AFFORDABLE
AHRP
HOUSING RISK POOL

7111 NE 179th Street
Vancouver, Washington 98686-1888
Ph: (360) 574-9035 • FAX (360) 574-9401
www.affordablehousinginsurance.com

January 2, 2013

Mr. Rick Combs
Director
Nevada Legislative Counsel Bureau
401 S. Carson Street
Carson City, NV 89701-4747

Re: Affordable Housing Risk Pool LLC—Filing Under NRS 315.725(11)

Dear Director Combs:

Affordable Housing Risk Pool LLC ("AHRP") provides insurance coverage to eligible tax credit limited partnerships and limited liability companies and to eligible nonprofit corporations that develop, manage or operate affordable housing in Washington, Oregon, and California. Although authorized to conduct business in Nevada under NRS 315.725, AHRP does not currently provide coverage to Nevada affordable housing entities as described in the statutory provision. AHRP is affiliated with Housing Authorities Risk Retention Pool ("HARRP"), which provides insurance coverage to approximately 86 public housing authorities in the states of Washington, Oregon, California and Nevada.

NRS 315.725(11) requires AHRP to report to the Director of the Nevada Legislative Counsel Bureau on or before January 15 of each odd-numbered year for transmittal to the Nevada Legislature. This letter, together with the accompanying Plan of Financing, Management and Operation dated June 7, 2012, the 2011 Annual Report, and 2011 audited financial statements are intended to comply with the reporting requirement under NRS 315.725(11). At present, there are no Nevada affordable housing entities participating in the program. Currently AHRP provides coverage to approximately 16,000 affordable housing units in States of Washington, Oregon, and California having total insured value of approximately $1.6 billion. The current aggregate annual premium of AHRP is approximately $1,800,000.

NRS 315.725(11) requires that AHRP provide "any other information the Director deems relevant." Accordingly, please advise if you would like to review any additional information. I will submit to you a copy of the 2012 audited financial statements and 2012 actuarial report when they become available in several months at the same time as they are furnished to the Nevada Insurance Commissioner pursuant to NRS 315.725(6)(a).

Please contact me if you have any questions.

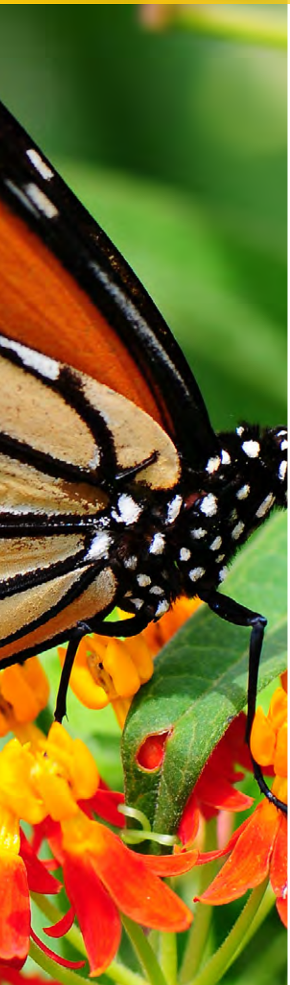
Sincerely,

William Gregory
Executive Director

AFFORDABLE
AHRP
HOUSING RISK POOL

a new
Beginning!

2011
ANNUAL
REPORT



a new Beginning!

It is with pleasure and pride that we present this first Annual Report for the Affordable Housing Risk Pool (AHRP). This report confirms the good news that, after many years of investigation and overcoming obstacles, AHRP has indeed filled a void for stable insurance coverage for affordable housing providers, those providers other than public housing authorities.

Beginning in 2007, Housing Authorities Risk Retention Pool (HARRP) began exploring the best method of providing pooled coverage for Low Income Housing Tax Credits and affordable housing non-profits. These risks have long been excluded from HARRP program as a result of state law limitations and HARRP's tax status. AHRP issued its first policy on March 31, 2011, thus beginning a new chapter in providing cost-effective, reliable and comprehensive coverage for affordable housing entities.

Approved by the States of Washington, Oregon, California and Nevada, AHRP has been developed to meet the requirements of lenders and syndicators for solvency and the ability to protect investors' assets. AHRP has partnered with Munich Reinsurance, an AM Best A+ XV rated carrier to provide the highest level of first dollar financial protection.

The coverage agreement that has been developed for AHRP is specifically adapted to non-governmental affordable housing exposures and comprises general liability, property, fidelity and tenant discrimination coverage. Underwriting, risk management, claims and management of AHRP is achieved through a Management Agreement with HARRP, which possesses 24 years of experience in affordable housing risk management and pooling operations.

All these elements achieve a truly unique product, unlike any other in the country, coupling the financial security of a highly rated insurance company with the benefits of a risk pool. These benefits include a much lower overhead administrative cost resulting in reduced rates, which in turn, allow more of the precious financial resources to be used for affordable housing. This is the same mission that HARRP has focused on since its inception in 1987.

This 2011 Annual Report is certainly good news for affordable housing providers. It signifies that the challenge of developing AHRP has been successfully completed. The challenge going forward is to find new methods of controlling or reducing costs in a sometimes volatile insurance environment, streamlining internal processes and continue to provide the best service available.

A New Beginning, the theme for this inaugural report of AHRP, truly captures the energy and pride in this pooling program. It marks the beginning of what the future holds for insuring affordable housing risks as more governmental funding is redirected and private investment is made in providing affordable housing.

On behalf of the AHRP Board of Directors and HARRP staff, we would like to thank you for the unwavering commitment of the HARRP members regarding the development of AHRP and especially the support given in the last year. The continued success of AHRP depends heavily upon HARRP member support and assistance in spreading the word. AHRP's continued growth only serves to strengthen both pools.

Scott Foster
AHRP President

William Gregory
Executive Director

a new Beginning!

Legislation has been enacted in Washington, Oregon, Nevada and California to provide statutory authorization for the formation and operation of an insurance pool that offers coverage to private affordable housing entities.

Affordable Housing Risk Pool LLC ("AHRP") has been organized as a wholly owned subsidiary of Housing Authorities Risk Retention Pool (HARRP) 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 tax credit limited partnerships/LLCs and nonprofit corporations.

Beginning in 2007, the HARRP Board of Directors engaged in extensive evaluation with respect to the feasibility of organizing AHRP to provide coverage to nonprofit corporations and tax credit limited partnerships/LLCs that develop, manage or operate affordable housing. 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, lawyers, 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 nonprofit corporations and tax credit limited partnerships/LLCs was feasible and would provide the high level of financial security, expertise and service that HARRP's members expect.

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, 2011. AHRP utilizes the same investment management firm as HARRP and adheres to the same conservative investment parameters, predominantly obligations of the U.S. Government, U.S. Government agencies and U.S. Government sponsored agencies, with maturities of less than five years.

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

ELIGIBILITY REQUIREMENTS

AHRP provides insurance coverage to nonprofit corporations and tax credit limited partnerships/LLCs that qualify for coverage under applicable state laws. These nonprofit corporations and tax credit limited partnerships/LLCs will be policyholders of AHRP, but will not be members of AHRP or have economic or voting rights in AHRP. There are two Policyholder Affiliated Directors that will be appointed in early 2012 and will represent the interests of policyholders on the AHRP Board.

Legislation was enacted in Washington (RCW Chapter 48.64), Oregon (ORS 731.036 (10)), California (Assembly Bill 2327) and Nevada (Assembly Bill 130) to permit the organization and operation of an affordable housing entity insurance pool. The state enabling legislation adopts common approaches and definitions. The legislation exempts AHRP from state insurance regulations, thus reducing its compliance expenses.

The types of affordable housing entities that can participate in AHRP are generally 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 for most nonprofit corporations and tax credit limited partnerships/LLCs.

COVERAGE

AHRP provides general liability, property, tenant discrimination and fidelity coverage. The general liability coverage provides for $2,000,000 of coverage with no aggregate. The property coverage provides $65,000,000 of coverage and the rates include $100,000 of fidelity coverage. The tenant discrimination coverage provides $150,000 of coverage with no aggregate. Higher limits of coverage can be placed by any of our licensed agents at ORWACA Agency Insurance Services, Inc.

REINSURANCE

Reinsurance is a risk transfer relationship in which an insurer, whether self-insured like AHRP or a conventional insurance company, passes risk to another insurer, typically a reinsurer. 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 entity passing risk and the reinsurer. The benefit of this relationship permits an insurer, including a self-insured entity, to retain more predictable, frequent and smaller claims while transferring the less predictable, infrequent or sometimes catastrophic claims to the reinsurer for a previously agreed upon premium.

