AFFORDABLE
AHRP
HOUSING RISK POOL

2019 ANNUAL REPORT

AFFORDABLE AHRP HOUSING RISK POOL

The Affordable Housing Risk Pool´s mission is to provide insurance, risk management and exceptional service, specifically tailored for the affordable housing market and instrumentalities of public housing organizations.

by the Numbers

Number of Policies Issued:
386

Number of Units:
26,558

Number of Certificates of Insurance Issued:
4,103

Number of Claims Opened:
60

Total Insured Value:
$4,078,902,252






MESSAGE

from the President & Executive Director

General George S. Patton once said, "Accept the challenges so that you can feel the exhilaration of victory." While there is no battle, the Affordable Housing Risk Pool (AHRP) has certainly had its share of challenges in 2019. Large property losses, increased pressures from lenders, complexities of rating and the hardening insurance markets; all have presented a series of challenges. AHRP and its Board of Directors are up for the challenge and are working to not only be "victorious", but to position the pool for the foreseeable future.

One of the largest challenges in 2019 was the onset of the insurance industry entering into a hard market, meaning the availability of insurance becomes difficult to purchase, retain and afford. The factors impacting a hardening market are numerous, but the results are the same; higher rates and shrinking availability of insurance. This is a worldwide condition and consumers, both commercial and personal lines, will be impacted. Geography plays an important role in hard markets. Catastrophic claim modeling by insurers have been severely impacted by the dramatic increase in wildfire exposures. Some states have had to pass legislation requiring insurers to write policies that they otherwise would have non-renewed or not written at all. This put a tremendous amount of pressure on costs of acquiring reinsurance and excess insurance for AHRP.

One of the best strategies to counter the impact of hard market conditions is to belong to a risk sharing consortium/pool such as AHRP. The impact of rate increases can be absorbed by multiple agencies, instead of costs attributable to a sole policy. The hardening markets is what catapulted risk sharing pools to the forefront in the 1980's. Pools have strengthened since then and are positioned to withstand hardening markets much better than independent, standalone policies. AHRP, being a multi-state risk sharing pool, adds additional benefits to its policyholders by spreading the risks among a much greater geographical area.

2019 will finish as a good year overall, from the prospective of new claims. New claim activity in 2019 was within the actuarial estimations, however, there were several property claims from 2018 that had adverse development in 2019 which drove up the pool's costs. The 2018 policy limits loss in California has continued to impact the pool, through reinsurance renewals and collateralization requirements. The reinsurance and excess insurance renewals for 2020, released in November of 2019 had remarkable increases and signaled the beginning of the hard market, discussed above.

Since its formation in 2011, AHRP has grown by over 260%. With this growth, the complexities and unique requirements of so many policies have taxed both the administration of the pool and its contracted actuarial service, who develop rates and projections of losses. In depth analysis into methods of simplifying the actuarial studies through different rating proposals have begun. Additionally, a new risk management information system has been purchased and will be launched in 2020. The new software will allow greater flexibility for the staff and provide state of the art access to policy information, renewals, loss history and loss trending tools.

The Board of Directors and staff are working toward completing the goals and opportunities developed in late 2018. There is increased emphasis on communication, customer service and simplifying the complexities of insurance, from the quoting/renewal process to a centralized focus on all the services AHRP and its associated programs provide.

On behalf of the AHRP Board of Directors, we present the 2019 AHRP Annual Report! We would like to sincerely thank our policyholder family for your trust in our services and coverages provided by the pool. We are excited to release some dramatic new services in 2020, all designed to ease the understanding of insurance, risk management, claims, rating and of course, make the whole process of insurance acquisition easier and more effective!

Renée Rooker
AHRP President
Affordable Housing Risk Pool

William Gregory
Executive Director
Affordable Housing Risk Pool

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.

Benefits & Eligibility Requirements

AHRP provides insurance coverage to nonprofit corporations and tax credit limited partnerships and limited liability companies (LLC's) 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 ensure that coverage is congruent and exposure to loss is identified, communicated and covered. HARRP's celebration of 33 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 33 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 risks 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 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 from PESLIC for claims that may exceed \$1,000,000 for casualty and property claims and an additional \$45,000,000 for property 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 ensure that they reflect the most recent activity on the claim.

