

**CONNECTICUT FOUNDATION SOLUTIONS
INDEMNITY COMPANY, INC. AND PROTECTED CELL**

**FINANCIAL STATEMENTS AND
REPORTS REQUIRED FOR AUDITS IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS AND
THE STATE OF CONNECTICUT SINGLE AUDIT ACT**

June 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Connecticut Foundation Solutions Indemnity Company, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Connecticut Foundation Solutions Indemnity Company, Inc. (the "Company"), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Connecticut Foundation Solutions Indemnity Company, Inc.'s basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As discussed in Note 2, as of June 30, 2020 and 2019, the Company received a permitted accounting practice from the Connecticut Insurance Department to record an unfunded liability for unpaid losses and loss adjustment expenses totaling \$64,043,867 and \$52,729,828, respectively, for an insurance contract that does not transfer insurance risk, which is not in accordance with accounting principles generally accepted in the United States of America. Under accounting principles generally accepted in the United States of America, the unfunded liability for unpaid losses and loss adjustment expenses would not be recorded.

(Continued)

Qualified Opinion

In our opinion, except for the effect of the matter described in the “*Basis for Qualified Opinion*” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Connecticut Foundation Solutions Indemnity Company, Inc. as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company lacks sufficient funds to meet the needs of its claimants and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of State Financial Assistance is presented for purposes of additional analysis as required by the State Single Audit Act and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of State Financial Assistance is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2020 on our consideration of the Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.


Crowe LLP

Simsbury, Connecticut
October 22, 2020

The following is management's discussion and analysis of Connecticut Foundation Solutions Indemnity Company, Inc.'s ("CFSIC" or the "Company") operations and financial performance. Management's discussion and analysis, inclusive of all financial schedules, provides an overview of the Company's financial activities as of and for the years ended June 30, 2020 and 2019. It should be read in conjunction with the financial statements, which begin on page 11.

Background

CFSIC commenced operations on August 6, 2018. It was organized pursuant to Public Act No. 17-2 signed into law by Governor Dannel Malloy on October 31, 2017.

Residential dwelling owners in the northeast section of Connecticut have reported significant structural problems with residential concrete foundations. The Company's data, as of June 30, 2020, indicates that approximately 40 towns in the northeast section of Connecticut and elsewhere in Connecticut may be affected. Investigators have concluded that the deterioration of these residential concrete foundations has been caused by the presence of reactive pyrrhotite in the concrete mixture used to pour the foundations. Pyrrhotite is a naturally existing mineral in stone aggregate, which is used to produce concrete. Reactive pyrrhotite oxidizes in the presence of water and oxygen, leading to the formation of expansive mineral products, thereby causing concrete to deteriorate prematurely by way of cracking, peeling, crumbling, and buckling.

Anecdotal reports that are not verified by current facts cite the existence of as many as 30,000 homes in the northeast section of Connecticut, which may be affected. The Company's collective data as of June 30, 2020 points to a significant crisis, but one affecting most probably between 4,000 and 6,000 residential dwellings.

While the presence of reactive pyrrhotite indicates the potential for concrete deterioration, its existence in the aggregate alone does not necessarily cause such deterioration. No conclusive scientific evidence exists as to the precise amount of measureable reactive pyrrhotite in the aggregate that will, with a high degree of actuarial confidence level certainty, cause such impairment to occur in a foundation with sufficient statistical frequency as to be valid with respect to CFSIC's underwriting model.

As a residential dwelling begins to show quantifiable signs of pyrrhotite-infected deterioration, it often becomes unsound from a structural perspective, eventually rendering the dwelling uninhabitable and likely to result in structural failure.

Such damage is irreversible. It cannot be remedied or repaired on a temporary basis. The only effective remediation is to replace the existing foundation with a new one that does not contain reactive pyrrhotite. Foundation remediation costs differ based on multiple factors, including the particular construction modality employed. As of June 30, 2020 and 2019, the average cost of remediating an impaired foundation by CFSIC was \$153,390 and \$144,000, respectively, based on the Company's allowable remediation cost parameters.

(Continued)

With a number of limited exceptions, the general position of the property and casualty insurance marketplace issuing homeowner insurance policies covering residential dwellings in Connecticut has been that the claims filed with these underwriters, where visible indications of concrete foundation deterioration, verified through a visual examination conducted by an appropriately licensed or certified professional, and where subsequent petrographic and/or other analyses indicate the presence of measureable levels of reactive pyrrhotite, have resulted in claim denials by these carriers, which have asserted that claims involving such impairment do not reflect a claim coverable under the peril of collapse as defined in a homeowner's insurance policy. Secondly, underwriters have asserted that their policies do not respond by way of any coverage grant to a claim where the allegation is directly or indirectly related to the composition of the aggregate contained in concrete, which these carriers have asserted is a product liability consideration and thus not a covered property peril.

As a result of the commercial insurance industry's refusal to provide consistent coverage for such claims, Public Act No. 17-2 was created in order to provide assistance with the remediation of foundations affected by the quantifiable and measurable existence of pyrrhotite, through the creation of a captive insurance company, in order to assure that a verifiably affected residential building could be returned to habitable use.

In November 2019, the Connecticut Supreme Court upheld the position referenced above in favor of the property and casualty insurance industry as a result of litigation entered into among certain homeowners with affected foundations and their respective property insurers.

Mission and Tax-Exempt Purpose

CFSIC has been chartered and licensed as a Sponsored Captive Insurance Company under Connecticut law. It has been formed to assist the State of Connecticut with the fair and equitable adjustment of homeowner claims resulting from the pyrrhotite-affected home foundations natural disaster.

CFSIC's mission is to use its available resources to adjust and pay claims for the rebuilding of as many pyrrhotite-affected home foundations as those resources will permit. Using objective and recognized property claim adjustment standards, and acting at all times with fairness and compassion, CFSIC is committed to the equitable treatment of homeowners suffering from this natural disaster.

CFSIC has been incorporated as a tax-exempt corporation under the laws of the State of Connecticut. CFSIC is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Its Sponsor is the Crumbling Foundations Assistance Trust.

CFSIC's management is committed to a high degree of conformance concerning claimant privacy. Only persons in management with a need to know may view the personal financial and related information in any claimant's application for assistance.