Exemplifying commitment from the start to a worthy project, Munich Reinsurance has been instrumental in the development and deployment of AHRP for reinsurance coverage. Munich Re, an AM Best A+ XV company, provides reinsurance above AHRP's self-insured retention and works behind the scenes to fulfill compliance requirements set forth by lenders and syndicators. AHRP benefits tremendously by Munich's specialization in unique coverage and program partnerships.

Providing pooled coverage for Low Income Housing Tax Credits (LIHTC) and affordable housing nonprofits presented several challenges. Undeniably the largest challenge was the acceptance of the AHRP self-insured program by lenders and syndicators of tax credits with regard to financial solvency. The challenge to provide an AM Best rating conducive to acceptance by funders was successfully achieved by "fronting" the AHRP program through a highly rated reinsurer. 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+ XV rated carrier. Purchasing $63,000,000 excess of the programs underlying limits of $2,000,000 assures that catastrophic losses does not impact the program and provides 1.75 times more coverage than any one location total insured value.

The AHRP program is structured as follows:

2011 Program Structure

	Retained	Reinsured	Excess	Combined Limits
Property	$1,000,000	$1,000,000	$63,000,000	$65,000,000
Liability		$1,000,000	$1,000,000	$ 2,000,000
Tenant Discrimination		$ 150,000	$ N/A	$ 150,000

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Beginning!

UNDERWRITING

Affordable housing risks seeking issuance of coverage through AHRP are evaluated on many fronts. Ultimately, the evaluation of a new application emphasizes potential risk and subsequent risk control measures. The underwriting process focuses heavily on past loss experience, condition of the property, number of floors, date of construction, media reports, management attitude toward risk management and, most importantly, peer opinions on the entity seeking coverage. Premiums are based on various factors such as total insured values, number of units and the State in which the property is Iocated.

AHRP utilizes an underwriting matrix that is analyzed meticulously before acceptance into the program. This process emulates the process conducted by the parent entity, HARRP, to assure that the pool remains fiscally solvent by only accepting quality risks.

CLAIMS MANAGEMENT

AHRP utilizes the services of the Claims Department of HARRP 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 resolution of a loss.

Evaluation and resolution of claims is an important function of AHRP management. The philosophy of AHRP's management and Board of Directors in dealing with claims is to attempt to obtain the most reasonable settlement and compensate the injured parties when compensation is warranted. Claims which lack validity are strenuously defended. AHRP makes every attempt to coordinate all parties with the handling of claims.

RISK MANAGEMENT

AHRP's risk management services are specifically designed to address the unique exposures associated with affordable housing entities. Designed 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 webpage, www.affordablehousinginsurance.org for services.

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AHRP STAFF

Based on the extensive expertise and experience of HARRP's staff in pool management and affordable housing, AHRP entered into a two year management agreement for administrative services with HARRP, under which all management services for AHRP are provided by the staff of HARRP, bringing over 50 combined years of expertise and broad experience faced by pools, insurance, housing operations, agency functions, not to mention specific tasks affordable housing providers face daily.

The management agreement between HARRP and AHRP is designed to reimburse HARRP for time and expense of HARRP's staff to administer AHRP's varied functions and the core elements of its program. These costs are expensed monthly, based on highly detailed time sheets completed by all HARRP staff members daily.

Providing the administrative services for AHRP through 2013 are the following HARRP staff;

From Left to Right:

- **Robin Cox,** ***Policy and Claims Administrator***
  Management, coordination, oversight and control of policy issuance, board meeting issues, new member quotes, requests for insurance certificates, claim administration services

- **William (Bill) Gregory,** ***Executive Director***
  Overall management, loss control issues, complaints, suggestions, coverage issues, board relations, underwriting and anything not listed under other staff members

- **Michelle Frye,** ***Director of Finance***
  Accounts receivable, accounts payable, financial statements and reconciliations

- **Gil Stuart,** ***Account Executive***
  Marketing, ancillary coverage acquisition, excess quotes

Rebecca Plummer, ***Insurance Services Representative***
Provides support services, underwriting evaluations, agency support services, requests for insurance certificates, marketing

Rick Gehlhaar, ***Director of Claims***
New and existing claims, claim status and resolution issues, litigation issues, loss control issues and underwriting

Adiah Swenson, ***Office Services Coordinator***
Daily financial, office, management and client support services, assists in various claim, accounting and risk management duties

Albert (Al) Alvarez, ***Director of Risk Management***
Loss control issues, contractual risk transfer issues, risk/ loss analysis, training needs, insurance contract evaluation and underwriting

AHRP BOARD OF DIRECTORS

The AHRP Board of Directors is comprised of nine members, of which seven are designated as Member Affiliated Directors (elected by the HARRP Board of Directors) and two Policyholder Affiliated Directors appointed by the Member Affiliated Directors.

The Directors are subdivided into three classes, each class with a staggered term of three years. Annually, one third of the Board is elected at the first meeting of the Board of Directors, typically in 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.

There are four Board committees, the Executive, the Claims/Loss Control, the Insurance/Underwriting and the Finance Committee. These committees meet at least one week prior to each Board of Directors meeting.

The AHRP directors are as follows:

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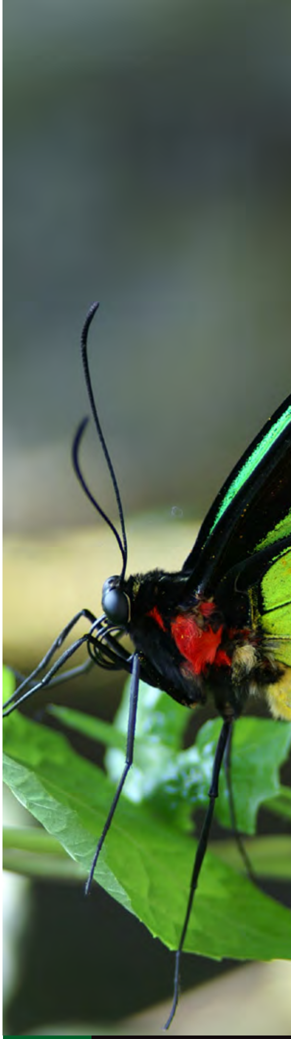
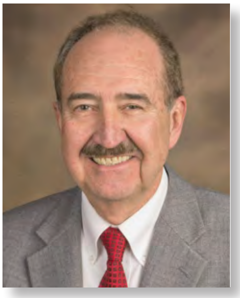
■ **Scott Foster,**
Executive Director
Housing Authority
of Jackson County
Medford, OR
AHRP President
(term ends 2012)

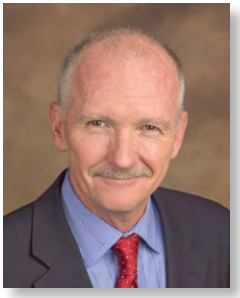
■ **Renee Rooker,**
Executive Director
Walla Walla Housing Authority
Walla Walla, WA
AHRP Vice President
(term ends 2013)



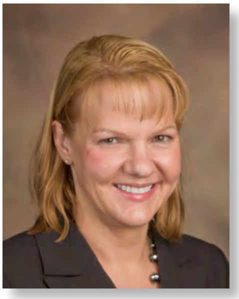


■ **David Morton,**
Executive Director
Housing Authority of
the City of Reno
Reno, NV
AHRP Treasurer
(term ends 2014)

■ **Bud Alkire,**
Executive Director
Everett Housing Authority
Everett, WA
(term ends 2014)



■ **Todd Salvo,** ***CFO***
Home Forward/
Housing Authority
of Portland
Portland, OR
(term ends 2014)



■ **Elise Hui,**
Executive Director
Housing Authority
of Yamhill County
McMinnville, OR
(term ends 2013)

■ **Bill Fagan,**
Executive Director
Housing Authority of
the County of Stanislaus
Modesto, CA
(term ends 2012)

INDEPENDENT AUDITORS' REPORT

PERKINS & CO

The Board of Directors
Affordable Housing Risk Pool
Vancouver, Washington

We have audited the accompanying balance sheet of Affordable Housing Risk Pool (the "Pool") as of December 31, 2011, and the related statement of income and unassigned surplus, and cash flows for the period from inception (March 31, 2011) to December 31, 2011. These financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Affordable Housing Risk Pool as of December 31, 2011 and the results of their operations and their cash flows for the initial period then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 15 through 18 and The Reconciliation of Claims Liabilities by Type of Coverage and the Yearly Loss Development Information on pages 28 through 30 are not a required part of the basic financial statements but are supplementary information presented for the purposes of additional analysis. We have applied certain limited procedures to the required supplementary 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the supplemental information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Perkins & Company, P.C.
Portland, Oregon
April 4, 2012

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 period from inception (March 31, 2011) to December 31, 2011. We encourage readers to consider the information presented here in conjunction with AHRP's consolidated financial statements and notes.