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INVESTMENTS

AHRP utilizes the services of Morgan Stanley for investment management and custodial agent services. Morgan Stanley manages just under $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 and property coverage provide for a $2,000,000 combined limit with no annual aggregate. An additional $8,000,000 of excess general liability coverage is available as an option for those entities requiring higher limits. The property coverage structure provides an additional $45,000,000 limit and the rates include $100,000 of fidelity coverage. Tenant discrimination coverage provides a $150,000 limit with A $300,000 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 was 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.

EXCESS INSURANCE

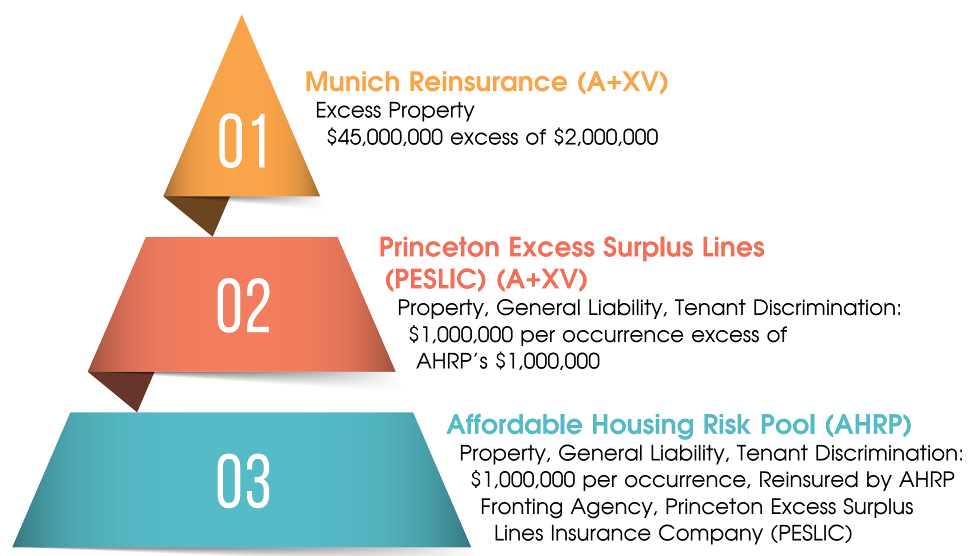
The property program purchases excess property coverage from an AM Best A+ IV rated carrier. Purchasing $45,000,000 excess of the program's underlying limits of $2,000,000 assures that catastrophic losses do not impact the program and provides 1.25 times more coverage than any one location's total insured value.

The AHRP program is structured as follows:

2012 THROUGH 2019 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**

AFFORDABLE HOUSING RISK POOL COVERAGE STRUCTURE, 2011-2019



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.

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

ORWACA AGENCY INSURANCE SERVICES, LLC

When your Housing Authority 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, ORWACA is designed to service housing authorities and non-profit entities as a one stop shop. ORWACA can help when HARRP pool members are faced with coverage issues outside the scope of intergovernmental agreements

Contracted Services

Based on the expertise and specific skill sets 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, 2021.

The HARRP staff provides all management services to AHRP. HARRP staff brings to AHRP almost 105 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:

AHRP Staff

Staff

- **Robin Cox, *Policy & 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
- **Torey Plummer, *Policy Administrator***
  HARRP and AHRP invoicing and data management, annual coverage renewal issues, requests for insurance certificates, adds and deletes
- **Rick Gehlhaar, *Director of Claims***
  New and existing claims, claim status and resolution issues, litigation issues, loss control issues
- **William (Bill) Gregory, *Executive Director***
  *Overall management, loss control issues, com*pliments, complaints, suggestions, coverage issues, board relations, human resources
- **Adiah Mattern, *Risk Control and Underwriting Specialist***
  Loss control issues, contractual risk transfer issues, risk/loss analysis, training needs, insurance contract evaluation
- **Rachel O'Neil, *Administrative Assistant***
  HARRP policy management and renewals, office management and staff support services
- **Rebecca Plummer, *Policy and Agency Administrator***
  AHRP policy processing, billings, database management and AHRP quoting

