2018 Annual Report on behalf of the Affordable Housing Risk Pool (AHRP) Board of Directors. It has been almost eight years to the day since AHRP issued its first policy. They say time flies when you're having fun; well the last eight years have flown by!

That's not to say we haven't had our challenges over the past eight years, but with each challenge comes improvements to the program through enhanced coverages, financial security, risk control and claims management. A lot has changed since that first policy went out the door, but one thing remains true: our commitment to providing a high level of services and coverages that are tailored to the unique risks faced by our policyholders.

2018 ushered in the first year of the tiered rating structure. The rating system established at the onset of the pool was state-specific. This rating system was necessary due to the small size of the startup pool and the lack of credible data regarding losses. AHRP's growth and the increasingly predictable nature of claims have allowed the AHRP Board of Directors, in close consultation with actuarial professionals, to implement a rating system that is based on each policy's loss experience as compared to losses in all states in which AHRP operates. This "spreading" of the risk base provides more stability to the program and allocates the cost of the self-insured program to those policies utilizing the resources through high claims frequency or loss severity.

For 2018, the overall claim activity for AHRP was within actuarially indicated levels. There was a policy limits loss due to a wildfire in the fourth quarter, which negatively impacted the pool's performance for the year. AHRP, like most insurance and self-insurance entities, has experienced sharp increases in the cost of reconstruction and the cost of building materials in the past several years. Unfortunately, the frequency of mid-level (<$100,000) losses generated a net operating loss for 2018.

In 2018, a considerable amount of energy was expended examining the current program and ways to meet the needs of the future. The conversation was a mix of old and new; new technologies and ideas mingled with the experience of pool management. The direction into the future promises excitement and systems implemented to improve the delivery of services while providing enhanced information and data to the policyholder. Several priority changes will be unveiled during 2019.

As in years past, competition continues to be one of AHRP's greatest challenges. Commercial carriers are providing a wide range of rates to affordable housing providers. Generally, however, the rate swings are often indicative of variances in coverage scope and quality when compared to AHRP. AHRP continues, and will continue, to price its program as conservatively as possible. AHRP, which is able to stay competitive by keeping its overhead costs down and by offering the only affordable housing risk pool available, continues to provide huge savings to most of the clients it serves.

After twenty-five years of dedicated service to HARRP and its affiliates, Director of Risk Management Al Alvarez has announced his retirement. Due to the void left by Al, there has been an internal shift of duties and training on risk control services and policy services. Adiah Mattern will be moving into the position of Risk Control and Underwriting Specialist, while Torey Plummer has been moved into policy management for HARRP. The Board of Directors also approved funding for a new position for 2019 that will provide much needed assistance in policy management for the pools. We thank Al for his years of exceptional service and wish him the very best in retirement.

Please take the opportunity to learn more about AHRP by reading the material contained within this Annual Report. AHRP is a unique and unparalleled program whose sole purpose is to assist in reducing the fixed cost of insurance to providers of affordable housing. It is AHRP's mission to provide low and stable rates, exceptional service, aggressive claims management and proven risk control services. On behalf of the AHRP Board of Directors, we would like to thank you for the support given to AHRP in 2018. If you are considering AHRP for new or renewing coverage, we thank you and will do our best to surpass your expectations.

Renée Rooker
AHRP President

William Gregory
Executive Director

Development

Several years ago, legislation sponsored by the Housing Authorities Risk Retention Pool (HARRP) was enacted in Washington, Oregon, Nevada and California to provide statutory authorization for the formation and operation of a multi-state insurance pool offering coverage to certain non-public entity affordable housing providers.

Beginning in 2007, the HARRP Board of Directors engaged in extensive evaluation with respect to the feasibility of organizing AHRP to provide coverage to affordable housing entities. This evaluation encompassed a number of considerations, including ownership, governance, capitalization, management, taxation, legal requirements, rates, coverage, underwriting and reinsurance. It entailed the advice of actuaries, reinsurance intermediaries, attorneys, accountants, and other professional advisers. Based on this evaluation, the HARRP Board concluded that organization and operation of a new insurance pool to provide coverage to eligible affordable housing entities was feasible and could provide the high level of financial security, expertise, and service that HARRP's members expect.

HARRP successfully organized Affordable Housing Risk Pool LLC (AHRP) as a wholly owned subsidiary to provide coverage to eligible low-income tax credit limited partnerships, limited liability companies and eligible nonprofit corporations that develop, manage or operate affordable housing. AHRP offers broad coverage, enhanced service and effective risk management to these affordable housing providers.

AHRP was organized as a limited liability company under the Oregon Limited Liability Company Act and is a wholly-owned subsidiary of HARRP. Based on an actuarial feasibility study, HARRP made a $5,000,000 capital contribution to AHRP in February of 2011. AHRP utilizes the same investment management firm as HARRP and adheres to much of the same conservative investment parameters. AHRP's capital is invested predominantly in government bonds with a five-year average maturity, some corporate bonds, and certificates of deposit.

AHRP is a manager-managed limited liability company. The AHRP Board of Directors has full and exclusive responsibility over the management of the business and affairs of AHRP. AHRP's governing documents provide that the AHRP Board be comprised of nine directors, seven of which are Member Affiliated Directors and two of which are Policyholder Affiliated Directors. The Member Affiliated Directors are current HARRP directors selected by HARRP to serve on the AHRP Board. The Member Affiliated Directors appoint the Policyholder Affiliated Directors, who may be employees, officers, partners or managers of an AHRP policyholder, but have no other relationship with HARRP.

Strength

Benefits & Requirements

AHRP provides insurance coverage to nonprofit corporations and tax credit limited partnerships and limited liability companies ("LLCs") that qualify for coverage under applicable state laws. Legislation was enacted in Washington (RCW Chapter 48.64), Oregon (ORS 731.036 (10)), California (California Government Code 6500), and Nevada (NRS 315.140) in order to permit the organization and operation of a multi-state affordable housing entity risk pool, very similar in scope to governmental risk pools. The enabling legislation in the four states is similar in many respects, but each has specific and distinct variances to which AHRP closely adheres.