Commencement of Activities

CFSIC was incorporated on June 26, 2018. The Company received Connecticut captive insurance company license number 29 on August 8, 2018 and it received an initial \$850,000 in funding from the Connecticut Department of Housing by way of a partial payment of CFSIC's first \$20,000,000 in pledged allotted funding on August 6, 2018. The Company commenced underwriting operations on January 10, 2019. Management considers August 6, 2018 to be the commencement date of the Company's operations for purposes of the presentation of these financial statements.

(Continued)

Underwriting and Claims Management Activities

CFSIC's Underwriting and Claims Management Guidelines and its Operations Manual permit two types of claim activity.

A "Type 1" claim is a claim requesting assistance with the replacement of a foundation verifiably determined to be impaired through evidence of the presence of reactive pyrrhotite in the original aggregate used in the concrete composing that foundation, and where the owner of the qualifying residential dwelling has made, through the completion of an application and the provision of accompanying points of evidence, a valid claim for payment of enumerated allowable costs.

There are three classes of severity code employed to reflect the degree of measurable foundation impairment. These class codes provide a basic prioritization for the use of funds, beginning with Severity Class Code 3, which is a code reflective of a severely impacted foundation.

A "Type 2" claim is a claim requesting assistance with reimbursement by CFSIC to the owner (or in some cases former owner) of a qualifying residential dwelling for the replacement of a foundation verifiably determined to have been impaired through evidence of the presence of reactive pyrrhotite in the original aggregate used in the concrete composing that foundation, but where that homeowner used personal resources to originally repair or replace such impaired foundation prior to making application to CFSIC; and where the homeowner has subsequently made, through the completion of an application and the provision of accompanying points of evidence, a valid claim for reimbursement of enumerated allowable costs.

CFSIC has three claimant classifications: Active, Inactive, and Pending. The Active and Inactive claimant designations have been part of CFSIC's underwriting protocols since inception. On January 13, 2020, CFSIC's Board of Directors approved a request by the Superintendent to establish a third class of claimant, the Pending claimant, as described and defined below.

An Active claimant (whether a Type 1 or Type 2 claimant) is considered Active if the claimant has submitted a completed application and all points of relevant evidence. A claimant is considered Inactive (whether a Type 1 or Type 2 claimant) if, for any reason, the claimant's application is incomplete in some regard or if the claimant in question is currently litigating with his or her homeowner's insurer regarding a crumbling foundation matter. A Pending claimant is a claimant who has been permitted to register a Type 1 or Type 2 claim with CFSIC with the clear understanding that CFSIC does not currently have the funds, and may never have the funds, to address the Pending claimant's Type 1 or Type 2 claim.

With respect to the taking of applications for Active and Inactive claims, CFSIC suspended the taking of new applications on September 6, 2019. With respect to the Pending class of claimant, CFSIC suspended taking new applications for that class on June 30, 2020.

CFSIC's Sunset Date

Under Public Act No. 17-2, CFSIC will "sunset" on June 30, 2022. As of the date of these financial statements, CFSIC's management has been informed that there is a strong likelihood that, through legislative action, the sunset date will be moved to June 30, 2030. To the extent the sunset date is not moved, management projects that CFSIC will require approximately 36 months subsequent to the sunset date in order to run off accumulated liabilities, inclusive of commitments to remediation and reimbursement pledged or in process prior to the sunset date.

Deposit Accounting

The Company has utilized a deposit accounting methodology.

Deposit accounting is utilized when no applicable "insurance risk" exists. The Company does not accept insurance risk in the traditional meaning of that term, as no premium pursuant to the acceptance of a risk is received by the Company, which would normally contain underwriting or timing risk, and in turn no contract of insurance is issued by the Company to any claimant.

Deposit accounting, as a methodology, focuses primarily on the statements of net position. Under deposit accounting treatment, a deposit liability represents the accrual for loss and loss adjustment expenses to be paid under the terms of some form of agreement or contract or refunded to depositor if funds are unused. In the case of CFSIC, the governing document by which CFSIC's funds are disbursed is the Participation Agreement, which is entered into between a Type 1 or Type 2 residential dwelling owner (or his or her representative) and the Company. Any unused funds remaining at the end of CFSIC's statutory life not otherwise allocated to claims and associated claim and management expenses will be refunded to the state of Connecticut.

Overview of the Financial Statements

This annual financial report consists of Management's Discussion and Analysis and Basic Financial Statements. Basic Financial Statements consist of the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements. CFSIC is subject to the accounting standards enacted by the Governmental Accounting Standards Board.

The Statements of Net Position provides an indication of CFSIC's financial status as of June 30, 2020 and 2019. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the reporting period using the accrual basis of accounting. The Statements of Cash Flows report the cash provided from and used by operating activities and is presented using the direct method of reporting. Additionally, a reconciliation of the change in net position to net cash provided by operating activities is provided on an indirect basis. Notes to the Financials Statements provide additional information and schedules that are essential to an understanding of the information provided in the financial statements, including the Company's use of deposit accounting as discussed further within Notes 2 and 4.

CFSIC has received payments from the State of Connecticut by way of three allotments of \$20,000,000 each from the Connecticut Bond Commission, representing the first three allotments prescribed under Public Act. No. 17-2. In addition, CFSIC received \$10,601,209 from the Connecticut Department of Housing on June 26, 2020, representing funds collected by the Connecticut Insurance Department through the Healthy Homes surcharge.

These three bond allotments, as well as the single Healthy Homes surcharge allotment, have been booked as deposits received. The exhibit that follows details this deposit activity and also details total expense disbursements on an accrual and cash basis, as well as actual indemnity payments and reimbursements supporting foundation remediation activities. With respect to total expenses incurred, these expenses reflect the Company's operations through June 30, 2020 and 2019. For public reporting purposes, CFSIC also tracks accrual and cash basis expenses on a calendar year basis in accordance with the specific terms of Public Act No. 17-2 as those terms have been interpreted by legal counsel to CFSIC.