■ FINANCIAL HIGHLIGHTS

Net income for the inaugural 2011 year was $39,763.

■ 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 adheres to the same conservative investment parameters as HARRP, predominantly obligations of the U.S. Government, U.S. Government agencies and U.S. Government sponsored agencies, with maturities of less than five years.

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, of which seven are Member Affiliated Directors and two are Policyholder Affiliated Directors. The Member Affiliated Directors are currently directors of HARRP selected by HARRP. The Member Affiliated Directors will appoint the Policyholder Affiliated Directors, who will be employees, officers, partners or managers of an AHRP policyholder, but will have no other relationship with HARRP or AHRP. There are four standing committees, charged with 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 consists of a Balance Sheet, Statement of Income and Unassigned Surplus and Statement of Cash Flows. This report also contains supplementary information in addition to the basic financial statements.

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

• The Statement of Income and Changes in 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 2011 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.

ANALYSIS OF THE BALANCE SHEET	2011
Assets	
Current and Other Assets	$ 6,075,352
Capital Assets	20,833
Total Assets	$6,096,185
Liabilities	
Current Liabilities	$ 997,697
Noncurrent Liabilities	58,725
Total Liabilities	1,056,422
Unassigned Surplus	5,039,763
Total Liabilities and Unassigned Surplus	$ 6,096,185

Referral to the accompanying financial statements and the related notes for the financial statements is encouraged.

■ ASSETS

Total assets increased by $1,096,185 from the initial capital investment of $5,000,000 from HARRP in February, 2011.

AHRP invests approximately $5.0 million predominantly in obligations of the U.S. Government, U.S. Government agencies and U.S. Government sponsored agencies as stipulated by applicable State investment statutes. Income derived from these investments is used to determine future rates and to offset administrative costs associated with the implementation of services and compliance with local, state and federal statutes.

■ LIABILITIES

Pool liabilities are generally 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 & CHANGES IN UNASSIGNED SURPLUS

The Statement of Income and Changes in Unassigned Surplus depict the activities of AHRP for the period from inception through December 31, 2011. The revenues and expenses are presented on an accrual basis of accounting.

	2011
Revenues	
Member Contributions	$ 582,495
Investment Income	78,980
Total Revenue	661,475
Expenses	
Claims Expense	178,676
Administration/Other Expense	443,036
Total Expenses	621,712
Net Income	39,763
Unassigned Surplus, Beginning of Period	-
Capital Contribution	5,000,000
Unassigned Surplus, End of Period	$ 5,039,763

Referral to the accompanying financial statements and the related notes to the financial statements is encouraged.

■ REVENUES

Members pay premiums to the pool allowing AHRP to manage its objectives of self-insurance and ceding risk. The predominant source of revenue is policies issued and the resulting premium collected. Annually, the rates are determined actuarially, based on loss trends, exposure units, and other trending factors with rates ultimately adopted by the Board of Directors. Each State carries its own specific rates for property exposures and casualty risks, which are based on total insured values and number of units.

■ EXPENSES

Pool administration costs are comprised of administration and claims handling costs. Due to operating for nine months in 2011, AHRP's claim expenses were minimal, while administration costs were consistent with actuarially factored costs that were built into the rates.

A critical element in AHRP's business operations is the assurance provided to lenders and syndicators of AHRP's financial strength. To accomplish this, AHRP has partnered with a highly regarded global reinsurer, which provides the AM Best rating of A+. In doing so, there is significant expense associated with the transfer of risk to the reinsurer, which is expected to increase as a result of the hardening insurance markets in both property and casualty coverage.

■ DEBT ADMINISTRATION

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

FORECAST OF FACTS OR CONDITIONS AFFECTING RESULTS OF OPERATIONS

With the intrinsic reliance on reinsurance, AHRP is subject to many of the same volatile markets swings that the insurance industry faces. Tightening insurance markets, as the industry is experiencing currently, will likely increase reinsurance costs and correspondingly AHRP rates. 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.

BALANCE SHEET

DECEMBER 31, 2011

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 500,508
Interest receivable	42,811
Investments	922,362
Accounts receivable, net	219,061
Prepaid expenses	202,442
Deferred income tax asset	80,625
Total current assets	1,967,809
NON-CURRENT INVESTMENTS	4,107,543
CAPITAL ASSETS, NET	20,833
	$ 6,096,185
LIABILITIES AND UNASSIGNED SURPLUS	
CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 19,768
Unearned contributions	762,823
Payables to tax authorities	95,696
Current portion of losses and loss adjustment expense reserves	119,410
Total current liabilities	997,697
NON-CURRENT PORTION OF LOSSES AND LOSS ADJUSTMENT EXPENSE RESERVES	51,176
DEFERRED TAX LIABILITIES	7,549
Total liabilities	1,056,422
UNASSIGNED SURPLUS	5,039,763
	$ 6,096,185

STATEMENT OF INCOME & UNASSIGNED SURPLUS

THE PERIOD FROM INCEPTION (MARCH 31, 2011) THROUGH DECEMBER 31, 2011

CONTRIBUTIONS EARNED	$ 582,495
OPERATING EXPENSES:	
Change in losses and loss adjustment expenses incurred	178,676
Excess and reinsurance expense	198,105
Professional fees	27,475
General and administrative expense	190,669
Depreciation expense	4,167
Total operating expenses	599,092
OPERATING LOSS	(16,597)
NON-OPERATING INCOME	
Investment income	78,980
NET INCOME BEFORE INCOME TAX	62,383
INCOME TAX EXPENSE	(22,620)
NET INCOME	39,763
UNASSIGNED SURPLUS, beginning of period	-
CAPITAL CONTRIBUTION	5,000,000
UNASSIGNED SURPLUS, end of period	$ 5,039,763

STATEMENT OF CASH FLOWS

THE PERIOD FROM INCEPTION (MARCH 31, 2011) THROUGH DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Contributions received	$ 1,126,257
Losses and loss adjustment expenses paid	(8,090)
Salaries and benefits paid	(82,344)
General and administrative expenses paid	(290,999)
Professional fees paid	(27,475)
Excess insurance expenses paid	(99,592)
Reinsurance expenses paid	(98,513)
Net cash provided by operating activities	519,244
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital contribution	5,000,000
Purchase of fixed assets	(25,000)
Net cash provided by capital and related financing activities	4,975,000
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income received	99,212
Purchase of investments	(7,631,844)
Proceeds from sales and maturities of investments	2,538,896
Net cash flows used in investing activities	(4,993,736)
NET INCREASE IN CASH AND CASH EQUIVALENTS	500,508
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 500,508
RECONCILIATION OF INCREASE IN NET ASSETS TO CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	$ (16,597)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	4,167
Changes in assets and liabilities:	
Accounts receivable	(219,061)
Prepaid expenses	(202,442)
Unearned contributions	762,823
Accounts payable and accrued expenses	19,768
Losses and loss adjustment expense reserves	170,586
Net cash provided by operating activities	$ 519,244
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Non-cash investing and financing activities:	
Decrease in fair market value of investments	$ (63,043)

See notes to financial statements.

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

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 $163,160 in administrative fees for services performed under this agreement in 2011. As a result, included in accounts payable at December 31, 2011 is $10,963 owed to HARRP.

Basis of Accounting - This Pool's 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 (General Liability, Property and Tenant Discrimination) were established for the purpose of operating and maintaining a self-insurance or group insurance program. Policyholder contributions for coverage are to be used for the payment of, but not limited to, the following:

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

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-or-$2,500 to 10% of claim per occurrence
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 $63,000,000

TENANT DISCRIMINATION

Member Deductible:	None- or-$2,500 to 10% of claim per occurrence
SIR:	$150,000 per occurrence

Statement of Cash Flows - The Pool considers interest on investments to be nonoperating revenue; therefore, investment income is presented in the investing section of the Statement of Cash Flows.

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 owing. There were no receivable balances delinquent more than 90 days as of December 31, 2011. 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 financial statements.

Investments - The Pool records its investments at fair market value. Changes in fair market value are reported as revenue in the statement of operations and statement of net assets. Fair market value of investments has been determined by the Pool based on quoted market prices. Realized losses on investments sold in 2011 were $24,769. The Pool considers all investments to be classified as trading securities. As a result all unrealized changes in the value of investments is included in the income statement.