Nonprofit corporations and tax credit limited partnerships/LLCs that purchase policies from AHRP become policyholders but not members of AHRP, and do not have economic or voting rights in AHRP. Two Policyholder Affiliated Directors represent the interests of policyholders on the AHRP Board.

The types of affordable housing entities that may participate in AHRP are limited to (i) housing authorities, their agencies and instrumentalities, (ii) nonprofit corporations that provide affordable housing and (iii) partnerships, whether general or limited, or limited liability companies that provide affordable housing and are affiliated with a housing authority or nonprofit corporation that provides affordable housing. The state statutes define "affordable housing" to mean a housing project in which some of the dwelling units may be purchased or rented, with or without government assistance, on a basis that is affordable to individuals of low income. Because nonprofit corporations and tax credit limited partnerships/LLCs have projects with varying percentages of low-income units, this definition of "affordable housing" is sufficiently flexible to include most nonprofit corporations and tax credit limited partnerships/LLCs.

The benefits of AHRP are numerous. Because AHRP is exempt from state insurance regulations, it has reduced overhead, a savings which is passed down to policyholders in the form of lower rates. AHRP's growth has surpassed expectations and, as a result, AHRP can boast that it is a risk pooling program with a seven-year track record of success and stability. As growth continues, AHRP will become more attractive to reinsurance partners, which may increase competition and reduce the amount AHRP must pay for reinsurance. These savings may result in lower premiums in the future.

Other benefits include the knowledge and service of the HARRP team of professionals, who go the extra distance to assure that coverage is congruent and exposure to loss is identified, communicated and covered. HARRP's celebration of 30 years providing excellence in risk management, claims administration and service reinforces the advantages of purchasing coverage through AHRP.

Operations

Overview of the Affordable Housing Risk Pool

The Affordable Housing Risk Pool (AHRP) is a manager-managed limited liability company offering coverage to non-governmental affordable housing providers in Washington, Nevada, Oregon and California. Because these providers are not public entities, they are not able to join Housing Authorities Risk Retention Pool (HARRP) which can only provide services for public housing. Therefore, using HARRP and its 30 years of service as a model, they have pooled their collective resources to provide affordable insurance coverage through AHRP. Management authority resides in AHRP's Board of Directors.

AHRP was formed in 2011 as a response to the costs of acquiring commercial insurance. AHRP was formed to pool risk associated with operations conducive to affordable housing. Our programs include property coverages that restore our members' residential and administrative properties, coverage for general liability, and tenant discrimination.

AHRP has an agreement with HARRP whereby HARRP provides AHRP with administrative services, including claims administration, risk management, financial services, underwriting, regulatory oversight, and general administrative functions. Claims adjustors, defense attorneys, actuarial analysis, financial audits and legal counsel are outsourced to firms specializing in pooling, insurance and habitational risks.

AHRP owns and operates a subsidiary insurance agency, ORWACA Agency Insurance Services, LLC, which is dedicated to the procurement of commercial insurance products for AHRP policy purchasers and entities requiring builders' risk coverage. With four insurance agents and a reinsurance intermediary's license, ORWACA focuses on acquiring specialty coverages not provided by AHRP, such as flood, directors' and officers' liability, earthquake and excess limits coverage.

AHRP is a fronted program, meaning it has a contractual relationship with Princeton Excess Surplus Lines Insurance Company (PESLIC) under which PESLIC provides the first dollar coverage and the AM Best rating. AHRP reinsures PESLIC 100% of the first $1,000,000 of coverage. AHRP then purchases reinsurance for claims that may exceed $1,000,000 for casualty and property claims and an additional $45,000,000 for property, in each case from Munich Reinsurance.

RESERVES

To comply with applicable state regulations, AHRP must maintain assets sufficient to pay its anticipated losses and administrative costs. AHRP uses actuarial statistical models to forecast losses for any given year. Also included in AHRP's annual analysis of claims are incurred but not reported losses (IBNR). This provides an additional level of safety when determining funding needs for the pool.

In most cases, property claims settle within a year of the date of loss. Although AHRP attempts to resolve liability claims in an efficient and timely manner, some liability claims may take several years to settle. AHRP establishes a reserve for each and every claim that is expected to result in any expense to the pool. The reserves are frequently reviewed to assure that they reflect the most recent activity on the claim.

continues page 8

Operations continues

INVESTMENTS

AHRP utilizes the services of Morgan Stanley for investment management and custodial agent services. Morgan Stanley manages over $5,000,000 of investments for AHRP. These investments are predominantly in Government Agency bonds, with some corporate bonds and certificates of deposit. AHRP strictly adheres to all applicable governmental regulations, making the portfolio very conservative. Investment revenues are used to offset rates and help cushion swings in claims and costs of reinsurance.

COVERAGE

AHRP provides general liability, property, tenant discrimination and fidelity coverage. The general liability coverage provides for a $2,000,000 combined limit with no annual aggregate. An additional $5,000,000 of excess general liability coverage is available as an option for those entities requiring higher limits. The property coverage provides 125% replacement cost on reported values with limits up to $47,000,000. Fidelity coverage of $100,000 is automatically included in the premium, with higher limits available for purchase. Tenant discrimination coverage provides a $150,000 limit with no annual aggregate.

REINSURANCE

Reinsurance is a risk transfer relationship between commercial insurance companies and an insured entity, whether it be self-insured, such as AHRP, or an entity that has underlying commercial coverage. Reinsurance differs from excess insurance in that reinsurance treaties follow the underlying coverage of the entity purchasing reinsurance. This provides a seamless continuation of coverage through the layers to assure there are no gaps in coverage between the underlying entity and the reinsurer. The benefit of this relationship permits the commercial insurance companies, or self-insured entities, to retain the risk associated with more predictable, frequent, and smaller claims while transferring the risk of less predictable, infrequent, or sometimes catastrophic claims, to a reinsurance company for a previously agreed-upon premium.