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 2019, WERE:

Renée Rooker:
Executive Director
Walla Walla Housing Authority
Walla Walla, WA
AHRP President
(term ends 2022)

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 2021)

POLICYHOLDER AFFILIATED DIRECTORS

Joel Madsen:
Mid-Columbia Housing Authority • The Dalles, OR
(Term Ends 2022)

Jodi Erickson: Asset Manager
DevNW• Corvallis, OR
(Term Ends 2021)

Vacant Position

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Affordable Housing Risk Pool and Subsidiary

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Affordable Housing Risk Pool and Subsidiary (the "Pool"), which comprise the consolidated balance sheet as of December 31, 2019, and the related 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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, 2019, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1 to the consolidated financial statements, as of and for the year ended December 31, 2019, the Pool adopted Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). Our opinion is not modified with respect to this matter.

Other Matters
Prior Period Financial Statements
The consolidated financial statements of Affordable Housing Risk Authority and Subsidiary as of December 31, 2018, were audited by other auditors whose report dated March 28, 2019, expressed an unmodified opinion on those statements.

Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Management's Discussion and Analysis on pages 4 through 7 and Reconciliation of Claims Liabilities by Type of Coverage and the Yearly Loss Development Information on pages 22 through 24 are presented for purposes of additional analysis, 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. We have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do

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Auditor's Report cont...
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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.

Other Information
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the Pool's basic financial statements. The consolidated balance sheet and consolidating statement of operations and unassigned surplus are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Moss Adams LLP

Portland, Oregon
March 27, 2020

MANAGEMENT'S DISCUSSION & ANALYSIS

(UNAUDITED)

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, 2019. We encourage readers to consider the information presented here in conjunction with AHRP's consolidated financial statements and notes.

■ FINANCIAL HIGHLIGHTS

AHRP's losses tracked slightly below actuarial indications for 2019. However, there was some adverse development in claim costs from 2018 claims that were discovered and carried in 2019. As a result, AHRP and its subsidiary, ORWACA Agency Insurance Services, LLC, experienced an overall increase of $142,777 in 2019. This increase was also impacted by higher than normal sales of policies through the agency. This slight increase is in comparison to a decrease of $479,146 in 2018.

■ 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.

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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 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. The Yearly Loss Development Information schedule for the inception period of 2019 will, over

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ANALYSIS OF BALANCE SHEET

	2019	2018
ASSETS		
Current and other assets	$ 9,756,611	$ 9,809,687
Total assets	$ 9,756,611	$ 9,809,687
LIABILITIES		
Current liabilities	$ 5,111,601	$ 5,045,443
Noncurrent liabilities	756,748	1,018,759
Total liabilities	5,868,349	6,064,202
UNASSIGNED SURPLUS	3,888,262	3,745,485
Total liabilities and unassigned surplus	$ 9,756,611	$ 9,809,687

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.

AHRP has approximately $4.8 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.

Total assets decreased by $53,076 due to a change in the income tax receivable.

AHRP has approximately $4.8 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 OPERATIONS AND UNASSIGNED SURPLUS

The *Statement of Operations and Unassigned Surplus* depict the activities of AHRP for the fiscal year ended December 31, 2019. The revenues and expenses are presented on an accrual basis of accounting.

	2019	2018
REVENUES		
Member contributions	$ 4,915,422	$ 4,206,109
Investment income	251,655	16,119
Other income	204,022	152,499
Total revenue	5,371,099	4,374,727
EXPENSES		
Claims expense	2,862,559	3,031,659
Administration/other expense	2,365,763	1,822,214
Total expenses	5,228,322	4,853,873
NET INCOME (LOSS)	142,777	(479,146)
Unassigned surplus, beginning	3,745,485	4,224,631
Unassigned surplus, ending	$ 3,888,262	$ 3,745,485

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 2019, AHRP's administration costs increased by $285,552, or 94% over the previous year. In 2018, AHRP's administration costs decreased by $720,684, or 29% over the previous year. The 2019 increase is due primarily to the change of federal and state tax obligations as well as an increase of shared costs between HARRP and AHRP.

