

# **Citizens Property Insurance Corporation**

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**Financial Statements  
and Supplementary Information**

**Years Ended December 31, 2018 and 2017**



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## Independent Auditors' Report

Audit Committee  
Citizens Property Insurance Corporation  
Tallahassee, Florida

We have audited the accompanying financial statements of Citizens Property Insurance Corporation (Citizens), an enterprise fund of the State of Florida, which comprise of statements of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses and changes in net position, and statements of cash flows for the years then ended, and the related notes of the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citizens as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Basis of Presentation**

As discussed in Note 2, the financial statements of Citizens are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business type activities of the State of Florida that is attributable to the transactions of Citizens. They do not purport to, and do not, present fairly the financial position of the State of Florida as of December 31, 2018 and 2017, and the changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 to 10 and the Supplemental Revenues, Expenses and Claim Development Information on page 39 to 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, 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 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 – Supplemental Combining Statements**

Our audits were conducted for the purpose of forming an opinion of the basic financial statements as a whole. The supplemental combining statements of net position and supplemental combining statements of revenues, expenses and changes in net position (Supplemental Combining Statements), on pages 37 through 38 as of and for the year ended December 31, 2018, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Supplemental Combining Statements are the responsibility of Citizens' management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted by the United States of America. In our opinion, the Supplemental Combining Statements are fairly stated, in all material respects, in relation to the basic financial statement as a whole.



***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2019 on our consideration of Citizens' internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Citizens' internal control over financial reporting and compliance.

*Dixon Hughes Goodman LLP*

**Charlotte, North Carolina**  
**May 22, 2019**

**Citizens Property Insurance Corporation**  
**Management's Discussion & Analysis**  
**(Dollars in thousands)**

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## **Management's Discussion & Analysis**

This discussion provides an assessment by management of the current financial position and results of operations for Citizens Property Insurance Corporation (Citizens). Management encourages readers to consider the information presented here in conjunction with additional information included in the accompanying basic financial statements, notes to the financial statements and supplemental financial information.

### **1. Financial Highlights**

- The assets of Citizens exceeded its liabilities at the close of the most recent year by \$6,062,233.
- Citizens' total net position decreased by \$276,638, primarily due to a reported net loss for the reporting period.
- The operating loss of \$280,700 represents a decrease of \$884,267 for 2018 as compared to the operating loss reported for 2017. This decrease is primarily the result of a decrease in reported losses and loss adjustment expenses (LAE), net of reinsurance, in the amount of \$875,383. Reported net losses and LAE incurred in 2017 were primarily driven by catastrophic claims attributed to Hurricane Irma.
- Operating expenses decreased \$12,355 during 2018 compared to 2017. This decrease is primarily the result of decreases in variable policy acquisition costs, which include agent commissions and taxes and fees, of \$3,554, as well as other underwriting expenses of \$8,953. Policy acquisition costs decreased proportionally as a result of decreases in direct written premium in the amount of \$25,573 for 2018 as compared to 2017.
- Nonoperating income of \$3,889 decreased \$191,531 during 2018 as compared to nonoperating income of \$195,420 for 2017. The net decrease is primarily a result of decreases in net investment income of \$217,810 partially offset by decreases in net interest expense of \$30,672. Net investment income decreases for 2018 are driven by mark-to-market losses of \$131,917 and net realized losses of \$23,929 on Citizens' invested assets. Net interest expense decreases are driven by maturities and redemptions of pre-event bonds of \$255,000 in 2018.

### ***Overview of Financial Statements***

This discussion and analysis is intended to serve as an introduction to Citizens' basic financial statements, which consist of the statements of net position, statements of revenues, expenses and changes in net position and the statements of cash flows. This report also contains other supplementary information in addition to the basic financial statements.

The *statements of net position* present information on all of Citizens' assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indication of whether the financial position of Citizens is improving or deteriorating.

The *statements of revenues, expenses and changes in net position* present information illustrating changes to Citizens' net position during the most recent fiscal year as well as the prior year. All changes in net position are reported when the underlying events giving rise to the changes occur, regardless of the timing of related cash flows.

The *statements of cash flows* present information concerning cash receipts and cash payments during the year. The statements illustrate the cash effects of operating, noncapital financing, capital financing and investing activities during the fiscal years presented.

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**(Dollars in thousands)**

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The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements immediately follow the statements of cash flows.

In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* concerning Citizens' revenues, expenses and claims development information for the last ten policy years and combining financial statements.