Providing pooled coverage for Low Income Housing Tax Credits and affordable housing non-profits presents several obstacles, the most significant of which has been persuading tax credit lenders and syndicators of the financial security of the AHRP program. This challenge was met by providing an AM Best rating acceptable to funders by "fronting" the AHRP program through a highly rated reinsurer, Princeton Excess Surplus Lines Insurance Company (PESLIC) a subsidiary of Munich Reinsurance America. This "fronting" arrangement simply places AHRP in the reinsuring position to the reinsurance company that possesses the necessary AM Best rating.

Coverage continues

EXCESS INSURANCE

The property program purchases excess property coverage from an AM Best A+ IV rated carrier. Purchasing $45,000,000 excess of the program's underlying limits of $2,000,000 assures that catastrophic losses do not impact the program and provides 1.75 times more coverage than any one location's total insured value.

The AHRP program is structured as follows:

2012 THROUGH 2018 PROGRAM STRUCTURE

	Retained	Reinsured	Excess	Combined Limits
Property	**$1,000,000**	**$1,000,000**	**$45,000,000**	**$47,000,000**
Fidelity	**$ 100,000**	**$ N/A**		**$ 100,000**
Liability	**$1,000,000**	**$1,000,000**		**$ 2,000,000**
Tenant Discrimination	**$ 150,000**	**$ N/A**		**$ 150,000**

Claims

UNDERWRITING

Affordable housing entities seeking coverage through AHRP are extensively evaluated by HARRP's staff. New applications are reviewed for potential risk and subsequent risk control measures. The underwriting process focuses heavily on past loss experience, property condition, number of floors, date of construction, media reports, management attitude toward risk management and, most importantly, the reputation of the applying entity. Premiums are based on a variety of factors, including total insured values, number of units, and geographic location.

AHRP utilizes a very stringent matrix of underwriting criteria that must be satisfied before a property is accepted into the pool. This process emulates the underwriting strategies employed by the parent entity, HARRP, to assure that the pool remains fiscally solvent by only accepting quality risks.

CLAIMS MANAGEMENT

AHRP claims are handled by HARRP's claims department under a management agreement between the two entities. HARRP contracts with independent adjusters in each state, which allows for utilization of industry specific professionals to assist in the successful and prompt resolution of a loss.

Evaluation and resolution of claims is an important function of AHRP management. With a 90% satisfaction approval rating on claims handling, the philosophy of AHRP's management and Board of Directors in handling claims is to attempt to obtain the most reasonable settlement and compensate the injured parties when warranted. Claims that lack validity are strenuously defended. AHRP makes every attempt to coordinate with all parties during the course of handling the claim.

RISK MANAGEMENT

AHRP's risk management services are specifically designed to address the unique exposures associated with affordable housing entities. In an effort to minimize both the risk and the financial consequences associated with losses, AHRP's proactive services are based on the proven programs developed and utilized by HARRP. AHRP constantly evaluates and updates its services to reflect the latest advances in training, compliance with state and/or Federal regulations and making available the latest methods to address specific loss trends.

CLAIMS ADMINISTRATION SATISFACTION SURVEY RESULTS

As claims close, staff sends a claim handling satisfaction survey to members. We solicit their responses to evaluate how policyholders perceive AHRP's claim handling performance, as well as the satisfaction levels with the adjusters and attorneys assigned to handle our cases. The results for 2018 are as follows:

	2012	2013	2014	2015	2016	2017	2018
Very Satisfied	60%	75%	93%	88%	84%	100%	90%
Satisfied	40%	17%	7%	12%	16%	0%	10%
Not Satisfied	0%	8%	0%	0%	0%	0%	0%

Please refer to the AHRP web page, **www.affordablehousinginsurance.org** for services.

When your organization uses affiliates or non-profit partner agencies, ORWACA Agency Insurance Services, LLC can assist with your insurance needs. ORWACA has access to social service insurance providers, offering professional executive risk insurance products and general property & casualty coverages. ORWACA also has access to bonding markets for unique situations when surety is required.

The following examples serve as a reference of the type of programs needing coverage and products frequently requested; additional lines of coverage are normally accessible by the ORWACA Agency Insurance Services, LLC:

Services

- **Homeless shelters & transitional housing programs**
- **Private non-profit operations & city/county funded operations**
- **Community mental health providers that include housing solutions**
- **Most service providers at your housing authority's properties**
- **Directors' and officers' insurance for independent non-profit boards related to housing**
- **Professional liability (E&O) and miscellaneous professions**
- **Flood and earthquake**
- **DIC – difference in conditions – broadens property forms**
- **Builder's risk – for property in the course of construction**
- **Policies for property and general liability for affiliates & partner non-profits**
- **Employment practices liability (monoline product policy)**
- **Bonding/surety, notary/bid & performance and miscellaneous bonds**
- **Fund raising or special event policies**
- **Lead based paint professional liability for housing inspectors**
- **Tenant discrimination**
- **Boiler & machinery/mechanical breakdown**
- **Underground storage tank liability & other pollution related coverage**

Dedicated to offering insurance services to HARRP pool members and AHRP policyholders, ORWACA is designed to service housing authorities and non-profit entities as a one stop shop. ORWACA can help when your organization is faced with coverage issues outside the scope of intergovernmental agreements.

Contracted Services

Based on the expertise and specific skillsets of the staff of Housing Authorities Risk Retention Pool (HARRP) in pool management and affordable housing, the AHRP Board of Directors elected to enter into a two-year management agreement under which HARRP provides administrative services for AHRP. This agreement will expire on December 31, 2019.

The HARRP staff provides all management services to AHRP. HARRP staff brings to AHRP almost 98 combined years of expertise, broad experience with the issues faced by pools, insurance industries, housing operations and agency functions, and a deep understanding of the specific tasks faced daily by affordable housing providers.

The management agreement between HARRP and AHRP is designed to reimburse HARRP for time and expense of HARRP's staff to administer the varied functions necessitated by AHRP and the core elements of the AHRP program. These costs are expensed monthly, based on detailed time sheets completed by all HARRP staff members daily. HARRP is reimbursed on a "break even" basis and does not generate a profit providing services to AHRP. Competitive bidding for administrative services is conducted every three years.