Total direct costs for AHRP decreased by $169,098 or 5% as compared to an increase of $1,578,321 or 109%, in 2018. This is a result of changes in claim activity and changes in claim reserves.

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, 2019 AND 2018

ASSETS

	December 31, 2019	December 31, 2018
CURRENT ASSETS		
Cash and cash equivalents	$ 3,821,587	$ 3,949,769
Interest receivable	22,627	25,070
Investments	839,825	358,011
Accounts receivable, net	202,158	134,301
Prepaid expenses	634,902	555,087
Income tax receivable	34,313	262,978
Total current assets	5,555,412	5,285,216
DEFERRED INCOME TAX ASSET	233,711	309,700
NON-CURRENT INVESTMENTS	3,967,488	4,214,771
	$ 9,756,611	$ 9,809,687

LIABILITIES AND UNASSIGNED SURPLUS

	2019	2018
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 100,170	$ 164,168
Unearned contributions	3,370,130	2,503,670
Income tax payable	1,301	501
Current portion of losses and loss adjustment expense reserves	1,640,000	2,377,104
Total current liabilities	5,111,601	5,045,443
NON-CURRENT PORTION OF LOSSES AND LOSS ADJUSTMENT EXPENSE RESERVES	756,748	1,018,759
Total liabilities	5,868,349	6,064,202
CONTINGENCIES		
UNASSIGNED SURPLUS	3,888,262	3,745,485
	$ 9,756,611	$ 9,809,687

CONSOLIDATED STATEMENTS OF OPERATIONS AND UNASSIGNED SURPLUS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	Years Ended December 31, 2019	Years Ended December 31, 2018
OPERATING REVENUES		
Contributions earned	$ 4,915,422	$ 4,206,109
Commissions	204,022	152,499
Total operating revenues	5,119,444	4,358,608
OPERATING EXPENSES		
Change in losses and loss adjustment expenses incurred	2,862,559	3,031,659
Excess and reinsurance expense	1,671,825	1,451,486
Professional fees	32,605	69,768
General and administrative expense	556,308	444,816
Total operating expenses	5,123,297	4,997,729
OPERATING LOSS	(3,853)	(639,121)
NON-OPERATING INCOME		
Investment income	251,655	16,119
NET INCOME (LOSS) BEFORE INCOME TAX BENEFIT (EXPENSE)	247,802	(623,002)
INCOME TAX BENEFIT (EXPENSE)	(105,025)	143,856
NET INCOME (LOSS)	142,777	(479,146)
UNASSIGNED SURPLUS, beginning of year	3,745,485	4,224,631
UNASSIGNED SURPLUS, ending of year	$ 3,888,262	$ 3,745,485

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	Years Ended December 31, 2019	Years Ended December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ 5,714,025	$ 4,401,727
Commissions received	204,022	126,054
Interest received	119,049	110,247
Taxes refunded (paid)	200,429	(244,800)
Losses and loss adjustment expenses paid	(3,861,674)	(970,125)
General and administrative expenses paid	(700,121)	(330,910)
Professional fees paid	(32,605)	(69,768)
Excess and reinsurance insurance expenses paid	(1,671,825)	(1,451,486)
Net cash provided by (used in) operating activities	(28,700)	1,570,939
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,324,482)	(1,681,945)
Proceeds from sales and maturities of investments	1,225,000	1,209,410
Net cash (used in) investing activities	(99,482)	(472,535)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(128,182)	1,098,404
CASH AND CASH EQUIVALENTS, beginning of year	3,949,769	2,851,365
CASH AND CASH EQUIVALENTS, end of year	$ 3,821,587	$ 3,949,769