(Continued)

CONNECTICUT FOUNDATION SOLUTIONS INDEMNITY COMPANY, INC. AND PROTECTED CELL
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a summary of the Company's deposit liability activities for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Liability at beginning of year	\$ 31,712,125	\$ -
Deposits received	30,604,534	40,009,000
Transfer to residual liability for state minimum capital requirements	-	(225,000)
Transfer to fund operating expenses	(328,373)	(586,029)
Claims administration fees paid	(357,009)	(441,581)
Indemnity payments	<u>(29,990,352)</u>	<u>(7,044,265)</u>
 Liability at end of year	 <u>\$ 31,640,925</u>	 <u>\$ 31,712,125</u>

As of June 30, 2020 and 2019, CFSIC carried a net deficit of \$64,043,867 and \$52,729,828, respectively. CFSIC's underwriting and claims management process, supported by its electronic application platform, has enabled claimants to submit application and supporting documentation permitting the rapid identification of homes with impaired foundations. CFSIC has established reserves, using its foundation severity coding guidelines, for the eventual payment of claims for those homes with the most severely impacted deteriorating foundations. CFSIC's identification of these impaired foundations and the resulting claim reserves that have been established for these verified deteriorating foundations has resulted in an accumulation of claim liabilities exceeding the total of deposits received as of fiscal years ending June 30, 2020 and 2019.

The following is a summary of CFSIC's Statements of Net Position as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 31,142,330	\$ 31,935,665
Loss escrow	750,000	150,000
Prepaid expenses	<u>23,157</u>	<u>16,460</u>
Total current assets	<u>31,915,487</u>	<u>32,102,125</u>
Total assets	31,915,487	32,102,125
 LIABILITIES AND NET POSITION		
Current liabilities:		
Deposit liability	31,640,925	31,712,125
Accrued expenses	<u>49,562</u>	<u>165,000</u>
Total current liabilities	31,690,487	31,877,125
Noncurrent liabilities		
Unfunded liability for unpaid losses	64,043,867	52,729,828
Residual liability	<u>225,000</u>	<u>225,000</u>
Total noncurrent liabilities	<u>64,268,867</u>	<u>52,954,828</u>
Total liabilities	<u>95,959,354</u>	<u>84,831,953</u>
Net Position - Unrestricted	<u>\$ (64,043,867)</u>	<u>\$ (52,729,828)</u>

(Continued)

CONNECTICUT FOUNDATION SOLUTIONS INDEMNITY COMPANY, INC. AND PROTECTED CELL
MANAGEMENT'S DISCUSSION AND ANALYSIS

We have included an exhibit providing information concerning CFSIC's revenues, expenses, and changes in net position detailing current assets, total assets, current liabilities inclusive of deposit liabilities, and accrued expenses for the fiscal years ending June 30, 2020 and 2019. Also shown in this exhibit is the extent of CFSIC's unfunded liability for unpaid losses for the same period.

The following is a summary of CFSIC's Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Operating revenue:		
Grant revenue to fund operating expenses	\$ 328,373	\$ 586,029
Interest income	<u>429,824</u>	<u>260,622</u>
Interest income and operating revenue	758,197	846,651
Operating expenses:		
Professional and management fees	591,784	731,648
General and administrative expenses	<u>166,413</u>	<u>115,003</u>
Total operating expenses	<u>758,197</u>	<u>846,651</u>
Net operating income	-	-
Unfunded liability for unpaid losses exposure	<u>11,314,039</u>	<u>52,729,828</u>
Change in net position	(11,314,039)	(52,729,828)
Net position, beginning of year	<u>(52,729,828)</u>	-
Net position, end of year	<u>\$ (64,043,867)</u>	<u>\$ (52,729,828)</u>

Professional and Management Fees

Professional and management fees include the expenses of third party service providers providing contracted services to CFSIC in support of its operations and management. Such services include the Company's auditor, actuary, captive manager, legal counsel, public outreach firm, and the office of the Superintendent. CFSIC has no employees and carries no payroll, payroll tax, or employee benefit expense liabilities on its books as a result.

General and Administrative Expenses

CFSIC is limited under Public Act No. 17-2 to expenditures for general and administrative expense not to exceed 10% of its allotments of revenue as that revenue has been received in any calendar year. General and administrative expenses include claim adjustment fees, fees associated with payments to all service providers, insurance, the management of the Company's public outreach process, legal and tax-related support services, and travel and related expenses.

(Continued)

Investment Income

The Board of Directors of CFSIC has determined that, given the uncertainty of the Company's sources of funding, as well as the timing of those sources, no long-range investment strategy encompassing an asset allocation or duration strategy is possible. As a result, CFSIC's investment income is derived from interest income on funds held at a bank in a money market account with a guaranteed rate of return, subject to a minimum deposit threshold.

Sources of Funding

As of June 30, 2020, CFSIC has been assured of receiving the next \$20,000,000 of expected Bond Commission allotment from the State of Connecticut on or after July 1, 2020. CFSIC received the \$20,000,000 Bond Commission allotment on August 13, 2020. CFSIC has been assured that it will also receive the last \$20,000,000 of allotment on or after July 1, 2021. At that time, CFSIC will have received all of the \$100,000,000 Bond Commission allotment pledged to it under Public Act No. 17-2. In addition, and with the understanding that the current sunset date is moved from June 30, 2022 to June 30, 2030, CFSIC anticipates receiving nine more Healthy Homes installments, representing approximately \$95,400,000 in potential revenue by June 30, 2030.

As of the date of the presentation of these financial statements, CFSIC had adjusted budgeted revenue to be received prior to its proposed sunset date of June 30, 2030 to be approximately \$125,500,000. It is important to point out that CFSIC carries information on 461 claimants in the "Pending" class of claimant, the majority of which are foundation Severity Class coded 3 or 2. This class of claimants is not recorded within the deposit liability or unfunded liability for unpaid losses on the Company's Statements of Net Position as of June 30, 2020 and 2019. The estimate of budgeted revenue in this paragraph will not be sufficient to address more than 100 to 125 of these Pending claimants, and for this reason expected ultimate reserve liabilities will exceed expected revenue during CFSIC's statutory life by a significant amount.