Capital Assets and Depreciation - Capital assets are carried at cost. Depreciation is provided for over the estimated useful lives of the assets using the straight-line method. The useful lives of capital assets are estimated as follows:

Furniture and equipment	3 to 5 years

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 planned 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 and is recognized as revenues 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 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.

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 financial statements.

Management believes the Pool has no material uncertain tax positions and, accordingly it has not recorded a liability for unrecognized tax expense. The Pool is not subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2011, the Pool's inception. 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 financial statements in conformity with accounting principles generally accepted in the United States of America, 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 financial statements, and the reported amounts of revenues and expenses during the reporting actual results could differ from those statements.

Subsequent Events - The Pool has performed an evaluation of subsequent events through April 4, 2012, which is the date these financial statements were available to be issued.

NOTE 2 – CASH & CASH EQUIVALENTS

Cash consisted of the following at December 31, 2011:

Balance per bank	$ 504,214
Less: outstanding checks	(3,706)
Total cash and equivalents	$ 500,508

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

NOTE 3 – INVESTMENTS

The Pool had the following investments held in a managed portfolio as of December 31, 2011:

Investment Type	
Federal agencies	$ 4,933,699
Certificates of deposit	96,206
Total	$ 5,029,905

AHRP's investment policy does not expressly permit certificates of deposits because they are not permitted investments under the investment laws of the four constituent States. The certificates of deposit were purchased by HARRP's investment manager based on the mistaken belief that they were permitted because they are FDIC-insured. During inception these assets were transferred to the Pool as part of HARRP's capital contributions. To avoid prepayment penalties, the Pool has decided to hold the Certificate of Deposits until maturity.

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, 2011		
Investment Type	Fair Value	<1 yr	1-3 yrs	>3 yrs
Federal agencies	$ 4,933,699	$ 826,156	$ 1,651,282	$ 2,456,261
Certificates of deposit	96,206	96,206	-	-
Total investments at fair value	$ 5,029,905	$ 922,362	$ 1,651,282	$ 2,456,261

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, 2011 the investments concentrated 5% or more as a percentage of the total investment portfolio as follows:

	% of Portfolio
Federal Home Loan Banks	27.80%
Federal National Mortgage Association	22.42%
Federal Farm Credit Banks	22.22%
Federal Home Loan Mortgage Corporation	16.89%
Tennessee Valley Authority	8.75%

NOTE 4 – FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the 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 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, 2011 are as follows:

	Fair Value	Level 1	Level 2	Level 3
Federal agencies	$ 4,933,699	$ 4,933,699	$ -	$ -
Certificates of deposit	96,206	-	96,206	-
	$ 5,029,905	$ 4,933,699	$ 96,206	$ -

NOTE 5 – CAPITAL ASSETS

Capital assets are as follows for 2011:

	Balance at 3/31/11	Additions	Retirements	Balance at 12/31/11
Furniture and Equipment	$ -	$ 25,000	$ -	$ 25,000
Less Depreciation	-	(4,167)	-	(4,167)
Net Capital Assets	$ -	$ 20,833	$ -	$ 20,833

Depreciation expense was $4,167 for the period ended December 31, 2011.

NOTE 6 – 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 period ended December 31, 2011:

Losses and loss adjustment expense reserves, beginning of period	$ -
Incurred losses and loss adjustment expenses:	
Provision for covered events of the current period	178,676
Payments:	
Losses and loss adjustment expenses attributable to covered events of the current period	8,090
Loss and loss adjustment expense reserves, end of period	$ 170,586
Detail of losses and loss adjustment expense reserves	
Current portion	$ 119,410
Long-term portion	51,176
	$ 170,586

NOTE 7 – INCOME TAXES

Income tax expense (benefit) consists of the following for the period ended December 31, 2011:

Current - Federal	$ 86,818
Current - State	8,878
	95,696
Deferred - Federal	(66,297)
Deferred - State	(6,779)
	(73,076)
	$ 22,620

The 2011 effective tax rate differs from the rate applied to the net income before income taxes principally due to differences from state taxes.

Deferred income tax assets result principally from differences between unpaid losses and loss adjustment expenses, unrealized gains and losses, depreciation and unearned contributions for financial reporting and tax purposes.

The components of the deferred income tax asset (liabilities) are as follows as of December 31, 2011:

Deferred tax assets:	
Unearned contributions	$ 55,271
Unrealized losses	22,819
Loss reserve discount	2,535
	80,625
Deferred tax liabilities:	
Tax in excess of book depreciation	(7,549)
Net deferred tax assets	$ 73,076

NOTE 8 – EXCESS INSURANCE AND REINSURANCE

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

The Pool provides general liability, property and tenant discrimination coverage. The general liability coverage for the Pool 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, the Pool secures $63,000,000 in excess of the underlying $2,000,000 for property losses through an additional excess insurance policy.

SUPPLEMENTARY INFORMATION

RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF COVERAGE

THE PERIOD FROM INCEPTION (MARCH 31, 2011) THROUGH DECEMBER 31, 2011

(UNAUDITED)

The schedule below presents the changes in losses and loss adjustment expenses for the period ending December 31, 2011 for the Pool's two types of coverage, property, and general liability:

	Property	General Liability	Totals
Losses and loss adjustment expense reserves beginning of period	$ -	$ -	$ -
Incurred losses and loss adjustment expenses:			
Provision for covered events of the current period	158,676	20,000	178,676
Payments:			
Losses and loss adjustment expenses attributable to covered events of the current period	6,015	2,075	8,090
Losses and loss adjustment expense reserves end of period	$ 152,661	$ 17,925	$ 170,586

YEARLY LOSS DEVELOPMENT INFORMATION

DECEMBER 31, 2011

(UNAUDITED)

	Fiscal and Policy Period Ended December 31, 2011
Total Required Contribution and Investment Revenue	$ 661,475
Ceded	(167,105)
(1) Net Earned Required Contribution and Investment Revenues	494,370
(2) Unallocated Expenses	499,500
(3) Estimated Incurred Claims and Expense	
End of Period	178,676
Ceded	-
Net Incurred	178,676
(4) Paid (Cumulative) End of Period	8,090
(5) Reestimated Ceded Claims and Expenses	-
(6) Reestimated Incurred Claims and Expenses End of Period	178,676
(7) Increase (Decrease) in Estimated Incurred Claims Expense from End of Policy Period	$ -

YEARLY LOSS DEVELOPMENT INFORMATION

DECEMBER 31, 2011

(UNAUDITED) CONTINUED

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 period's earned contribution revenues and investment revenues.
2. This line shows each period'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 period.
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 period.
4. This section shows the cumulative amounts paid as of the end of the period.
5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current period for each insured period.
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 periods 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 periods. This is the first period of the presentation and development of this information. In subsequent years as this information is developed, comparative years and reestimation will be presented.