## **2. Financial Analysis**

### **Cash and invested assets**

Citizens employs an investment policy that focuses on principal preservation, competitive returns, and adequate liquidity in order to meet future claim obligations. Citizens' invested assets are governed by four investment policies, two for taxable operating funds and two for tax-exempt bond proceeds: 1) Liquidity Fund (Taxable) – generally this policy will govern the investment of funds and surplus that, in addition to internally managed cash, will be the first monies used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis; 2) Liquidity Fund (Tax-exempt) – generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on an as needed basis; 3) Claims-Paying Fund (Taxable) – generally this policy will govern the investment of funds that will be used to pay post-event claims after Citizens has expended all monies in the Liquidity Fund. Only monies eligible for investment in taxable instruments will be deposited in this fund; 4) Claims-Paying Fund (Tax-exempt) – generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event, typically after all funds in the Liquidity Fund have been expended; 5) Claims-Paying Long Duration Fund (Taxable) – generally this policy will govern the investment of funds that will be used to pay post-event claims after Citizens has expended all monies in the Liquidity Fund and Claims-Paying Fund. Citizens' investment policy requires securities with long-term ratings in the taxable portfolios to have an average rating of Baa2/BBB/BBB or better and be rated by at least two of Moody's, S&P and/or Fitch with no rating below Baa3/BBB-/BBB. The policy also requires securities with long-term ratings in the tax-exempt portfolios to be rated by at least two of Moody's, S&P, and/or Fitch and have minimum ratings of A3/A-/A-. Citizens engages independent investment managers to invest bond proceeds and certain operating cash pursuant to its taxable and tax-exempt investment policies. Citizens' investment portfolio consists of high-quality debt instruments such as US Treasury and Agency securities and money market funds, corporate bonds, commercial paper and certificates of deposit, AAA rated asset backed securities, tax-exempt money market funds, taxable municipal bonds, tax-exempt municipal bonds, tax-exempt variable rate demand notes, and prime money market funds.

Declines in market value of invested assets are continually evaluated to determine whether these declines are temporary or other-than-temporary in nature. In making this determination, Citizens monitors external impairment indicators such as issuer credit ratings as well as the extent and length of the related declines and internal impairment indicators such as Citizens' intent and ability with respect to retention of the impaired securities. These indicators are obtained from both third-party valuation services and internal analyses performed by Citizens.

Cash and the estimated market value of Citizens' invested assets totaled \$9,062,139 at December 31, 2018, marking a decrease of \$989,518 from December 31, 2017. The decrease was largely due to loss and LAE payments of \$1,125,106 for claims payments attributable to Hurricanes Irma and Michael, payments of debt service obligations for pre-event bond issuances outstanding of \$255,000, and mark-to-market losses of \$131,917. This decrease was partially offset by increases in net premiums collected of \$36,726 and decreases in total operating expenses of \$12,355.

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**Reserve for losses and loss adjustment expenses**

Reserves for unpaid losses and loss adjustment expenses (LAE) are stated at Citizens' estimate of the ultimate cost of settling all incurred but unpaid claims. Incurred losses and LAE represent a combination of payments for loss and LAE as well as changes in reserves that occur during the calendar year.

Activity with respect to reserves for unpaid losses and loss adjustment expenses for the Years Ended December 31, 2018 and 2017 were as follows:

	<b>2018</b>	<b>2017</b>
Direct loss and loss adjustment expense reserves, beginning of year	\$ 1,832,958	\$ 720,400
Less reinsurance recoverables on reserves	<u>(661,854)</u>	<u>(995)</u>
Net loss and loss adjustment expense reserves, beginning of year	<u>1,171,104</u>	<u>719,405</u>
Incurred related to:		
Current accident year	553,502	1,526,420
Prior accident years	<u>136,211</u>	<u>38,676</u>
Total incurred	<u>689,713</u>	<u>1,565,096</u>
Paid related to:		
Current accident year	(249,825)	(796,181)
Prior accident years	<u>(872,628)</u>	<u>(317,197)</u>
Total paid	<u>(1,122,453)</u>	<u>(1,113,378)</u>
Change in retroactive reinsurance reserves ceded	7	(19)
Net loss and loss adjustment expense reserves, end of year	738,371	1,171,104
Add reinsurance recoverables on reserves	<u>606,348</u>	<u>661,854</u>
Direct loss and loss adjustment expense reserves, end of year	<u>\$ 1,344,719</u>	<u>\$ 1,832,958</u>