On **page 13** is a list of HARRP staff members who provide services to AHRP and a brief description of their respective functions:

Staff

Back Row
Left to Right

- **ROBIN COX**
  Claims Administrator
  New and existing claims, claim status and resolution issues, ORWACA Agency, commercial quotes

- **MICHELLE FRYE**
  Director of Finance
  Accounts receivable, accounts payable, financial statements, human resources

- **REBECCA PLUMMER**
  Policy & Agency Administrator
  Assistance in AHRP policy development, billings, database management and agency support services

- **TOREY PLUMMER**
  Administrative Assistant
  Office management and staff support services

- **ADIAH MATTERN**
  Policy Administrator
  HARRP invoicing and data management, annual coverage renewal issues, requests for insurance certificates, adds and deletes

Front Row
Left to Right:

- **WILLIAM (BILL) GREGORY**
  Executive Director
  Overall management, loss control issues, compliments, complaints, suggestions, coverage issues, board relations, human resources

- **ALBERT (AL) ALVAREZ**
  Director of Risk Management
  Loss control issues, contractual risk transfer issues, risk/loss analysis, training needs, insurance contract evaluation

- **RICK GEHLHAAR**
  Director of Claims
  New and existing claims, claim status and resolution issues, litigation issues, loss control issues

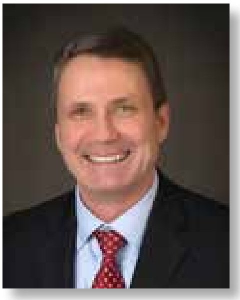
Board Officers

The AHRP Board of Directors is comprised of nine members. Seven directors are designated as Member Affiliated Directors, and they are elected by the HARRP Board of Directors. Two directors are designated as Policyholder Affiliated Directors, and they are appointed by the Member Affiliated Directors.

THE AHRP DIRECTORS, AT THE CLOSE OF 2018

Renée Rooker: Executive Director
Walla Walla Housing Authority
Walla Walla, WA
AHRP President
(Term Ends 2019)

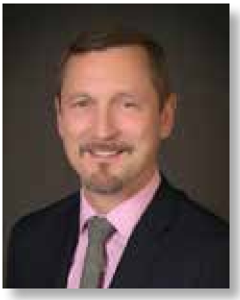
Ken Kugler: Executive Director, Housing Authority of the County of Tulare • Visalia, CA
AHRP Vice President
(Term Ends 2020)



Duane Leonard: Executive Director, Housing Authority of the County of Snohomish • Everett, WA
AHRP Treasurer
(Term Ends 2020)

Board of Directors

The directors are subdivided into three classes, each class with a staggered term of three years. One third of the Board is elected (or appointed) annually, usually in late March or early April. The Board of Directors meets quarterly and is responsible for establishing AHRP policy, rate setting, reinsurance and excess insurance treaties, actuarial analysis, risk management, and overseeing the activities of the contract administrative services.



Jacob Fox: Executive Director
Housing and Community Services
Agency of Lane County
Eugene, OR
(Term Ends 2020)

Marka Turner:
Executive Director
Coos Curry Housing Authority
North Bend, OR
(Term Ends 2021)

Barbara Kauss: Executive
Director Housing Authority
of the County of Stanislaus
Modesto, CA
(Term Ends 2018)

POLICYHOLDER AFFILIATED DIRECTORS

Joel Madsen:
Mid-Columbia Housing
Authority • The Dalles, OR
(Term Ends 2019)

Jodi Erickson: Asset Manager
Willamette Neighborhood
Housing Services • Corvallis, OR
(Term Ends 2021)

INDEPENDENT AUDITORS' REPORT

PERKINS & CO

The Board of Directors
Affordable Housing Risk Pool and Subsidiary
Vancouver, WA

We have audited the accompanying consolidated financial statements of Affordable Housing Risk Pool and Subsidiary (the "Pool") which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations and unassigned surplus and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Affordable Housing Risk Pool and Subsidiary as of December 31, 2018 and 2017, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Management's Discussion and Analysis on pages 3 through 6 and Reconciliation of Claims Liabilities by Type of Coverage and the Yearly Loss Development Information on pages 19 through 21 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the Pool, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to the prepare the consolidated financial statements. We have applied certain limited procedures to the supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Consolidating Information
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 22 and 23 is presented for purposes of additional analysis of the

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Auditor's Report cont...
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consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Perkins & Company, P.C., Portland, OR
April 5, 2018

MANAGEMENT'S DISCUSSION & ANALYSIS

(UNAUDITED)

■ INTRODUCTION

The management of the Affordable Housing Risk Pool LLC ("AHRP") is pleased to offer this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2018. We encourage readers to consider the information presented here in conjunction with AHRP's consolidated financial statements and notes.

■ FINANCIAL HIGHLIGHTS

AHRP's losses were tracking under the actuarially estimated levels for most of the year until a full limits loss occurred in Northern California due to the Camp Fire. As a result of that loss, AHRP and its subsidiary, ORWACA Agency Insurance Services, LLC, experienced an overall decrease in net assets of $479,146 in 2018 compared to an increase of $750,778 in 2017.

■ GENERAL PROGRAM HIGHLIGHTS

AHRP was formed in 2011 as an alternative insurance provider for nonprofit corporations and tax credit limited partnerships and limited liability companies engaged in providing affordable housing. AHRP was organized as a limited liability company under the Oregon Limited Liability Company Act and is a wholly owned subsidiary of the Housing Authorities Risk Retention Pool ("HARRP"). Based on an actuarial feasibility study, HARRP made a $5,000,000 capital contribution to AHRP in February 2011. AHRP utilizes the same investment management firm as HARRP and invests its capital very conservatively. AHRP's capital is predominantly invested in obligations of the U.S. Government, U.S. Government agencies, U.S. Government sponsored agencies, and Corporate Bonds with maturities of less than five years and a limited number of certificates of deposit, each under $255,000 each.