	Years Ended December 31, 2019	Years Ended December 31, 2018
RECONCILIATION OF NET INCOME (LOSS) TO CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net income (loss)	$ 142,777	$ (479,146)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Change in deferred income taxes	75,989	(146,271)
Change in fair value of investments	(135,049)	96,941
Changes in assets and liabilities		
Interest receivable	2,443	(2,813)
Accounts receivable, net	(67,857)	(58,528)
Prepaid expenses	(79,815)	28,260
Income tax receivable	228,665	(235,314)
Accounts payable and accrued expenses	(63,998)	85,646
Unearned contributions	866,460	227,701
Income tax payable	800	(7,071)
Losses and loss adjustment expense reserves	(999,115)	2,061,534
Net cash provided by (used in) operating activities	$ (28,700)	$ 1,570,939

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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, 2018 to December 31, 2019 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 $473,765 and $364,500 (consolidated) in administrative fees for services performed under this agreement in 2019 and 2018, respectively. Included in accounts receivable is $42,006 and $9,462 due from HARRP at December 31, 2019 and 2018, respectively. Included in accounts payable is $0 and $1,287 owed to HARRP at December 31, 2019 and 2018, 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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Note 1 Policies cont...
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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:	$2,500 to $10,000 per occurrence (varies)
SIR:	$1,000,000 per occurrence
Reinsurance	$1,000,000 per occurrence
Excess:	$2,000,001 to $45,000,000

Advertising
Advertising costs are expensed as incurred. Advertising expense was $11,129 and $13,422 for the years ended December 31, 2019 and 2018, 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. 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. No cash was considered restricted as of December 31, 2019 or 2018.

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, 2019 and 2018. 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 value. Changes in fair value are reported as revenue in the consolidated statements of operations and unassigned surplus. Fair value of investments has been determined by the Pool based on quoted market prices. Realized gains (losses) on investments sold and reinvested in 2019 and 2018 were $135,049 and $(25,798), 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 consolidated statement of operations and unassigned surplus.

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Revenue Recognition
The Pool adopted 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 transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. 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 Pool adopted the standard as of January 1, 2019 and did not experience any changes in revenue recognition as a result of this adoption.

Revenues mainly consist of premium contributions from policyholders. Policyholders are typically those organizations in the affordable housing community, primarily tax credit partnerships, affiliated nonprofits and nonprofit affordable housing owners in Oregon, Washington, Nevada and California. As premiums are paid by members of the Pool, allowances for uncollectible accounts are not deemed necessary due to historically minimal amounts.

Revenue is matched to the period in which the policyholder has obtained coverage. Revenues are amortized over the coverage period.

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.

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) 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 reflects 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.

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Income Tax Status
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.

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.

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 Issued Accounting Standards
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, 2020 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 – INVESTMENTS
The Pool had the following investments held in a managed portfolio as of December 31:

	2019	2018
Certificates of deposit	$ 2,985,818	$ 2,545,821
Corporate bonds	1,035,171	888,207
Federal agency securities	786,324	1,138,754
	$ 4,807,313	$ 4,572,782

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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 Type	Fair Value	Investment Maturities as of December 31, 2019 <1 year	1–3 years	>3 years
Certificates of deposit	$ 2,985,818	$ 591,302	$ 1,104,449	$ 1,290,067
Corporate bonds	1,035,171	-	348,819	686,352
Federal agency securities	786,324	248,522	-	537,802
Total investments at fair value	$ 4,807,313	$ 839,824	$ 1,453,268	$ 2,514,221

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

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 certificates of deposits, corporate bonds and federal agency securities. At December 31, the investments concentrated 5% or more as a percentage of the total investment portfolio were as follows:

	% of Portfolio 2019	2018
Certificates of deposits	62.11%	55.67%
Corporate bonds	21.53%	19.42%
Federal agency securities	16.36%	19.46%

NOTE 3 – FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the consolidated balance sheets 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:

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, 2019				
Certificates of deposit	$ 2,985,818	$ -	$ 2,985,818	$ -
Corporate bonds	1,035,171	-	1,035,171	-
Federal agency securities	786,324	-	786,324	-
Investments at fair value	$ 4,807,313	$ -	$ 4,807,313	$ -