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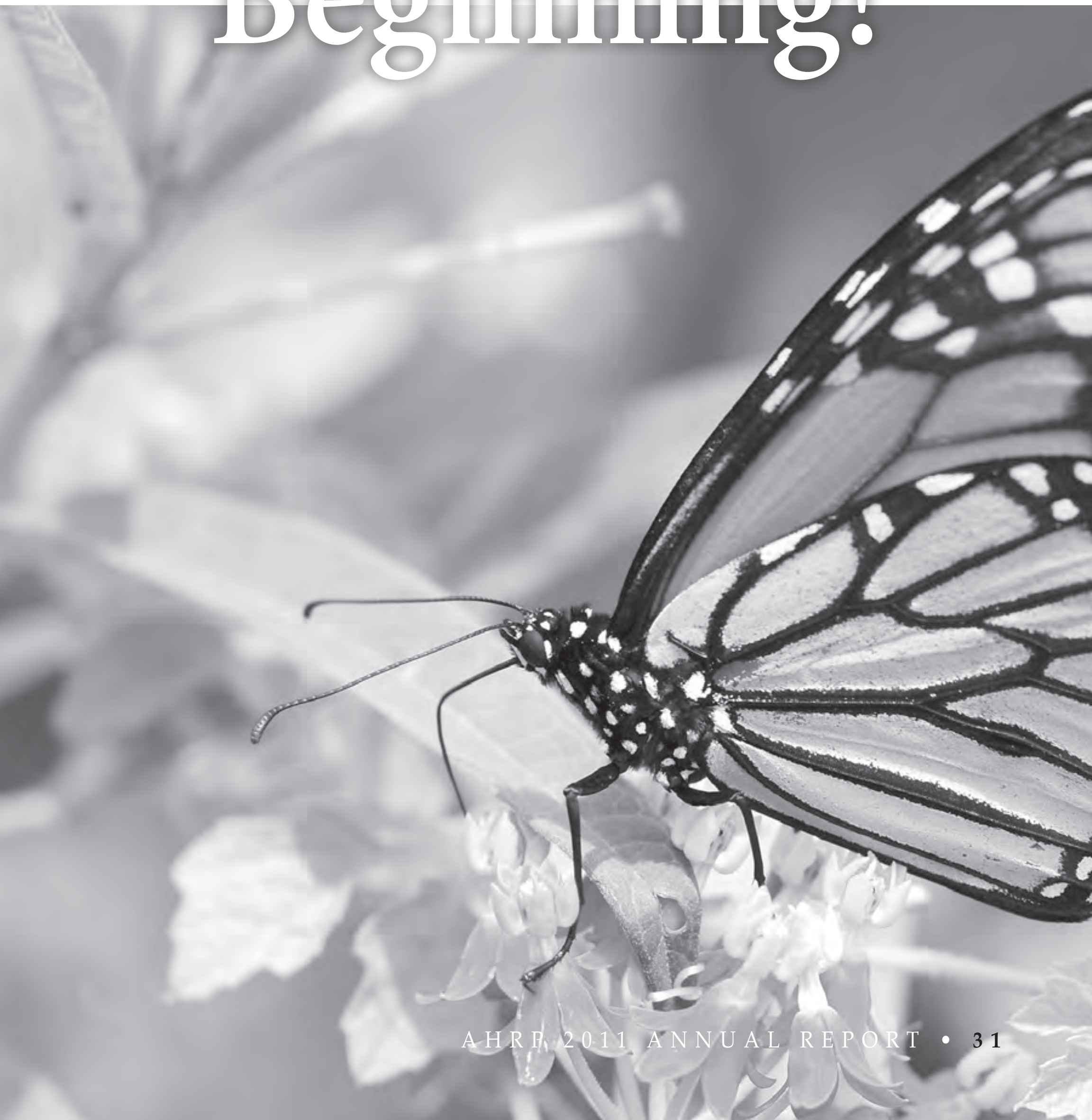

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AFFORDABLE HOUSING RISK POOL

Management's Discussion and Analysis,
Financial Statements and Supplementary Information
For the Period Ended December 31, 2011
With Independent Auditors' Report

PERKINS & CO

AFFORDABLE HOUSING RISK POOL
DECEMBER 31, 2011
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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Affordable Housing Risk Pool
Vancouver, Washington

We have audited the accompanying balance sheet of Affordable Housing Risk Pool (the "Pool") as of December 31, 2011, and the related statement of income and unassigned surplus, and cash flows for the period from inception (March 31, 2011) to December 31, 2011. These financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Affordable Housing Risk Pool as of December 31, 2011 and the results of their operations and their cash flows for the initial period then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 5 and The Reconciliation of Claims Liabilities by Type of Coverage and the Yearly Loss Development Information on pages 16 through 18 are not a required part of the basic financial statements but are supplementary information presented for the purposes of additional analysis. We have applied certain limited procedures to the required supplementary 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the supplemental information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Perkins & Company, P.C.

April 4, 2012

AFFORDABLE HOUSING RISK POOL
MANAGEMENT'S DISCUSSION AND 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 period from inception (March 31, 2011) to December 31, 2011. We encourage readers to consider the information presented here in conjunction with AHRP's consolidated financial statements and notes.

FINANCIAL HIGHLIGHTS

Net income for the inaugural 2011 year was $39,763.

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 adheres to the same conservative investment parameters as HARRP, predominantly obligations of the U.S. Government, U.S. Government agencies and U.S. Government sponsored agencies, with maturities of less than five years.

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, of which seven are Member Affiliated Directors and two are Policyholder Affiliated Directors. The Member Affiliated Directors are currently directors of HARRP selected by HARRP. The Member Affiliated Directors will appoint the Policyholder Affiliated Directors, who will be employees, officers, partners or managers of an AHRP policyholder, but will have no other relationship with HARRP or AHRP. There are four standing committees, charged with 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 consists of a Balance Sheet, Statement of Income and Unassigned Surplus and Statement of Cash Flows. This report also contains supplementary information in addition to the basic financial statements.

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

- The Statement of Income and Changes in 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 2011 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.

ANALYSIS OF THE BALANCE SHEET	2011
Assets	
Current and Other Assets	$ 6,075,352
Capital Assets	20,833
Total Assets	$6,096,185
Liabilities	
Current Liabilities	$ 997,697
Noncurrent Liabilities	58,725
Total Liabilities	1,056,422
Unassigned Surplus	5,039,763
Total Liabilities and Unassigned Surplus	$ 6,096,185

Referral to the accompanying financial statements and the related notes for the financial statements is encouraged.

Assets

Total assets increased by $1,096,185 from the initial capital investment of $5,000,000 from HARRP in February, 2011.

AHRP invests approximately $5.0 million predominantly in obligations of the U.S. Government, U.S. Government agencies and U.S. Government sponsored agencies as stipulated by applicable State investment statutes. Income derived from these investments is used to determine future rates and to offset administrative costs associated with the implementation of services and compliance with local, state and federal statutes.

Liabilities

Pool liabilities are generally 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 CHANGES IN UNASSIGNED SURPLUS

The Statement of Income and Changes in Unassigned Surplus depict the activities of AHRP for the period from inception through December 31, 2011. The revenues and expenses are presented on an accrual basis of accounting.

	2011
Revenues	
Member Contributions	$ 582,495
Investment Income	78,980
Total Revenue	661,475
Expenses	
Claims Expense	178,676
Administration/Other Expense	443,036
Total Expenses	621,712
Net Income	39,763
Unassigned Surplus, Beginning of Period	-
Capital Contribution	5,000,000
Unassigned Surplus, End of Period	$ 5,039,763

Referral to the accompanying financial statements and the related notes to the financial statements is encouraged.

Revenues

Members pay premiums to the pool allowing AHRP to manage its objectives of self-insurance and ceding risk. The predominant source of revenue is policies issued and the resulting premium collected. Annually, the rates are determined actuarially, based on loss trends, exposure units, and other trending factors with rates ultimately adopted by the Board of Directors. Each State carries its own specific rates for property exposures and casualty risks, which are based on total insured values and number of units.

Expenses

Pool administration costs are comprised of administration and claims handling costs. Due to operating for nine months in 2011, AHRP's claim expenses were minimal, while administration costs were consistent with actuarially factored costs that were built into the rates.

A critical element in AHRP's business operations is the assurance provided to lenders and syndicators of AHRP's financial strength. To accomplish this, AHRP has partnered with a highly regarded global reinsurer, which provides the AM Best rating of A+. In doing so, there is significant expense associated with the transfer of risk to the reinsurer, which is expected to increase as a result of the hardening insurance markets in both property and casualty coverage.

Debt Administration

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

Forecast of Facts or Conditions Affecting Results of Operations
With the intrinsic reliance on reinsurance, AHRP is subject to many of the same volatile markets swings that the insurance industry faces. Tightening insurance markets, as the industry is experiencing currently, will likely increase reinsurance costs and correspondingly AHRP rates. 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.

AFFORDABLE HOUSING RISK POOL
BALANCE SHEET
DECEMBER 31, 2011

ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$	500,508
Interest receivable		42,811
Investments		922,362
Accounts receivable, net		219,061
Prepaid expenses		202,442
Deferred income tax asset		80,625
Total current assets		1,967,809
NON-CURRENT INVESTMENTS		4,107,543
CAPITAL ASSETS, NET		20,833
	$	6,096,185
LIABILITIES AND UNASSIGNED SURPLUS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$	19,768
Unearned contributions		762,823
Payables to tax authorities		95,696
Current portion of losses and loss adjustment expense reserves		119,410
Total current liabilities		997,697
NON-CURRENT PORTION OF LOSSES AND LOSS ADJUSTMENT EXPENSE RESERVES		51,176
DEFERRED TAX LIABILITIES		7,549
Total liabilities		1,056,422
UNASSIGNED SURPLUS		5,039,763
	$	6,096,185

See notes to financial statements.

AFFORDABLE HOUSING RISK POOL
STATEMENT OF INCOME AND UNASSIGNED SURPLUS
THE PERIOD FROM INCEPTION (MARCH 31, 2011) THROUGH DECEMBER 31, 2011

CONTRIBUTIONS EARNED	$ 582,495
OPERATING EXPENSES:	
Change in losses and loss adjustment expenses incurred	178,676
Excess and reinsurance expense	198,105
Professional fees	27,475
General and administrative expense	190,669
Depreciation expense	4,167
Total operating expenses	599,092
OPERATING LOSS	(16,597)
NON-OPERATING INCOME	
Investment income	78,980
NET INCOME BEFORE INCOME TAX	62,383
INCOME TAX EXPENSE	(22,620)
NET INCOME	39,763
UNASSIGNED SURPLUS, beginning of period	-
CAPITAL CONTRIBUTION	5,000,000
UNASSIGNED SURPLUS, end of period	$ 5,039,763

See notes to financial statements.