AHRP is a manager-managed limited liability company. The AHRP Board of Directors has full and exclusive responsibility over the management of the business and affairs of AHRP. The AHRP Board is comprised of nine directors, seven of which are Member Affiliated Directors and two are Policyholder Affiliated Directors. The Member Affiliated Directors are individuals who are current directors of HARRP and who are selected by HARRP to serve on the AHRP Board. The Member Affiliated Directors appoint the Policyholder Affiliated Directors, who are employees, officers, partners or managers of an AHRP policyholder, but

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have no other relationship with HARRP or AHRP. The Board of Directors oversees program changes and recommendations, financial overview, underwriting, claims management, and loss control.

Claims administration, risk management, financial services, and underwriting are performed in-house. Claims adjusting, actuarial analysis, financial audits, and legal counsel are outsourced to firms specializing in pooling, habitational risks, employment law, and civil litigation.

■ FINANCIAL STATEMENT OVERVIEW

AHRP reports its financial activities on the accrual method of accounting. AHRP establishes a budget annually to monitor many aspects of the financial status of the pool.

The annual financial report includes a Balance Sheet, Statement of Operations and Unassigned Surplus and a Statement of Cash Flows. This report also contains information to supplement the basic financial statements.

- The Balance Sheet presents information about AHRP's assets and liabilities, and net assets or members' equity. Future increases or a decrease in the members' equity from year to year is an indication of how effectively AHRP is rating its program to assure sufficient funding as well as AHRP's internal administrative efficiency.

- The Statement of Operations and Unassigned Surplus presents information showing total revenues versus total expenses. All revenues and expenses are reported on an accrual basis. In the supplemental information section of the audit report is the Reconciliation of Claims Liabilities by Type of Coverage as well as the Yearly Loss Development Information.

	2018	2017
ANALYSIS OF BALANCE SHEET		
Assets		
Current and Other Assets	$ 9,809,687	$ 7,921,023
Capital Assets	-	-
Total Assets	$ 9,809,687	$ 7,921,023
Liabilities		
Current Liabilities	$ 5,045,443	$ 3,296,093
Noncurrent Liabilities	1,018,759	400,299
Total Liabilities	6,064,202	3,696,392
Unassigned Surplus	3,745,485	4,224,631
Total Liabilities and Unassigned Surplus	$ 9,809,687	$ 7,921,023

For complete information, please refer to the accompanying consolidated financial statements and the related notes to the consolidated financial statements.

continues page 19

The Yearly Loss Development Information schedule for the inception period of 2018 will, over time, show loss development which confirms, or denies, that the originally funded rate was adequate, or inadequate, to cover the cost of losses as the loss matures.

■ ASSETS

Total assets increased by $1,888,664 due to increased amounts in investments, cash and tax deferred assets.

AHRP has approximately $4.5 million invested predominantly in obligations of the U.S. Government, U.S. Government agencies and U.S. Government sponsored agencies government backed securities, Corporate Bonds, and Certificates of Deposit as stipulated by applicable state investment statutes. Income derived from these investments is used to help determine future rates and to offset administrative costs associated with the implementation of services and compliance with local, state and federal statutes.

■ LIABILITIES

AHRP's liabilities are comprised of unearned member contributions (deferred revenue), claim reserves payable at a future date, incurred but not reported ("IBNR") claims, and accounts payable.

ANALYSIS OF THE STATEMENT OF INCOME AND UNASSIGNED SURPLUS

The Statement of Operations and Unassigned Surplus depict the activities of AHRP for the fiscal year ended December 31, 2018. The revenues and expenses are presented on an accrual basis of accounting.

	2018	2017
Revenues		
Member Contributions	$ 4,206,109	$ 4,529,984
Investment Income	16,119	73,913
Other Income	152,499	167,037
Total Revenue	4,374,727	4,770,934
Expenses		
Claims Expense	3,031,659	1,453,338
Administration/Other Expense	1,822,214	2,566,818
Total Expenses	4,853,873	4,020,156
Net Income (Loss)	(479,146)	750,778
Unassigned Surplus, Beginning	4,224,631	3,473,853
Unassigned Surplus, Ending	$ 3,745,485	$ 4,224,631

For complete information, please refer to the accompanying consolidated financial statements and the related notes to the consolidated financial statements.

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■ REVENUES

The predominant source of AHRP's revenue is policies issued and the resulting premium collected. Policyholder premium payments provide revenue for AHRP to manage its objectives of self-insurance and ceding risk. Rates are determined annually based on an actuarial analysis that considers loss trends, exposure units, and other trending factors. Rates are ultimately adopted by the Board of Directors. 2018 marked the first year of a pooled rating formula versus state specific rates. The rationale behind a pooled rating is a greater spread of the risk among all policies issued in the four states that AHRP is legislatively allowed to operate. Property rates are generated on the total insured value for each policy and the general liability rates are based on the number of units (doors).

■ EXPENSES

Pool administration costs are comprised of administration and claims handling costs. In 2018, AHRP's administration expenses decreased by $744,604 or 29% as compared to a decrease of $86,582 or 4% in 2017. The decrease is due primarily to the change of federal and state tax obligations.

Total direct costs for AHRP increased by $1,578,321 or 109% as compared to a decrease of $1,940,617 or 57%, in 2017. This is a result of higher claims compared to actuarially anticipated claims activity.

A critical element in AHRP's business operations are assurances of AHRP's financial strength that are provided to lenders and syndicators. This financial strength is bolstered by AHRP's partnership with a highly regarded global reinsurer, which enables AHRP to maintain an AM Best rating of A+.

■ DEBT ADMINISTRATION

AHRP has no existing or pending long term debt. HARRP, in its discretion, can provide additional capital to AHRP if needed.

■ FORECAST OF FACTS OR CONDITIONS AFFECTING RESULTS OF OPERATIONS

Because AHRP is heavily dependent on reinsurance and fronting, it is subject to many of the same volatile market swings faced by the insurance industry. In an attempt to control the impact of market fluctuations, AHRP's strategy is to aggressively control claim costs and reliance on investment income to absorb market fluctuations. Additionally, AHRP will continue to devise methods of making the program more efficient and less dependent on the insurance industry.