Lastly, management's discussion and analysis includes a summary of the Company's cash flows, which includes deposits received, less losses and associated claims administration expenses, and provides a total of net cash flows provided from operating activities. The following is a summary of the Company's Statements of Cash Flows for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Deposits received	\$ 30,604,534	\$ 40,009,000
Losses and claims administration expenses paid	(30,347,361)	(7,485,846)
Professional and management fees paid	(701,935)	(577,398)
Loss escrow	(600,000)	(150,000)
General and administrative expenses paid	(178,396)	(120,713)
Interest income collected	429,824	260,622
Net cash flows (used in) provided from operating activities	<u>(793,335)</u>	<u>31,935,665</u>
(Decrease) increase in cash and cash equivalents	(793,335)	31,935,665
Cash and cash equivalents, beginning of year	<u>31,935,665</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 31,142,330</u>	<u>\$ 31,935,665</u>

(Continued)

CONNECTICUT FOUNDATION SOLUTIONS INDEMNITY COMPANY, INC. AND PROTECTED CELL
MANAGEMENT'S DISCUSSION AND ANALYSIS

The composition of the Company's cash and cash equivalents as of June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Cash - checking account	\$ 22,884	\$ 66,043
Cash - money market deposit accounts	<u>31,119,446</u>	<u>31,869,622</u>
Total	<u>\$ 31,142,330</u>	<u>\$ 31,935,665</u>

CONNECTICUT FOUNDATION SOLUTIONS INDEMNITY COMPANY, INC. AND PROTECTED CELL
 STATEMENTS OF NET POSITION
 June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 31,142,330	\$ 31,935,665
Loss escrow	750,000	150,000
Prepaid expenses	<u>23,157</u>	<u>16,460</u>
Total current assets	<u>31,915,487</u>	<u>32,102,125</u>
Total assets	31,915,487	32,102,125
LIABILITIES AND NET POSITION		
Current liabilities:		
Deposit liability	31,640,925	31,712,125
Accrued expenses	<u>49,562</u>	<u>165,000</u>
Total current liabilities	<u>31,690,487</u>	<u>31,877,125</u>
Noncurrent liabilities:		
Unfunded liability for unpaid losses and loss adjustment expenses (Note 2)	64,043,867	52,729,828
Residual liability due to State of Connecticut	<u>225,000</u>	<u>225,000</u>
Total noncurrent liabilities	<u>64,268,867</u>	<u>52,954,828</u>
Total liabilities	<u>95,959,354</u>	<u>84,831,953</u>
Net Position - Unrestricted	<u>\$ (64,043,867)</u>	<u>\$ (52,729,828)</u>

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

CONNECTICUT FOUNDATION SOLUTIONS INDEMNITY COMPANY, INC. AND PROTECTED CELL
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenue:		
Transfer from deposit liability to fund operating expenses	\$ 328,373	\$ 586,029
Interest income	429,824	260,622
Interest income and operating revenue	758,197	846,651
Operating expenses:		
Professional and management fees	591,784	731,648
General and administrative expenses	166,413	115,003
Total operating expenses	758,197	846,651
Net operating income	-	-
Unfunded liability for unpaid losses and loss adjustment expenses	11,314,039	52,729,828
Change in net position	(11,314,039)	(52,729,828)
Net position, beginning of year	(52,729,828)	-
Net position, end of year	\$ (64,043,867)	\$ (52,729,828)

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

CONNECTICUT FOUNDATION SOLUTIONS INDEMNITY COMPANY, INC. AND PROTECTED CELL
 STATEMENTS OF CASH FLOWS
 Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Deposits received	\$ 30,604,534	\$ 40,009,000
Losses and claims administration expenses paid	(30,347,361)	(7,485,846)
Professional and management fees paid	(701,935)	(577,398)
Loss escrow	(600,000)	(150,000)
General and administrative expenses paid	(178,396)	(120,713)
Interest income collected	<u>429,824</u>	<u>260,622</u>
Net cash flows (used in) provided by operating activities	(793,335)	31,935,665
 (Decrease) increase in cash and cash equivalents	 (793,335)	 31,935,665
Cash and cash equivalents, beginning of year	<u>31,935,665</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 31,142,330</u>	<u>\$ 31,935,665</u>
 Reconciliation of net operating income to net cash flows from operating activities:		
Net operating income	\$ -	\$ -
Adjustments to reconcile net operating income to net cash used in operating activities:		
Changes in operating assets and liabilities:		
Loss escrow	(600,000)	(150,000)
Prepaid expenses	(6,697)	(16,460)
Accrued expenses	(115,438)	165,000
Deposit liability	(71,200)	31,712,125
Residual liability	<u>-</u>	<u>225,000</u>
Net cash (used in) provided by operating activities	<u>\$ (793,335)</u>	<u>\$ 31,935,665</u>

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

NOTE 1 - ORGANIZATION

Connecticut Foundation Solutions Indemnity Company, Inc. ("CFSIC") is a not-for-profit corporation formed in the State of Connecticut to provide financial assistance to owners of residential buildings in northeastern Connecticut for the repair or replacement of concrete foundations pursuant to a liability insurance contract. CFSIC was established pursuant to the Connecticut General Assembly P.A. 17-2. CFSIC was incorporated on June 26, 2018 and received its initial funding from the State of Connecticut Department of Housing in conjunction with the State of Connecticut Bonding Commission on August 6, 2018. CFSIC was licensed as a sponsored cell captive insurance company by the Connecticut Insurance Department ("CID") on August 8, 2018.

The Crumbling Foundations Assistance Trust ("CFAT") is a tax-exempt trust formed under the authority of the Treasurer of the State of Connecticut and serves as the sponsor of CFSIC with the Crumbling Foundations Assistance Fund ("CFAF") serving as the transfer mechanism for funding from the State of Connecticut. Both of these entities were formed as part of Connecticut General Assembly P.A. 17-2.

As a sponsored cell captive insurance company in the State of Connecticut, the Company has the ability to establish separate incorporated or unincorporated protected cells within the Company, whereby each cell participant benefits from having their respective programs legally segregated from the assets and liabilities of other participants' programs. As of June 30, 2020 and 2019, the Company has established one protected cell named the Connecticut Foundation Solutions Indemnity Company Cell ("CFSIC Cell"), which is an unincorporated entity. The CFSIC Cell is a component unit of the Company (collectively, "the Company"). The Company began to accept applications from claimants on January 10, 2019.