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

NOTE 4 – 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:

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	2019	2018
Losses and loss adjustment expense reserves, beginning of year	$ 3,395,863	$ 1,334,329
Incurred losses and loss adjustment expenses		
Provision for covered events of the current year	2,217,298	3,731,685
Increase (decrease) in provision for covered events of the prior year	645,261	(700,026)
	2,862,559	3,031,659
Payments		
Losses and loss adjustment expenses attributable to covered events of the current year	1,041,907	896,693
Losses and loss adjustment expenses attributable to covered events of the prior year	2,819,767	73,432
	3,861,674	970,125
Loss and loss adjustment expense reserves, end of year	$ 2,396,748	$ 3,395,863
Detail of losses and loss adjustment expense reserves		
Current portion	$ 1,640,000	$ 2,377,104
Long-term portion	756,748	1,018,759
	$ 2,396,748	$ 3,395,863

An increase in provision for covered events of the prior year totaled $645,261. The pool experienced continued unfavorable claims experiences from the 2018 California wildfires.

NOTE 5 – 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 years ended December 31:

	2019	2018
Deferred – Federal	$ (45,305)	$ 114,074
Deferred – State	(30,685)	32,197
	(75,990)	146,271
Current – State	(29,035)	(2,415)
	$ (105,025)	$ 143,856

The effective tax rate differs from the rate applied to the AHRP net income before income taxes principally due to differences from state taxes.

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

	2019	2018
Unearned contributions	$ 128,759	$ 91,746
Unrealized losses	3,186	37,981
Loss reserve discount	21,113	56,746
Federal net operating loss	53,500	72,152
State net operating loss	18,928	45,181
Capital loss disallowed	8,225	5,894
Deferred income tax asset, net	$ 233,711	$ 309,700

As of December 31, 2019, AHRP has available federal and state net operating loss carryforwards of approximately $255,000 federal, $85,000 from California and $523,000 from Oregon, respectively, which may provide future tax benefits. The carryforwards begin to expire in 2028.

The Companies are no longer subject U.S. federal or state and local income tax examinations by tax authorities for years before 2016.

NOTE 6 – 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 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 7 – 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 8 – SUBSEQUENT EVENTS

We have evaluated subsequent events through March 27, 2020, the date these consolidated financial statements were available to be issued.

RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF COVERAGE (UNAUDITED)

YEARS ENDED DECEMBER 31, 2019 AND 2018

The schedule below presents the changes in losses and loss adjustment expenses for the period ending December 31, 2019 and 2018 for the Pool's two types of coverage, property and general liability:

	Property		General and Public Officials' Liability		Totals	
	2019	2018	2019	2018	2019	2018
Losses and loss adjustment expense reserves, beginning of year	$ 2,684,335	$ 473,700	$ 711,528	$ 860,629	$ 3,395,863	$ 1,334,329
Incurred losses and loss adjustment expenses						
Provision for covered events of the current year	1,842,626	3,398,150	374,672	333,535	2,217,298	3,731,685
Increase (decrease) in provision for covered events of the prior year	528,445	(453,676)	116,816	(246,350)	645,261	(700,026)
Total incurred losses and loss adjustment expenses	2,371,071	2,944,474	491,488	87,185	2,862,559	3,031,659
Payments						
Losses and loss adjustment expenses attributable to covered events of the current year	1,037,415	888,019	4,492	8,674	1,041,907	896,693
Losses and loss adjustment expenses attributable to covered events of the prior years	2,340,277	(154,180)	479,490	227,612	2,819,767	73,432
Total payments	3,377,692	733,839	483,982	236,286	3,861,674	970,125
Losses and loss adjustment expense reserves, end of year	$ 1,677,714	$ 2,684,335	$ 719,034	$ 711,528	$ 2,396,748	$ 3,395,863

YEARLY LOSS DEVELOPMENT INFORMATION (UNAUDITED)