■ FINANCIAL CONTACT

This financial report is designed to provide a general overview of AHRP's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Affordable Housing Risk Pool LLC.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,949,769	$ 2,851,365
Interest receivable	25,070	22,257
Investments	358,011	-
Accounts receivable, net	134,301	75,773
Prepaid expenses	555,087	583,347
Income tax receivable	262,978	27,664
Deferred income tax asset	-	108,518
Total current assets	5,285,216	3,668,924
DEFERRED INCOME TAX ASSET	309,700	54,911
NON-CURRENT INVESTMENTS	4,214,771	4,197,188
	$ 9,809,687	$ 7,921,023
LIABILITIES AND UNASSIGNED SURPLUS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 164,168	$ 78,522
Unearned contributions	2,503,670	2,275,969
Income tax payable	501	7,572
Current portion of losses and loss adjustment expense reserves	2,377,104	934,030
Total current liabilities	5,045,443	3,296,093
NON-CURRENT PORTION OF LOSSES AND LOSS ADJUSTMENT EXPENSE RESERVES	1,018,759	400,299
Total liabilities	6,064,202	3,696,392
CONTINGENCIES (NOTE 8)		
UNASSIGNED SURPLUS	3,745,485	4,224,631
	$ 9,809,687	$ 7,921,023

CONSOLIDATED STATEMENTS OF OPERATIONS AND UNASSIGNED SURPLUS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
OPERATING REVENUES:		
Contributions earned	$ 4,206,109	$ 4,529,984
Commissions	152,499	167,037
Total operating revenues	4,358,608	4,697,021
OPERATING EXPENSES:		
Change in losses and loss adjustment expenses incurred	3,031,659	1,453,338
Excess and reinsurance expense	1,451,486	1,441,288
Professional fees	69,768	60,736
General and administrative expense	444,816	486,206
Total operating expenses	4,997,729	3,441,568
OPERATING INCOME (LOSS)	(639,121)	1,255,453
NON-OPERATING INCOME		
Investment income	16,119	73,913
NET INCOME (LOSS) BEFORE INCOME TAX BENEFIT (EXPENSE)	(623,002)	1,329,366
INCOME TAX BENEFIT (EXPENSE)	143,856	(578,588)
NET INCOME (LOSS)	(479,146)	750,778
UNASSIGNED SURPLUS, BEGINNING OF YEAR	4,224,631	3,473,853
UNASSIGNED SURPLUS, ENDING OF YEAR	$ 3,745,485	$ 4,224,631

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contributions received	$ 4,401,727	$ 4,414,092
Commissions received	126,054	143,513
Interest received	110,247	20,584
Taxes refunded (paid)	(244,800)	(17,773)
Losses and loss adjustment expenses paid	(970,125)	(2,579,211)
Salaries and benefits paid	(245,606)	(255,543)
General and administrative expenses paid	(85,304)	(230,959)
Professional fees paid	(69,768)	(60,736)
Excess insurance expenses paid	(878,475)	(858,313)
Reinsurance expenses paid	(573,011)	(582,975)
Net cash provided by (used in) operating activities	1,570,939	(7,321)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,681,945)	(318,281)
Proceeds from sales and maturities of investments	1,209,410	931,325
Net cash provided by (used in) investing activities	(472,535)	613,044
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,098,404	605,723
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,851,365	2,245,642
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,949,769	$ 2,851,365

	2018	2017
RECONCILIATION OF NET INCOME (LOSS) TO CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income (loss)	$ (479,146)	$ 750,778
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Deferred income taxes	(146,271)	560,815
Change in fair value of investments	96,941	(56,483)
Changes in assets and liabilities:		
Interest receivable	(2,813)	3,154
Accounts receivable, net	(58,528)	63,669
Prepaid expenses	28,260	(75,099)
Income tax receivable	(235,314)	9,200
Accounts payable and accrued expenses	85,646	58,031
Unearned contributions	227,701	(203,085)
Income tax payable	(7,071)	7,572
Losses and loss adjustment expense reserves	2,061,534	(1,125,873)
Net cash provided by (used in) operating activities	$ 1,570,939	$ (7,321)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Affordable Housing Risk Pool (the "Pool") is a wholly owned subsidiary of Housing Authorities Risk Retention Pool ("HARRP") created for the purpose of offering property, general liability, and tenant discrimination coverage to low income housing tax credit and non-profit corporations providing affordable housing. The Pool began operations on March 31, 2011.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of Affordable Housing Risk Pool ("AHRP") and ORWACA Agency Insurance Services, LLC ("Agency"). The Agency is a member managed LLC owned by AHRP (100% ownership). All activity of the Agency from January 1, 2017 to December 31, 2018 has been included in these consolidated financial statements. All significant intercompany transactions have been eliminated in consolidation.

Pool Administration - The Pool has engaged its parent-company, HARRP, to be the service administrator of the Pool. Through a management agreement with HARRP, administration and expenses for services such as securing insurance coverage, marketing, underwriting, preparation of financial statements, claims administration, risk management, billing, collections, contribution audits and other services are paid directly to HARRP. Underwriting expense includes $364,500 and $399,026 (consolidated) in administrative fees for services performed under this agreement in 2018 and 2017, respectively. Included in accounts receivable is $9,462 and $8,933 due from HARRP at December 31, 2018 and 2017, respectively. Included in accounts payable is $1,287 and $7,523 owed to HARRP at December 31, 2018 and 2017, respectively.

Basis of Accounting - This Pool's consolidated financial statements are prepared on the accrual basis of accounting. Under this method, revenues from contributions and interest are recognized when earned and expenses are recorded at the time liabilities are incurred. The Pool applies all applicable Financial Accounting Standards Board ("FASB") pronouncements.