The Board of Directors of CFSIC engages a Superintendent for the management of the Company. CFSIC also engages several independent service providers, under the direction of the Superintendent and the Board of Directors, to carry out various functions of the Company. Such services include third party administrative claims management, accounting, regulatory compliance and corporate legal. Under the enabling legislation, no more than 10% of all funds made available to the Company in any calendar year are to be used for administrative or operational costs. The Company was in compliance of this requirement for the year ended June 30, 2020 and 2019.

The Company is funded through the CFAF with State bonded funds by the Connecticut Department of Housing (CT DOH). CFSIC is expected to receive \$100 million over a period of five years from the date of incorporation through June 30, 2022, with \$20 million to be received each calendar year. As of June 30, 2020, CFSIC has received \$60 million of the expected allotment. The initial \$850,000 was funded through a grant from the CT DOH to the Company. Subsequent receipts were funded through a direct transfer of funds pursuant to a contract between the Department of Housing and the Company (the DOH Contract). In addition, CFSIC is scheduled to receive approximately 85% of the total amount collected from an annual \$12 per homeowner insurance policy surcharge on homeowner policies issued within the state of Connecticut. The first surcharge collection occurred on June 26, 2020 in the amount of \$10,601,209 and encompassed a date range of surcharge collection of April 1, 2019 through April 1, 2020. The remaining collections are expected to be collected in June 2021 and June 2022. CFSIC's management has not received any confirmation of the exact date for the receipt of such additional deposits. This policyholder surcharge is scheduled to run through April 2029, although because of CFSIC's statutory sunset date of 2022, CFSIC's management has not assumed that any deposits are to be received by CFSIC from this surcharge subsequent to June 2022. The Company used this funding to support issuance of Participation Agreements with its participants as more fully described in Notes 2 and 4.

(Continued)

NOTE 1 - ORGANIZATION (Continued)

Funds that have been received have been recorded directly to “deposit liability,” on the Statements of Net Position, as more fully described in Note 2. The Company’s Board of Directors approved the designation of \$225,000 to satisfy the capital requirements of the CID, as required by Connecticut Insurance Law. The designation of \$225,000 was based on an assessment of factors that would impact amounts designated as capital. CFSIC holds the amounts designated to satisfy capital requirements as a liability, “residual liability” on its Statement of Net Position. Amounts designated to satisfy capital requirements are held as a liability, rather than as residual net position, due to provisions of Connecticut General Assembly P.A. 17-2 that require the Company to return funding that remains, if any, after all obligations have been satisfied. Designation of funds to satisfy capital requirements does not restrict the ability of the Company to use such funds to satisfy its obligations, as more fully described in Note 4.

Any net gain or loss from operations will directly impact the Company’s residual liability designated to satisfy capital requirements. There was no net operating gain or loss for the year ended June 30, 2020 and 2019. As such, the residual liability remained \$225,000 as of June 30, 2020 and 2019.

Going Concern: As of June 30, 2020 and 2019, the Company lacks sufficient funds to meet the needs of its claimants and is dependent upon the amount of funding it receives from the State of Connecticut, which includes the Healthy Homes surcharge. As such, this raises substantial doubt about its ability to continue as a going concern. The Company has a net capital deficiency of \$64,043,867 and \$52,729,828 as of June 30, 2020 and 2019, respectively. Management plans to request federal funding if the State of Connecticut is unable to meet the demands of the Company and its claimants. On August 5, 2019, the Company suspended the entering into of any new Participation Agreements with claimants. Subsequently, the Company suspended all new application activity effective September 6, 2019 because the total of its net recorded incurred claim liability for funded as well as unfunded claims had reached an amount consistent with net expected funding from all known and unknown sources. On January 13, 2020, the Company came out of suspension to only accept applications for “pending” claimants. On June 30, 2020, the Company suspended accepting claim applications once again.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements of the Company have been prepared using accounting principles generally accepted in the United States of America (“GAAP”), as applied to governmental entities. The Company is subject to accounting standards promulgated by the Governmental Accounting Standards Board (“GASB”), as applied by the State of Connecticut. GASB is recognized as the accepted standard-setting body for the promulgation of accounting and financial reporting principles applicable to U.S. state and local governmental entities.

As of June 30, 2020 and 2019, the Company received a permitted accounting practice from the Connecticut Insurance Department to record an unfunded liability for unpaid losses in the amount of \$64,043,867 and \$52,729,828, respectively, for an insurance contract that does not transfer insurance risk, which is not in accordance with accounting principles generally accepted in the United States of America. Under accounting principles generally accepted in the United States of America, the unfunded liability for unpaid losses and loss adjustment expenses would not be recorded under the Deposit accounting model, as defined below, as it represents the liability for potential future claims for which no participation agreement has been signed and associated funding has not yet been received by The State of Connecticut.

The CFSIC Cell, as a component unit of the core, has been blended for financial reporting purposes.

(Continued)

CONNECTICUT FOUNDATION SOLUTIONS INDEMNITY COMPANY, INC. AND PROTECTED CELL
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents: The Company considers all cash and highly liquid instruments with original maturities of three months or less to be cash equivalents. This includes cash and money market accounts. Cash and cash equivalents held as of June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents:		
Cash - checking account	\$ 22,884	\$ 66,043
Cash - money market deposit accounts	<u>31,119,446</u>	<u>31,869,622</u>
 Total cash and cash equivalents	 <u>\$ 31,142,330</u>	 <u>\$ 31,935,665</u>

Deposit Accounting: As more fully described in Note 4, the DOH Contract does not transfer “insurance risk” to the Company, as that term is defined in applicable accounting guidance. The Company’s claim losses cannot exceed the funding received and therefore, the contract does not pass underwriting or timing risk. Accordingly, the transfer of funds to the Company was accounted for using “deposit accounting.” Deposit accounting is applied when no insurance risk is present in a contract. When considered in its entirety, the DOH Contract contains neither underwriting risk nor timing risk, two elements fundamental to the transfer of insurance risk.