DECEMBER 31, 2019 AND 2018

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total required contribution and investment revenue	$ 661,475	$ 1,703,074	$ 2,424,346	$ 3,356,343	$ 3,949,483	$ 4,534,732	$ 4,603,897	$ 4,222,228	$ 5,167,077
Ceded	(167,105)	(525,216)	(796,088)	(1,092,598)	(1,254,357)	(1,310,364)	(1,353,490)	(1,363,842)	(1,588,125)
(1) Net earned required contribution and investment revenues	494,370	1,177,858	1,628,258	2,263,745	2,695,126	3,224,368	3,250,407	2,858,386	3,578,952
(2) Unallocated expenses	320,824	647,149	723,414	923,757	1,003,915	1,201,840	1,136,939	1,325,039	1,025,483
(3) Estimated incurred claims and expense, end of year	178,676	608,575	2,914,141	1,646,914	1,862,539	3,337,216	1,770,359	3,731,685	2,217,298
Ceded	-	-	-	-	-	-	-	-	-
Net incurred	178,676	608,575	2,914,141	1,646,914	1,862,539	3,337,216	1,770,359	3,731,685	2,217,298
(4) Paid (cumulative), end of year	8,090	177,357	1,923,912	967,617	944,946	1,486,246	977,138	896,693	1,041,907
One year later	90,770	584,864	3,142,710	1,610,523	1,418,015	2,950,533	1,205,274	3,412,627	-
Two years later	90,770	874,885	3,178,560	1,673,705	1,437,154	2,722,143	1,244,018	-	-
Three years later	90,770	900,962	3,179,624	1,779,532	1,500,549	2,742,808	-	-	-
Four years later	90,770	900,962	3,192,444	1,789,752	1,744,976	-	-	-	-
Five years later	90,770	900,962	3,192,514	1,789,752	-	-	-	-	-
Six years later	90,770	900,962	3,192,514	-	-	-	-	-	-
Seven years later	90,770	900,962	-	-	-	-	-	-	-
Eight years later	90,770	-	-	-	-	-	-	-	-
(5) Reestimated ceded claims and expenses	-	-	-	-	-	-	-	-	
(6) Reestimated incurred claims and expenses, end of year	178,676	608,575	2,914,141	1,646,914	1,862,539	3,337,216	1,770,359	3,731,685	2,217,298
One year later	110,537	960,064	3,218,437	1,687,099	1,686,127	3,192,191	1,462,313	4,354,707	-
Two years later	99,830	1,030,385	3,197,510	1,765,105	1,579,303	2,819,089	1,366,907	-	-
Three years later	90,770	900,962	3,243,218	1,807,812	1,552,484	2,778,984	-	-	-
Four years later	90,770	900,962	3,195,759	1,789,752	1,763,456	-	-	-	-
Five years later	90,770	900,962	3,192,514	1,789,752	-	-	-	-	-
Six years later	90,770	900,962	3,192,514	-	-	-	-	-	-
Seven years later	90,770	900,962	-	-	-	-	-	-	-
Eight years later	90,770	-	-	-	-	-	-	-	-
(7) Increase (decrease) in estimated incurred claims expense from end of policy year	$ (87,906)	$ 292,387	$ 278,373	$ 142,838	$ (99,083)	$ (558,232)	$ (403,452)	$ 623,022	$ -

YEARLY LOSS DEVELOPMENT INFORMATION (UNAUDITED)

DECEMBER 31, 2019 AND 2018

CLAIMS DEVELOPMENT INFORMATION

The schedule illustrates the Pool's earned revenues (net of reinsurance) and investment income compared to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Pool as of the end of the year.

The rows of the table are defined as follows:

1. This line shows the total of each year's earned contribution revenues and investment revenues.

2. This line shows each year's other operating costs of the Pool including overhead and claims expense not allocable to individual claims. All unallocable administration expenses are charged to the current year.

3. This line shows the Pool's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the year.

4. This section shows the cumulative amounts paid as of the end of the year.

5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each insured year.

6. This annual reestimation results from new information received on known claims, as well as emergence of new claims not previously known.

7. This line compares the latest reestimated incurred claim amount to the amount originally established (line 3) and shows whether this later estimate of claims cost is greater or less than originally estimated.

As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

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