Description of Programs - The Pool's Self Insurance Programs (Auto Liability, General Liability, Errors & Omissions, Property and Employment Practices) were established for the purpose of operating and maintaining a self-insurance or group insurance program. Member contributions for coverage are to be used for the payment of, but not limited to, the following:

- Self-insured claim payments
- Reinsurance premiums
- Claims administration expenses
- Investigative costs
- Legal costs
- Internal administration service costs
- Audit costs
- Actuarial expenses
- Miscellaneous

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The Board of Directors determines contribution requirements annually for the self-insurance programs adequate to fund for internal administration projected losses and excess insurance costs. Policyholder deductibles, self-insured retention ("SIR"), reinsurance and excess insurance for each program are as follows:

GENERAL LIABILITY

Member Deductible:	None
SIR:	$1,000,000 per occurrence
Reinsurance:	$1,000,000 per occurrence

PROPERTY

Member Deductible:	$1,000 to $25,000 per occurrence (varies)
SIR:	$1,000,000 per occurrence
Reinsurance	$1,000,000 per occurrence
Excess:	$2,000,001 to $45,000,000

TENANT DISCRIMINATION

Member Deductible:	None
SIR:	$150,000 per occurrence

***Advertising* -** Advertising costs are expensed as incurred. Advertising expense was $13,422 and $10,679 for the years ended December 31, 2018 and 2017, respectively.

***Cash and Cash Equivalents* -** The Pool considers all highly liquid investments with an original maturity of three months or less and money market mutual funds to be cash equivalents.

***Accounts Receivable* -** Accounts receivable reflects uncollateralized amounts due from policyholders for contributions billed. Contributions are due from policyholders generally prior to the start of the coverage period. Interest is not charged on delinquent balances. Management individually reviews all delinquent balances and works with the housing authority to collect amounts owed. There were no receivable balances delinquent more than 90 days as of December 31, 2018 and 2017. The Pool did not provide an allowance for doubtful accounts as all accounts receivables are considered collectible.

***Unearned Contribution/Prepaid Expenses* -** Policy period-end varies by policyholder. As such, certain contributions are treated as deferred and certain expenses as prepaid. This is to reflect a proper matching of contributions and expenses for the fiscal year-end consolidated financial statements.

***Investments* -** The Pool records its investments at fair market value. Changes in fair market value are reported as revenue in the consolidated statements of operations and unassigned surplus. Fair market value of investments has been determined by the Pool based on quoted market prices. Realized gains (losses) on investments sold and reinvested in 2018 and 2017 were $(25,798) and $(3,258), respectively. The Pool considers all investments to be classified as trading securities. As a result, all unrealized changes in the value of investments are included in the statement of operations.

***Losses and Loss Adjustment Expense* -** The Pool establishes claims liabilities based on estimates of the ultimate cost of claims (including future allocated claim adjustment expense)

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that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability.

Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claim liabilities are charged or credited to expense in the periods in which they are made.

Contribution Revenue - Revenues mainly consist of premium contributions from policyholders. Contribution development is performed by actuaries and the Board of Directors based on the particular characteristics of the policyholders. Contribution income consists of payments from policyholders that are expected to match the expense of insurance premiums for coverage in excess of self-insured amounts, estimated payments resulting from self-insurance programs and operating expenses. The contribution revenue is recognized as revenue in the period for which insurance protection is provided.

Income Tax Status - The income tax provision is based on the asset and liability method. Deferred income tax assets and liabilities have been provided for temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements.

AHRP has been formed as a Limited Liability Company and is taxed as an insurance corporation. The Agency is a Limited Liability Company and wholly owned by AHRP. For tax purposes, the Agency is considered a disregarded entity and its operations are combined with AHRP on AHRP's income tax return.

Management believes the Pool has no material uncertain tax positions and, accordingly it has not recorded a liability for unrecognized tax expense. To the extent that the Pool was assessed interest or penalties associated with income tax positions, such expense would be recognized as an operating expense.

Use of Estimates - In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Adopted Accounting Standards - In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU No. 2014-09 is to recognize revenues when promised goods or services are trans-

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ferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU No. 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2018. The Pool has not yet evaluated the impact of adopting this standard.

On November 20, 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The new guidance will be effective for fiscal years beginning after December 15, 2017. The Pool has not yet evaluated the impact of adopting this standard.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new standard is effective for fiscal years beginning after December 15, 2019 with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Pool has not yet evaluated the impact of the adoption of the new standard on the consolidated financial statements.

NOTE 2 – CASH & CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at December 31:

	2018	2017
Balance per bank	$ 4,128,055	$ 2,911,467
Less: outstanding checks	(178,286)	(60,102)
Total cash and equivalents	$ 3,949,769	$ 2,851,365

The amount of Affordable Housing Risk Pool cash is covered by federal depository insurance up to $250,000.

ORWACA Insurance Agency, LLC's cash is restricted for use by the State of Washington until the premiums are paid to the respective insurance companies.

NOTE 3 – INVESTMENTS

The Pool had the following investments held in a managed portfolio as of December 31:

	2018	2017
Certificates of deposit	$ 2,545,821	$ 1,853,904
Corporate bonds	888,207	1,780,106
Federal agencies	1,138,754	563,178
Total	$ 4,572,782	$ 4,197,188

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Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from changes in interest rates, the Pool's investment policy limits the investment portfolio to maturities of not more than five years from the date of investment.

		Investment Maturities as of December 31, 2018		
Investment Type	Fair Value	<1 yr	1-3 yrs	>3 yrs
Federal agencies	$ 1,138,754	$ 199,239	$ 243,955	$ 695,560
Corporate bonds	888,207	-	-	888,207
Certificates of deposits	2,545,821	158,772	1,292,041	1,095,008
Total investments at fair value	$ 4,572,782	$ 358,011	$ 1,535,996	$ 2,678,775

		December 31, 2017		
Investment Type	Fair Value	<1 yr	1-3 yrs	>3 yrs
Federal agencies	$ 563,178	$ -	$ -	$ 563,178
Corporate bonds	1,780,106	-	654,467	1,125,639
Certificates of deposits	1,853,904	-	1,272,390	581,514
Total investments at fair value	$ 4,197,188	$ -	$ 1,926,857	$ 2,270,331

Credit Risk - It is the Pool's general investment policy to apply the prudent person standard; investments shall be made with judgment and care under circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. Securities eligible for investments are direct obligations of the U.S. Government ("U.S. Treasury obligations"), U.S. Government agency securities and Money Market bank accounts. U.S. Treasury obligations are backed by the full faith and credit of the U.S. Government. Government agency securities are rated "AA+" by Standards and Poor's. Certificates of Deposit are covered by federal depository insurance.