Under deposit accounting, which focuses primarily on the balance sheet, all financial activity related to the DOH Contract is recorded through a “deposit liability” on the Statement of Net Position. The deposit liability represents loss and loss adjustment expenses to be paid under the DOH Contract to the extent funds have been received. This liability is increased to the extent funds are received subject to the terms of the DOH Contract, less the \$225,000 originally designated to meet capital and surplus requirements held as a residual liability. Notwithstanding, the designation of funds to satisfy capital and surplus requirements does not restrict the ability of the Company to use such funds to satisfy its obligations. Given the establishment of the deposit liability, no further recognition of loss or loss adjustment expenses occurs. The deposit liability is reduced to the extent that loss and loss adjustment expenses are paid. Payment of such expenses does not impact the Statement of Revenues, Expenses and Changes in Net Position. Due to the fact that loss and loss adjustment expenses are frequently paid within a period of twelve months or less from when funding is received, there is no recognition of additional liability over the period of its estimated life (pursuant to the DOH Contract) in excess of the original deposit amount and the deposit liability is not adjusted upward for “interest accretion” at each reporting date.

Unfunded Liability for Unpaid Losses and Loss Adjustment Expenses: The unfunded liability for unpaid losses and loss adjustment expenses includes case basis estimates of reported losses for which no participation agreements have effectuated. Management believes that its aggregate liability for unfunded liability for unpaid losses and loss adjustment expenses at period end represents its best estimate, based on the available data, of the amount necessary to cover the ultimate cost of losses above and beyond the loss and loss adjustment expenses to be paid under the DOH Contract to the extent funds have been received. As adjustments to this estimate become necessary, such adjustments are reflected in the Statements of Revenues, Expenses and Changes in Net Position.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

No estimate for losses incurred but not reported (“IBNR”) has been developed to date as known losses that have been incurred have insignificant volatility and short reporting duration. An initial liability for unpaid losses and loss adjustment expenses is established for \$175,000 once an application is received from a claimant, including verifiable evidence of the severity-coded impairment. Foundation replacements are limited to \$175,000 (and \$70,000 for condominiums) and management is able to project individual known case liabilities as applications are received from claimants with adjustments to the liabilities once the winning contract proposal is chosen by the homeowner without the assistance of an independent actuary. Management believes that its unfunded liability for unpaid losses and loss adjustment expenses coupled with the deposit liability at period end, represents its best estimate, based on the available data, of the amount necessary to cover the ultimate cost of losses; however, because of the nature of the insured risks and limited historical experience, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liability at the Statement of Net Position date. Accordingly, the ultimate liability could vary significantly from the amount indicated on the Statements of Net Position.

Taxes: The Company has received a determination letter from the Internal Revenue Service (IRS) effective June 26, 2018, indicating that the Company qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as exempt from federal income taxes. Accordingly, no tax provision has been recorded by the Company. Additionally, by statute, the Company is not subject to any Connecticut State or local taxes or fees.

Non-operating Activities: Activities not related to the Company’s primary purpose are considered non-operating. Interest income is considered an operating activity. The Company considers the change in the unpaid liability for unpaid losses and loss adjustment expenses as a non-operating activity since deposits to support operations have not yet been received.

Use of Estimates and Assumptions: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could materially impact the amounts reported and disclosed herein.

NOTE 3 - FAIR VALUE MEASUREMENTS

The Company estimates of fair value for financial assets are based on the framework established in GASB 72 “*Fair Value Measurement and Application*.” The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance hierarchy is based on whether the significant inputs into the valuation are observable.

In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company’s significant market assumptions.

The three levels of the hierarchy are as follows:

Level 1 - Inputs to the valuation methodology are quoted prices for identical assets traded in active markets.

(Continued)

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset and market corroborated inputs.

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

The Company had no investments as of June 30, 2020 and 2019 that were subject to the fair value leveling hierarchy disclosure.

NOTE 4 - INSURANCE ACTIVITY

Pursuant to the DOH Contract between the Connecticut Department of Housing and the Company, the Company provides assistance to owners of residential buildings with concrete foundations that have deteriorated due to the presence of reactive pyrrhotite in the concrete mixture used to pour the foundations.

The Company requires claimants whose claims are validly in line for adjustment to sign a Participation Agreement in advance of the commencement of the claim payment process. Residential building owners become "Participants" under the program, however, no premium is paid to the Company by the Participant. The funds to pay active claims are provided through an expected annual allotment to the Company from the CFAF, which received \$20 and \$40 million in bonded funds from the State of Connecticut for each state fiscal year ending 2020 and 2019, respectively, and is expected to receive \$20 million per year for the years ended June 30, 2021, and 2022 in accordance with statute. During the year ended June 30, 2020 an additional \$3,325 was received for contributions from various donors. During the year ended June 30, 2019 an additional \$9,000 was received for contributions from the Connecticut Association of Realtors. In addition, the company received \$10,601,209 during the year ended June 30, 2020, funded through a \$12 per year homeowner policy assessment on each policy underwritten in the State of Connecticut.

Claims are presented to the Company by claimants who qualify for consideration by proof of ownership of affected residential buildings unless they are defined as legacy claimants (claimants that have since relocated from the affected residential buildings, the Legacy Claimants), but at all times subject to whether claims are Type 1 (claimants that are seeking indemnification) or Type 2 (claimants that are seeking reimbursement) claims as defined in the Company's underwriting guidelines, and other criteria, which may from time to time be established by the Company's Board of Directors. Type 1 and Type 2 claims are adjusted and paid subject to the terms and conditions of the Company's underwriting guidelines, which includes replacement cost parameters among other criteria.

In accordance with the underwriting guidelines, a Type 2 claimant who has partially replaced a foundation with the object of temporarily stabilizing the residential building in question, and where the work performed was performed on or before January 10, 2019, may file an application for a Type 2 claim for the total of the partial work already completed on a one-time basis, with the understanding that further partial work is not eligible for reimbursement. The claimant may then subsequently either re-apply as a Type 2 claimant seeking reimbursement for the completion of the entire foundation replacement for the same residential building, or apply as a Type 1 claimant seeking financial assistance in order to undertake a complete foundation replacement for the same residential building.