AFFORDABLE HOUSING RISK POOL
STATEMENT OF CASH FLOWS
THE PERIOD FROM INCEPTION (MARCH 31, 2011) THROUGH DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Contributions received	$ 1,126,257
Losses and loss adjustment expenses paid	(8,090)
Salaries and benefits paid	(82,344)
General and administrative expenses paid	(290,999)
Professional fees paid	(27,475)
Excess insurance expenses paid	(99,592)
Reinsurance expenses paid	(98,513)
Net cash provided by operating activities	519,244
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital contribution	5,000,000
Purchase of fixed assets	(25,000)
Net cash provided by capital and related financing activities	4,975,000
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income received	99,212
Purchase of investments	(7,631,844)
Proceeds from sales and maturities of investments	2,538,896
Net cash flows used in investing activities	(4,993,736)
NET INCREASE IN CASH AND CASH EQUIVALENTS	500,508
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 500,508
RECONCILIATION OF INCREASE IN NET ASSETS TO CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	$ (16,597)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	4,167
Changes in assets and liabilities:	
Accounts receivable	(219,061)
Prepaid expenses	(202,442)
Unearned contributions	762,823
Accounts payable and accrued expenses	19,768
Losses and loss adjustment expense reserves	170,586
Net cash provided by operating activities	$ 519,244
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Non-cash investing and financing activities:	
Decrease in fair market value of investments	$ (63,043)

See notes to financial statements.

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

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 $163,160 in administrative fees for services performed under this agreement in 2011. As a result, included in accounts payable at December 31, 2011 is $10,963 owed to HARRP.

Basis of Accounting - This Pool's 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 (General Liability, Property and Tenant Discrimination) were established for the purpose of operating and maintaining a self-insurance or group insurance program. Policyholder contributions for coverage are to be used for the payment of, but not limited to, the following:

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

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-or-$2,500 to 10% of claim per occurrence
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 $63,000,000
Tenant Discrimination	
Member Deductible:	None- or-$2,500 to 10% of claim per occurrence
SIR:	$150,000 per occurrence

Statement of Cash Flows - The Pool considers interest on investments to be nonoperating revenue; therefore, investment income is presented in the investing section of the Statement of Cash Flows.

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 owing. There were no receivable balances delinquent more than 90 days as of December 31, 2011. 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 financial statements.

Investments - The Pool records its investments at fair market value. Changes in fair market value are reported as revenue in the statement of operations and statement of net assets. Fair market value of investments has been determined by the Pool based on quoted market prices. Realized losses on investments sold in 2011 were $24,769. The Pool considers all investments to be classified as trading securities. As a result all unrealized changes in the value of investments is included in the income statement.

Capital Assets and Depreciation - Capital assets are carried at cost. Depreciation is provided for over the estimated useful lives of the assets using the straight-line method. The useful lives of capital assets are estimated as follows:

Furniture and equipment	3 to 5 years

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 planned 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 and is recognized as revenues 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 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.

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 financial statements.

Management believes the Pool has no material uncertain tax positions and, accordingly it has not recorded a liability for unrecognized tax expense. The Pool is not subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2011, the Pool's inception. 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 financial statements in conformity with accounting principles generally accepted in the United States of America, 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 financial statements, and the reported amounts of revenues and expenses during the reporting actual results could differ from those statements.

Subsequent Events - The Pool has performed an evaluation of subsequent events through April 4, 2012, which is the date these financial statements were available to be issued.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash consisted of the following at December 31, 2011:

Balance per bank	$ 504,214
Less: outstanding checks	(3,706)
Total cash and equivalents	$ 500,508

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

NOTE 3 – INVESTMENTS

The Pool had the following investments held in a managed portfolio as of December 31, 2011:

Investment Type	
Federal agencies	$ 4,933,699
Certificates of deposit	96,206
Total	$ 5,029,905

AHRP's investment policy does not expressly permit certificates of deposits because they are not permitted investments under the investment laws of the four constituent States. The certificates of deposit were purchased by HARRP's investment manager based on the mistaken belief that they were permitted because they are FDIC-insured. During inception these assets were transferred to the Pool as part of HARRP's capital contributions. To avoid prepayment penalties, the Pool has decided to hold the Certificate of Deposits until maturity.

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, 2011		
Investment Type	Fair Value	<1 yr	1-3 yrs	>3 yrs
Federal agencies	$ 4,933,699	$ 826,156	$ 1,651,282	$ 2,456,261
Certificates of deposit	96,206	96,206	-	-
Total investments at fair value	$ 5,029,905	$ 922,362	$ 1,651,282	$ 2,456,261

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, 2011 the investments concentrated 5% or more as a percentage of the total investment portfolio as follows:

	% of Portfolio
Federal Home Loan Banks	27.80%
Federal National Mortgage Association	22.42%
Federal Farm Credit Banks	22.22%
Federal Home Loan Mortgage Corporation	16.89%
Tennessee Valley Authority	8.75%

NOTE 4 – FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the 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 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, 2011 are as follows:

	Fair Value	Level 1	Level 2	Level 3
Federal agencies	$ 4,933,699	$ 4,933,699	$ -	$ -
Certificates of deposit	96,206	-	96,206	-
	$ 5,029,905	$ 4,933,699	$ 96,206	$ -

NOTE 5 – CAPITAL ASSETS

Capital assets are as follows for 2011:

	Balance at 3/31/11	Additions	Retirements	Balance at 12/31/11
Furniture and Equipment	$ -	$ 25,000	$ -	$ 25,000
Less Depreciation	-	(4,167)	-	(4,167)
Net Capital Assets	$ -	$ 20,833	$ -	$ 20,833

Depreciation expense was $4,167 for the period ended December 31, 2011.

NOTE 6 – 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 period ended December 31, 2011:

Losses and loss adjustment expense reserves, beginning of period	$ -
Incurred losses and loss adjustment expenses:	
Provision for covered events of the current period	178,676
Payments:	
Losses and loss adjustment expenses attributable to covered events of the current period	8,090
Loss and loss adjustment expense reserves, end of period	$ 170,586
Detail of losses and loss adjustment expense reserves	
Current portion	$ 119,410
Long-term portion	51,176
	$ 170,586

NOTE 7 – INCOME TAXES

Income tax expense (benefit) consists of the following for the period ended December 31, 2011:

Current - Federal	$ 86,818
Current - State	8,878
	95,696
Deferred - Federal	(66,297)
Deferred - State	(6,779)
	(73,076)
	$ 22,620

The 2011 effective tax rate differs from the rate applied to the net income before income taxes principally due to differences from state taxes.

Deferred income tax assets result principally from differences between unpaid losses and loss adjustment expenses, unrealized gains and losses, depreciation and unearned contributions for financial reporting and tax purposes.

The components of the deferred income tax asset (liabilities) are as follows as of December 31, 2011:

Deferred tax assets:		
Unearned contributions	$	55,271
Unrealized losses		22,819
Loss reserve discount		2,535
		80,625
Deferred tax liabilities:		
Tax in excess of book depreciation		(7,549)
Net deferred tax assets	$	73,076

NOTE 8 – EXCESS INSURANCE AND REINSURANCE

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

The Pool provides general liability, property and tenant discrimination coverage. The general liability coverage for the Pool 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, the Pool secures $63,000,000 in excess of the underlying $2,000,000 for property losses through an additional excess insurance policy.