Concentration of Risk - The Pool's investment policy allows for purchase of unlimited quantities of U.S. Treasury obligations, U.S. Government agency securities, or Money Market bank accounts. At December 31, the investments concentrated 5% or more as a percentage of the total investment portfolio were as follows:

	2018 % of Portfolio	2017 % of Portfolio
Certificates of Deposit	55.67%	44.17%
Federal Farm Credit Banks	19.46%	13.42%
Corporate Bonds	19.42%	42.41%

NOTE 4 – FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the consolidated statements of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, are as follows:

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Level 1: Inputs are based upon unadjusted quoted prices for identical assets and liabilities traded in active markets.

Level 2: Inputs are based on quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models and similar techniques.

Fair values of assets measured on a recurring basis at December 31 are as follows:

	Fair Value	Level 1	Level 2	Level 3
December 31, 2018:				
Federal agency securities	$ 1,138,754	$ -	$ 1,138,754	$ -
Corporate bonds	888,207	-	888,207	-
Certificates of deposit	2,545,821	-	2,545,821	-
Total investments at fair value	$ 4,572,782	$ -	$ 4,572,782	$ -

	Fair Value	Level 1	Level 2	Level 3
December 31, 2017:				
Federal agency securities	$ 563,178	$ -	$ 563,178	$ -
Corporate bonds	1,780,106	-	1,780,106	-
Certificates of deposit	1,853,904	-	1,853,904	-
Total investments at fair value	$ 4,197,188	$ -	$ 4,197,188	$ -

NOTE 5 – LOSSES AND LOSS ADJUSTMENT EXPENSES

The Pool establishes a liability for both reported and unreported insured events at undiscounted amounts, which includes estimates of both future payments of losses and related claims adjustment expenses. The following represents changes in liabilities for the Pool during the years ended December 31:

	2018	2017
Losses and loss adjustment expense reserves, beginning of period	$ 1,334,329	$ 2,460,202
Incurred losses and loss adjustment expenses:		
Provision for covered events of the current period	3,731,685	1,770,359
Increase (decrease) in provision for covered events of the prior year	(700,026)	(317,021)
	3,031,659	1,453,338
Payments:		
Losses and loss adjustment expenses attributable to covered events of the current period	896,693	977,138
Losses and loss adjustment expenses attributable to covered events of the prior period	73,432	1,602,073
	970,125	2,579,211
Loss and loss adjustment expense reserves, end of period	$ 3,395,863	$ 1,334,329
Detail of losses and loss adjustment expense reserves		
Current portion	$ 2,377,104	$ 934,030
Long-term portion	1,018,759	400,299
	$ 3,395,863	$ 1,334,329

NOTE 6 – INCOME TAXES

AHRP is taxed as a mutual property/casualty insurance company. Deferred income tax assets result principally from net operating losses, differences between unpaid losses and loss adjustments, unrealized gains and losses, and unearned contributions for financial reporting and tax purposes.

Income tax benefit (expense) consists of the following for the period ended December 31:

	2018	2017
Deferred - Federal	$ 114,074	$ (438,258)
Deferred - Enacted rate reduction	-	(76,915)
Deferred - State	32,197	(45,642)
	146,271	(560,815)
Current - State	(2,415)	(17,773)
	$ 143,856	$ (578,588)

The effective tax rate differs from the rate applied to the AHRP net income before income taxes principally due to differences from state taxes. Tax laws enacted in 2017 lower tax rates beginning in 2018. The deferred income tax asset has been reduced to reflect the newly enacted rates.

The components of the deferred income tax asset are as follows as of December 31:

	2018	2017
Current:		
Unearned contributions	$ -	$ 77,883
Unrealized losses	-	21,169
Loss reserve discount	-	9,466
Total current	-	108,518
Noncurrent:		
Unearned contributions	91,846	-
Unrealized losses	37,981	-
Loss reserve discount	67,138	-
Federal net operating loss	72,152	13,362
State net operating loss	45,181	25,640
Capital loss disallowed	5,894	15,909
Total noncurrent assets	320,092	54,911
Loss reserve discount	(10,392)	-
Net deferred tax asset	$ 309,700	$ 163,429

As of December 31, 2018, AHRP has available federal and state net operating loss carryforwards of approximately $343,000 federal, $129,000 from California and $512,000 from Oregon, respectively, which may provide future tax benefits. The carryforwards begin to expire in 2028.

The Tax Cut and Jobs Act, enacted December 22, 2017, reduced the US federal rate to 21% from 35% beginning January 1, 2018. The Pool measures its deferred tax assets and liabilities

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based on tax laws and tax rates that are enacted or substantively enacted at the end of the reporting period. As this law was enacted in 2017, the deferred taxes were remeasured at this future rate of 21% as of December 31, 2017. The effect of the enacted rate reduction of $76,915 is included in income tax expense.

NOTE 7 – EXCESS INSURANCE AND REINSURANCE

The Pool purchases excess insurance and reinsurance to reduce its financial exposure to loss. The Pool does not report any liabilities that are the responsibility of the reinsurance and, or the excess insurance carrier.

AHRP provides only general liability, property and tenant discrimination coverage. The general liability coverage for AHRP is self-insured at a level of $1,000,000 per occurrence. $1,000,000 of reinsurance has been secured to provide higher limit coverage on both the property and general liability lines. Additionally, AHRP secures $45,000,000 in excess of the underlying $2,000,000 for property losses through an additional excess insurance policy.

NOTE 8 – CONTINGENCIES

In connection with a financing arrangement between HARRP and a third party, the Pool is a grantor and is contingently liable to satisfy the claims of a reinsurer of the Pool should income or working capital of HARRP fall below a specified minimum. In the event the Pool is required to fund amounts pursuant to the above agreement, the Pool may recover the amount of its funding from HARRP, although the terms of such recovery may extend over several future periods.

NOTE 9 – SUBSEQUENT EVENTS

We have evaluated subsequent events through April 6, 2019 the date these consolidated financial statements were available to be issued.

AFFORDABLE AHRP HOUSING RISK POOL

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