(Continued)

NOTE 4 - INSURANCE ACTIVITY (Continued)

With respect to a claimant filing a Type 2 claim for partial reimbursement, the Company will not pay for more than one partial reimbursement. When filing a partial reimbursement claim, the claimant must file a complete application in order to be eligible for that partial reimbursement, in the same way and with the same points of evidence as would be required for a claim involving a reimbursement for a full foundation. When either a Type 1 or Type 2 claim is fully adjusted and paid, in satisfaction of a complete replacement or complete reimbursement of a foundation, any payment made for a partial reimbursement performed on the foundation of the eligible residential building is deducted in an amount equivalent to the amount already paid for that partial work completed. Any claim, whether Type 1 or Type 2, for which a claimant may already have received partial reimbursement on the residential building in question, must be fully adjusted and have a Participation Agreement fully executed on or before June 30, 2022, and will be subject at all times to a limit of \$175,000 in total expenditure, inclusive of the amount of any partial reimbursement with the exception of condominiums, where a limit of \$70,000 per eligible unit is applied, and where the limit on the total allowable concrete work is calculated based on the number of eligible units resting on a common foundation platform. The exception to this is a single condominium unit resting on a sole and single foundation platform, to which the limit of \$175,000 is applied.

Both Type 1 and Type 2 claim applications require points of evidence as detailed within the Company's underwriting guidelines. Claims with submitted complete applications without all points of required evidence are registered, and an initial liability is established, provided that such claims include, at a minimum, evidence of a foundation severity class coding 3, 2, or 1, where such severity class coding has been established according to the Company's underwriting and claims management guidelines. These claims remain classified as inactive until all required points of evidence are submitted. Inactive claims do not enable claimants to receive funds from the Company. A claim categorized as inactive is maintained as registered from the date of the application until it becomes an active claim. Active Type 1 claims have first priority to available funds before inactive Type 1 claims, regardless of severity class. As claims become active, they move up in priority with respect to access to available claim adjustment funds, but always in the order of severity, and using a severity coding: Class 3, followed by Class 2, followed by Class 1. Active Type 2 claims are adjusted in the order in which they are determined to be active claims, but subject to any limitations (as defined below) as to the number of Type 2 claims, which can be paid in any specific fiscal year, or for all fiscal years, including claims paid to Legacy Claimants.

The Company's Board of Directors has established that it will permit a total of 100 active Type 2 claims to be paid from the date of the Company's commencement of underwriting activities on January 10, 2019 through June 30, 2022. This number of paid claims includes "Legacy Claimants." The Company may take applications for Type 2 claims in any number, subject at all times to the availability of funds; however, as of the date of the Company's commencement of operations, the Board of Directors has authorized only 100 Type 2 claims to be paid in total during the Company's statutory life; and, secondly, has authorized that no more than 25 Type 2 claims can be paid in any of the Company's fiscal years beginning on July 1, 2019.

The Company utilizes a third party administrator (the TPA) for claim adjustments. When a claim is ready for adjustment, the TPA directs the claimant to the list of approved contractor vendors on the Capitol Region Council of Governments (CRCOG)'s website able to provide quotations for foundation replacement and related services. The TPA is responsible for all payments made on behalf of the Company to the contractor selected by the claimant. No funds are disbursed by the TPA directly to a Type 1 claimant. The funds are dispersed directly to the contractor that performs the foundation repair.

The Company has established an escrow fund with the TPA and is funded at regular intervals by the Company for the purpose of paying claims.

(Continued)

CONNECTICUT FOUNDATION SOLUTIONS INDEMNITY COMPANY, INC. AND PROTECTED CELL
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 4 - INSURANCE ACTIVITY (Continued)

The Company is unable to accept applications for eligible residential buildings when, as determined through the TPA's loss run, as confirmed by the Superintendent, and as approved by the Company's Board of Directors, the total of all projected ultimate amounts due to identified eligible existing claimants exceeds known and confirmed sources of funds available to the Company from known sources, as those sources apply uniformly to all eligible claimants.

Any temporary or permanent cessation of new application or Participation Agreement activity is announced on the Company's website. Under certain conditions, the Company may suspend the signing of new Participation Agreements even though it is continuing to take new applications from potential claimants. Similarly, the Company may suspend the taking of new applications, under certain conditions, while it continues to enter into Participation Agreements with claimants. In any event, under the Connecticut statute, the Company's operations are scheduled to be placed in runoff on June 30, 2022, regardless of whether funds may still be due to the Company. Upon termination of the Company, all of its rights and properties shall pass to and be vested by the State of Connecticut.

Deposit liability activity for the year ended June 30, 2020 and 2019, is summarized in the table below:

	<u>2020</u>	<u>2019</u>
Liability at beginning of period	\$ 31,712,125	\$ -
Deposits received	30,604,534	40,009,000
Transfer to residual liability for state minimum capital requirements	-	(225,000)
Transfer to fund operating expenses	(328,373)	(586,029)
Claims administration fees paid	(357,009)	(441,581)
Indemnity payments	<u>(29,990,352)</u>	<u>(7,044,265)</u>
Liability at end of period	<u>\$ 31,640,925</u>	<u>\$ 31,712,125</u>

NOTE 5 - REGULATORY REQUIREMENTS

The laws of the State of Connecticut require the Company to maintain a minimum of \$225,000 unimpaired capital. As described in Note 1, the Company has designated \$225,000 to satisfy the capital requirements of the CID. Amounts designated to satisfy capital requirements are held as a liability, rather than as residual net position, due to provisions of Connecticut General Assembly P.A. 17-2 that require the Company to return funding that remains, if any, after all obligations have been satisfied. Net gain or loss from operations will directly impact the Company's residual liability designated to satisfy capital requirements. There was no net operating gain or loss for the year ended June 30, 2020 and 2019. As such, the residual liability remained \$225,000 as of June 30, 2020 and 2019.

There are no differences between net deficit and net loss as reported in these financial statements and the corresponding amounts reported in the 2020 and 2019 Connecticut Captive Insurance Company Annual Statement.

(Continued)

NOTE 6 - CUSTODIAL CREDIT RISK

The Company follows the disclosure requirements of GASB Statement No. 40, "*Deposit and Investment Risk Disclosures*" (GASB 40), and accordingly, the Company has assessed the Custodial Credit Risk of its cash and cash equivalents.