SUPPLEMENTARY INFORMATION

AFFORDABLE HOUSING RISK POOL
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF COVERAGE
THE PERIOD FROM INCEPTION (MARCH 31, 2011) THROUGH DECEMBER 31, 2011
(Unaudited)

The schedule below presents the changes in losses and loss adjustment expenses for the period ending December 31, 2011 for the Pool's two types of coverage, property, and general liability:

	Property	General Liability	Totals
Losses and loss adjustment expense reserves beginning of period	$ -	$ -	$ -
Incurred losses and loss adjustment expenses:			
Provision for covered events of the current period	158,676	20,000	178,676
Payments:			
Losses and loss adjustment expenses attributable to covered events of the current period	6,015	2,075	8,090
Losses and loss adjustment expense reserves end of period	$ 152,661	$ 17,925	$ 170,586

AFFORDABLE HOUSING RISK POOL
YEARLY LOSS DEVELOPMENT INFORMATION (Unaudited)
DECEMBER 31, 2011

	Fiscal and Policy Period Ended December 31, 2011
Total Required Contribution and Investment Revenue	$ 661,475
Ceded	(167,105)
(1) Net Earned Required Contribution and Investment Revenues	494,370
(2) Unallocated Expenses	499,500
(3) Estimated Incurred Claims and Expense	
End of Period	178,676
Ceded	-
Net Incurred	178,676
(4) Paid (Cumulative) End of Period	8,090
(5) Reestimated Ceded Claims and Expenses	-
(6) Reestimated Incurred Claims and Expenses End of Period	178,676
(7) Increase (Decrease) in Estimated Incurred Claims Expense from End of Policy Period	$ -

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 period's earned contribution revenues and investment revenues.

2. This line shows each period'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 period.

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 period.

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

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

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 periods 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 periods. This is the first period of the presentation and development of this information. In subsequent years as this information is developed, comparative years and reestimation will be presented.

Affordable Housing Risk Pool LLC

Plan of Financing, Management and Operation

June 7, 2012

Recently enacted legislation in Washington, Oregon, California and Nevada provides statutory authorization for the formation and operation of an insurance pool that offers coverage to private affordable housing entities. Housing Authorities Risk Retention Pool ("HARRP") organized Affordable Housing Risk Pool LLC ("AHRP"), as a wholly owned subsidiary of HARRP, to provide coverage to eligible tax credit limited partnerships and limited liability companies and to eligible nonprofit corporations that develop, manage or operate affordable housing. AHRP conducts its joint self-insurance program in a manner substantially similar to HARRP, offering broad coverage, enhanced service and effective risk management to tax credit limited partnerships/LLCs and nonprofit corporations.

This Plan summarizes the financing, management and operation of AHRP during calendar year 2012.

A. STRUCTURE OF AFFORDABLE HOUSING RISK POOL LLC

As summarized below, AHRP was organized as a limited liability company under the Oregon Limited Liability Company Act on December 21, 2010 to provide coverage to eligible nonprofit corporations and tax credit limited partnerships/LLCs in accordance with applicable law. Housing authorities continue to obtain coverage through HARRP on the same basis as in the past.

1. Organization and Capitalization. AHRP is a wholly-owned subsidiary of HARRP. Based on an actuarial feasibility study by Richard E. Sherman & Associates, Inc., HARRP made a $5,000,000 capital contribution to AHRP in 2011, comprised of cash, bank certificates of deposit and U.S. agency bonds with maturities of less than five years.

2. Board of Directors and Officers. AHRP is a manager-managed limited liability company. The Board of Directors of AHRP (the "AHRP Board") has full and exclusive responsibility over the management of the business and affairs of AHRP. The AHRP Board is comprised of nine directors, of which seven are Member Affiliated Directors and two are Policyholder Affiliated Directors. The Member Affiliated Directors are HARRP directors selected by HARRP. The Member Affiliated Directors appoint the Policyholder Affiliated Directors, who will be employees, officers, partners or managers of an AHRP policyholder. The Policyholder Affiliated Directors of AHRP are expected to be appointed in September, 2012. Decisions of the AHRP Board require a majority of the directors present at a meeting. AHRP has a President, Executive Director, Vice President, and Secretary/Treasurer. Other officers may be appointed by the AHRP Board.

3. Limited Approval Rights of HARRP. Because AHRP is managed by the AHRP Board, HARRP has only limited voting rights to (i) elect and remove Member Affiliated Directors, (ii) approve the merger, conversion or dissolution of AHRP or the sale of substantially all of its assets, (iii) approve an amendment to the AHRP Articles of Organization or Operating Agreement and (iv) approve any other matters specifically referred by the AHRP Board.

4. Financial and Tax Matters. HARRP, as the sole member of AHRP, is entitled to receive distributions from AHRP, if any, when declared by the AHRP Board and upon the dissolution of AHRP. Unlike HARRP, AHRP is subject to taxation as a corporation for federal

and state income tax purposes. AHRP's financial statements are audited, and its actuary performs an annual actuarial review.

5. Policyholders. AHRP provides insurance coverage to nonprofit corporations and tax credit limited partnerships/LLCs that qualify for coverage under applicable state laws. These nonprofit corporations and tax credit limited partnerships/LLCs are policyholders of AHRP, but are not members of AHRP and do not have economic rights or voting rights in AHRP. As described above, two Policyholder Affiliated Directors will represent the interests of policyholders on the AHRP Board. HARRP obtains Hartford Steam Boiler equipment breakdown insurance through AHRP based on a requirement of Washington and Nevada law.

B. MANAGEMENT OF AHRP

Pursuant a Management Agreement, HARRP manages all facets of the business and affairs of AHRP subject to policies established by the AHRP Board. Notwithstanding the Management Agreement, the business and affairs of AHRP are managed under the direction of the AHRP Board. The management services performed by HARRP under the Management Agreement are consistent with, and subject to, the policies of AHRP established by the AHRP Board from time to time.

Because AHRP does not have any of its own employees, office space, equipment, computer systems, or software, the business of AHRP is managed by HARRP using the employees, office space, equipment, computer systems, software and supplies of HARRP. HARRP is reimbursed for its actual expenses incurred in managing AHRP. Estimated expenses are paid to HARRP on a monthly basis, and an accurate determination of expenses occurs through the annual audit, with an accompanying true-up of expenses. The Management Agreement contains customary provisions on early termination, confidentiality, recordkeeping, segregation of funds and indemnification. The term of the Management Agreement is two years.

C. REQUIREMENTS OF STATE ENABLING LEGISLATION

AHRP operates in compliance with legislation recently enacted in Washington (RCW Chapter 48.64), Oregon (ORS 731.036 (10)), California (California Insurance Code Sections 13900 to 13907) and Nevada (NRS 315.725). The varying requirements under the Washington, Oregon, California and Nevada statutes do not adversely affect AHRP's structure or operations.

The state enabling legislation adopts common approaches and definitions. Under the Washington, Oregon, California and Nevada statutes, an affordable housing entity insurance pool, such as AHRP, is exempt from regulation as an insurer by the state insurance department. In each case, the exemption from the state insurance code is narrowed by specifying the types of entities that can participate in the pool. In the Washington, Oregon, California and Nevada statutes, the types of affordable housing entities that can participate in the joint self-insurance program are limited to (i) housing authorities (and their agencies and instrumentalities, which includes HARRP), (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 legislation specifically identifies partnerships and LLCs (and not corporations) as eligible entities because they are the types of entities organized to take advantage of the federal low income housing tax credit.) The type of affiliation specified in the legislation includes (i) an ownership interest by the housing authority or nonprofit corporation in the partnership or LLC, (ii) the right of the housing authority or nonprofit corporation to direct management or policies of the partnership or LLC or (iii) a contract for the housing authority or nonprofit corporation to lease, manage or operate the affordable housing. Partnerships or LLCs that are not affiliated with a housing authority or nonprofit corporation do not qualify as affordable housing entities under the statutes and cannot participate in the insurance pool. The Washington, Oregon, California and Nevada statutes generally 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 for most nonprofit corporations and tax credit limited partnerships/LLCs.

Beyond these common approaches, there are differences in the state legislative frameworks for affordable housing entity insurance pools that affect the operations of AHRP. Because AHRP will operate in all states that have enabling legislation, any particular state requirement will need to be observed in all states. Several of the more significant limitations that will affect the operations of AHRP are the following:

1. Washington. Consistent with the proposed structure of AHRP, ownership interests in the pool are limited under Washington law to some or all of the affordable housing entities that obtain coverage through the pool. Furthermore, Washington law also requires that a majority of the Board of Directors must be affiliated with one or more of the participating affordable housing entities. As a result of these requirements, the Hartford Steam Boiler equipment breakdown insurance is provided to HARRP through AHRP to enable HARRP's ownership of AHRP and the inclusion of HARRP directors on the AHRP Board. In Washington, the initial plan of management and operation of the pool was approved by the State Risk Manager, and any subsequent changes to the plan of management and operation of a material nature will require approval by the State Risk Manager. The Washington administrative rules require, among other things, that AHRP (i) is subject to the requirements of the Washington Open Public Meetings Act, (ii) maintains a written risk management program and a written claims administration program that contains the elements set forth in the administrative rules, (iii) uses a competitive process for the selection of specified categories of consultants, (iv) has an annual financial audit and (v) has a claims audit every three years. An unresolved issue in Washington is whether AHRP's investments will be subject to public entity investment limitations. Until this matter is resolved, AHRP will follow the investment limitations applicable to public entities. Perhaps the most significant limitation on AHRP's operations under Washington law in relation to the regulatory frameworks in other states pertains to the types of nonprofit corporations that can obtain insurance coverage from AHRP (either directly or with respect to a tax credit limited partnership or limited liability company in which the nonprofit corporation is general partner or manager). Under Washington law, participation is limited to the following three types of nonprofit corporations:

(a) A nonprofit corporation that is engaged in providing affordable housing and "is necessary for the completion, management or operation of a project because of access to funding sources that are not available to a housing authority";

(b) A nonprofit corporation that is considered an "agency" of a housing authority because the nonprofit corporation is fulfilling one or more of the purposes of a housing authority and is affiliated with a housing authority that (i) has, or has the right to acquire, a membership interest in the nonprofit corporation, (ii) has provided financing to the nonprofit corporation, (iii) has entered into a contract with the nonprofit corporation to provide staff, management services or property management services or (iv) or has transferred or leased affordable housing to the nonprofit corporation or is leasing affordable housing from the nonprofit corporation; or

(c) A nonprofit corporation that is considered an "instrumentality" of a housing authority because the nonprofit corporation is fulfilling one or more functions of a housing authority and the nonprofit corporation's assets, operations or management are subject to control by the housing authority by reason of contract, affiliation, legal structure or otherwise.

2. Oregon. The Oregon statute requires that AHRP have an annual financial audit and adequate reinsurance. Under Oregon law, AHRP also must have annual premium revenues of $1 million not later than December 31, 2012. Oregon law precludes HARRP from collecting commissions or fees from an insurer as a result of its management services to AHRP; in the case of the Management Agreement, HARRP only will be reimbursed for its direct and indirect expenses on behalf of AHRP. Finally, the Oregon statute requires that reserves, as determined by AHRP's actuary, not only include known claims, IBNR, claims handling expenses, unearned premiums and a claims trend factor, but also include an unallocated reserve equal to 25 percent of annual premiums or $250,000, whichever is greater.

3. California. The California statute requires that all affordable housing entities that obtain coverage from AHRP must be given written notice in 10-point type that the pool is not regulated by the California Insurance Commissioner and that the state insurance insolvency guaranty funds are not available to safeguard its risk. In addition, California law requires that AHRP must be initially capitalized with not less than $2.5 million in the form of cash or cash equivalents (which is substantially less than its initial capitalization) and must maintain adequate reinsurance to protect against its risks. Under the California statute, all participants in the pool must make mandatory financial contributions, in addition to premiums, if so required by the AHRP Board to ensure a financially sound pool. The AHRP Operating Agreement precludes AHRP from requiring such mandatory financial contributions from policyholders based on the recognition that any additional capital needed by AHRP will need to be provided by HARRP. Finally, consistent with California law, AHRP has filed the required financial, operational and regulatory information with specified California Assembly and Senate Committees.

4. Nevada. Consistent with Washington law, the Nevada statute requires that a majority of the Board of Directors must be affiliated with one or more of the participating affordable housing entities. As a result of these requirements, the Hartford Steam Boiler equipment breakdown insurance is provided to HARRP through AHRP to enable the inclusion of HARRP directors on the AHRP Board. The Nevada statute also requires that all affordable housing entities that obtain coverage from AHRP must be given written notice in 10-point type that the pool is not regulated by the Nevada Insurance Commissioner and that the state insurance insolvency guaranty funds are not available to safeguard its risk.

D. AHRP OPERATIONS

AHRP's operations resemble HARRP's operations as closely as reasonably practicable.

As a result of differences in the states in which AHRP has been authorized to operate, AHRP's rates are state specific. The respective state specific rates for $2 million of coverage limits for general liability, property, crime/fidelity and tenant discrimination coverage are as follows:

Washington: $28.46 per affordable housing unit for general liability, crime/fidelity and tenant discrimination coverage and $1.165 per $1,000 of total insured value (TIV) for property coverage.

Oregon: $15.21 per affordable housing unit for general liability, crime/fidelity and tenant discrimination coverage and $0.623 per $1,000 of total insured value (TIV) for property coverage.

California/Nevada: $20.14 per affordable housing unit for general liability, crime/fidelity and tenant discrimination coverage and $0.825 per $1,000 of total insured value (TIV) for property coverage.

AHRP has determined that the foregoing rates, on average, are lower than the rates paid by many of the affordable housing entities whose insurance is placed with traditional insurance markets, including group purchasing arrangements. AHRP's rates have been actuarially determined so that AHRP's total premium revenues are projected to exceed its total expenses, including claims costs, reinsurance expenses and administrative expenses. If AHRP suffers losses from its operations and needs additional capital, HARRP, as its parent organization, can contribute additional capital, but has no obligation to do so.

There is no requirement that HARRP's members purchase insurance through AHRP for their affiliated nonprofit corporations and tax credit limited partnerships/LLCs, and there is no obligation of AHRP to underwrite such risks. Many of HARRP's members seek to purchase insurance through AHRP for their affiliated affordable housing entities because of the ease with which they can address their complete insurance needs through AHRP and HARRP, together with the expectation that the broad coverage, enhanced service and effective risk management provided by HARRP also will be provided by AHRP.

AHRP is not limited to offering insurance coverage only to HARRP member affiliated non-profit corporations and/or HARRP member managed tax credit entities. Observing strict adherence to applicable state specific requirements, AHRP may provide insurance coverage to a multitude of entities that provide affordable housing.

In some cases, the structure of the AHRP insurance program is not acceptable to tax credit limited partnerships/LLCs or their respective syndicators, investors or lenders based on insurance criteria currently in effect or adopted in the future. In those cases, a fronting arrangement has been established with Princeton Excess Surplus Lines Insurance Company, an affiliate of Munich Re, to satisfy such insurance criteria.

AHRP policyholders receive the same type of broad coverage offered by HARRP that is customized for the specific risks associated with affordable housing. However, AHRP only provides coverage for general liability, property, crime/fidelity and tenant discrimination. AHRP is able to cover third party contractual liability exposures because it is not a public entity insurance pool. In addition, contracted property management exposures are covered under AHRP, which is similar to other commercial policies.

In order to obtain coverage limits that are commensurate with HARRP, AHRP has entered into a reinsurance treaty with Munich Reinsurance America, Inc. (“Munich Re”), a large, reputable and financially secure reinsurer, with an A.M. Best’s rating of A+ XV, for both liability reinsurance and excess property insurance. The base level of coverage offered by AHRP is $2 million per occurrence for liability exposures and $47 million per occurrence for property exposures. Working through ORWACA, AHRP is able to secure additional levels of coverage for policyholders if required or desired. To spread the expense of reinsurance and excess insurance over a higher level of premium, HARRP also has entered into the reinsurance treaty with Munich Re for property and casualty coverage.

Under the Munich Re excess of loss reinsurance treaty, HARRP and AHRP each retain the first $1,000,000 of each loss, with a reinsurance recovery for each loss in excess of $1,000,000. The estimated annual cost of reinsurance from Munich Re for 2012 is $736,000 for both HARRP and AHRP. AHRP’s estimated annual cost of excess insurance from Munich Re for 2012 is $127,307.

AHRP is a nonassessable program. This means that if AHRP faces insolvency and cannot satisfy its claim obligations, the policyholders of AHRP will not be financially responsible for additional premiums to cover AHRP’s liabilities. The parent-subsidiary relationship enables HARRP to contribute additional capital to AHRP, if appropriate.

Under the Management Agreement, HARRP provides claims, risk management and underwriting services to AHRP. These functions are provided at the same high level of quality and service provided to members by HARRP. Claims management is performed in-house, utilizing independent adjusters, investigative specialists and legal counsel that have been successfully engaged in the past through HARRP. Claims management software has been developed specifically for AHRP’s operations. Risk management services also mimic HARRP’s current roster of services, including site safety services, insurance contract reviews, loss control assistance, training, educational media and promotional material.

Each development of eligible affordable housing entities is underwritten by AHRP, or if there are numerous development locations under one master entity application, the underwriting will encompass all locations for determination of acceptable risk. Underwriting criteria for AHRP incorporates standards of review that differ in certain respects from HARRP’s underwriting standards. All new entities applying for coverage are rated on numerous factors, including loss history, affiliations, property loss control items (*i.e.,* fire sprinklers), accurate insurable values and a host of other pertinent factors required for underwriting and reinsurance placement. HARRP staff also performs ancillary investigations, such as media searches, website evaluation and completed audits.