Custodial credit risk is the risk that, in the event of the failure of counterparty, the Company will not be able to recover the value of its bank deposits that are in the possession of an outside party. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to \$250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Company's policy to monitor the financial strength of the bank that hold its deposits on an ongoing basis. During the normal course of business, the Company maintains cash balances in excess of the FDIC insurance limit. As of June 30, 2020 and 2019, the Company's uninsured bank deposits were \$31,139,135 and \$31,391,714. This amount is exposed to custodial credit risk as it's uncollateralized. The Company's policy for custodial credit risk is to monitor the financial strength of the bank that holds its deposits on an ongoing basis.

NOTE 7 - RISKS AND UNCERTAINTIES

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Company could be materially adversely affected. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

NOTE 8 - SERVICE AGREEMENTS AND RELATED PARTY TRANSACTIONS

The Company utilizes a managing underwriter to perform its day-to-day operations as Superintendent of the Company pursuant to a management agreement. For the years ended June 30, 2020 and 2019, the Company incurred fees of \$377,945 and 398,097, respectively, related to this agreement.

Accounting and reporting services, record retention, and other management services are provided by Marsh Captive Solutions pursuant to a management agreement. An employee of Marsh is also a member of the Board of Directors. For the years ended June 30, 2020 and 2019, the Company incurred fees of \$91,356 and \$86,250 respectively, related to this management agreement.

For the years ended June 30, 2020 and 2019, the Company utilizes a third-party administrator to manage its claims. For the years ended June 30, 2020 and 2019, the Company incurred \$332,236 and 467,064, respectively, relating to this service.

NOTE 9 - SUBSEQUENT EVENTS

The management of the Company monitors cash disbursements paid and committed, through the entering into of Participation Agreements, on behalf of approved foundation indemnification and reimbursements, with the object of making certain that the total of all foundation indemnification and reimbursements committed do not exceed available cash on hand, inclusive of sufficient margin to maintain a combination of operations and required share capital. On August 13, 2020, the Company received the fourth \$20 million allotment of bond funding from the State of Connecticut. While the Company is entering into Participation Agreements due to the funding received, the date for when the Company will lift the suspension of application activity is unknown at this time.

The Company has evaluated subsequent events for disclosure and recognition through October 22, 2020, the date the financial statements were available to be issued, and there were no other material events that required disclosure.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Connecticut Foundation Solutions Indemnity Company, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Connecticut Foundation Solutions Indemnity Company (the "Company") for financial reporting purposes, as of and for the year ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, and have issued our report thereon dated October 22, 2020.

As discussed in Note 2, as of June 30, 2020 and 2019, the Company received a permitted accounting practice from the Connecticut Insurance Department to record an unfunded liability for unpaid losses and loss adjustment expenses totaling \$64,043,867 and \$52,729,828 for an insurance contract that does not transfer insurance risk, which is not in accordance with accounting principles generally accepted in the United States of America. Under accounting principles generally accepted in the United States of America, the unfunded liability for unpaid losses and loss adjustment expenses would not be recorded. Therefore, a qualified opinion on the Company's basic financial statements was issued.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company lacks sufficient funds to meet the needs of its claimants and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Company are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Connecticut Foundation Solutions Indemnity Company, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Crowe LLP

Simsbury, Connecticut
October 22, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE

To the Board of Directors of
Connecticut Foundation Solutions Indemnity Company, Inc.

Report on Compliance for Each Major State Program

We have audited the compliance of Connecticut Foundation Solutions Indemnity Company, Inc. (the "Company") with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on the Company's major state program for the year ended June 30, 2020. The Company's major state program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with laws, regulations, contracts and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Company's major state program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major state program. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on Each Major Federal Program

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended June 30, 2020.

(Continued)

Report on Internal Control over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major state program and to test and report on internal control over compliance in accordance with the State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State Single Audit Act. Accordingly, this report is not suitable for any other purpose.


Crowe LLP

Simsbury, Connecticut
October 22, 2020

CONNECTICUT FOUNDATION SOLUTIONS INDEMNITY COMPANY AND PROTECTED CELL
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2020

<u>State Grantor/Pass-through Grantor/Program Title</u>	<u>State Grant Program CORE-CT Number</u>	<u>Expenditures</u>
State of Connecticut Department of Housing: Crumbling Foundations Assistance Fund	12052-DOH46915-43732	<u>\$ 31,105,558</u>
Total Expenditures of State Awards		<u><u>\$ 31,105,558</u></u>

See Accompanying Note to the Schedule of Expenditures of State Financial Assistance

CONNECTICUT FOUNDATION SOLUTIONS INDEMNITY COMPANY AND PROTECTED CELL
NOTE TO THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2020

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of State Financial Assistance (the "Schedule") includes the state award activity of the Connecticut Foundations Solutions Indemnity Company, Inc. (the "Company") under a program of state government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of the State of Connecticut Office of Policy and Management under Section 4-236-6. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Because the Schedule presents only a selected portion of the operations of the Company, it is not intended to and does not present the financial position, changes in net deficit, or cash flows of the Company.

The following is a detailed listing of the components of the total expenditures of state awards.

Indemnity payments	\$ 29,990,352
Claims administration fees	357,009
Professional and management fees	591,784
General and administrative expenses	<u>166,413</u>
Total expenditures of State financial assistance	<u><u>\$ 31,105,558</u></u>

CONNECTICUT FOUNDATION SOLUTIONS INDEMNITY COMPANY AND PROTECTED CELL
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2020

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditors' report issued: Qualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

State Financial Assistance

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-6 of the Regulations to the State Single Audit Act? Yes X No

Identification of major programs:

State Grant Program CORE-CT Number	Name of State Program or Cluster	Expenditures
12052-DOH46915-43732	Crumbling Foundations Assistance	\$ 31,105,558

Dollar threshold used to distinguish between type A and type B programs: \$ 622,111

Auditee qualified as low-risk auditee? Yes X No

(Continued)

CONNECTICUT FOUNDATION SOLUTIONS INDEMNITY COMPANY AND PROTECTED CELL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2020

Section II - Findings Relating to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

No findings were reported.

Section III - State Financial Assistance Findings and Questioned Costs

No findings or question costs were reported for the current year.