For the years ended December 31, 2018 and 2017 reserves for unpaid losses, net of amounts ceded under reinsurance contracts, decreased \$361,414 (48.9%) while reserves for unpaid LAE reserves, net of amounts ceded under reinsurance contracts, decreased \$71,319 (16.5%). Net unpaid losses and LAE reserves related to catastrophes (2004 and 2005 hurricanes, 2008 Tropical Storm Fay, 2016 Hurricanes Hermine and Matthew, 2017 Hurricane Irma and 2018 Hurricane Michael) decreased \$378,562 primarily as a result of paid losses attributed to Hurricane Irma. Net increases in anticipated reinsurance recoverable balances (ie. ceded loss and LAE reserves) decreased \$55,506 for 2018 as compared to 2017. The decrease is the result of settlement of recoveries from the FHCF for claims associated with Hurricane Irma. Net unpaid losses and LAE reserves not related to hurricanes decreased 54,186 due to an overall reduction in the number of policies in force and settlement of reserve balances from prior years. The estimated cost of loss and LAE attributable to insured events of prior years increased by \$136,211, net of reinsurance, during the year ended December 31, 2018. Such increases are realized as claim settlements occur during the current year and as additional information becomes known in respect to claims reported in years prior to 2018.

**Long-term debt**

Citizens has issued multiple Senior Secured Bonds for the purpose of funding losses in the event of a future catastrophe to ensure that liquidity demands associated with policyholder obligations can be met.

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These bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any surcharges, regular and emergency assessments, and/or reimbursements received from the Florida Hurricane Catastrophe Fund (FHCF). During 2018, cash outflows associated with Citizens' Senior Secured Bonds totaled \$255,000 in principal repayments and \$87,939 in interest obligations. Net interest expense of \$63,571 includes net amortization of bond premiums of \$23,313 for the year ended December 31, 2018.

**Other liabilities**

Effective July 1, 2015, Citizens terminated the 2005 Citizens Emergency Assessment that was activated as a result of unprecedeted storm activity during 2004 and 2005 during which eight hurricanes made landfall in various southern US states, including Florida. The collection of these assessment funds were used for debt service obligations incurred in connection with the now defeased 2007A post-event bonds that were issued to provide claims paying resources to Citizens. Amounts collected by Citizens in excess of the 2005 Citizens Emergency Assessment levy are held in a reserve account and may be used by Citizens to offset future plan year deficits as approved by Citizens Board of Governors and the Office of Insurance Regulation. At December 31, 2018 and 2017, funds held in this reserve totaled \$141,655 and \$143,590 respectively.

**Operating Revenue**

A summary of Citizens Statements of Revenues, Expenses and Changes in Net Position and certain key financial ratios are presented below:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>%Change 2018-2017</u>	<u>%Change 2017-2016</u>
Operating revenue:					
Premiums earned	\$ 622,975	\$ 626,446	\$ 625,540	(0.5) %	(0.0) %
Operating expenses:					
Losses and loss adjustment expenses incurred	689,713	1,565,096	512,914	(55.9) %	205.1 %
Other underwriting expenses	213,962	226,317	241,460	(5.5) %	(6.3) %
Total expenses	903,675	1,791,413	754,374	(49.5) %	137.5 %
Operating loss	(280,700)	(1,164,967)	(128,834)	75.9 %	804.2 %
Non-operating income (expense)	3,889	195,420	(30,150)	(98.0) %	748.2 %
Change in net position	\$ (276,811)	\$ (969,547)	\$ (158,984)	71.4 %	(509.8) %
Policies in-force	427,395	440,406	455,843	(2.9) %	(3.4) %
Policies serviced	441,066	463,754	500,071	(4.9) %	(7.3) %
Underwriting ratios:					
Net loss and LAE ratio (calendar year)	111%	250%	82%	(139)%	168%
Expense ratio (calculated on net premiums earned)	34%	36%	39%	(2)%	(3)%
Combined ratio	145%	286%	121%	(141)%	165%

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***Operating loss***

For 2018, Citizens incurred an underwriting loss of \$280,700, a decrease of \$884,267 from the operating loss reported at December 31, 2017. This decrease is primarily the result of a decrease in reported losses and LAE during 2018, net of reinsurance, in the amount \$1,052,182 incurred in 2017. Reported net losses and LAE incurred in 2017 were driven by catastrophic claims attributed to Hurricane Irma. The decrease in net losses and LAE are partially offset by net losses and LAE incurred in 2018 as a result of Hurricane Michael in the amount of \$151,726.

***Direct Written Premium***

During 2018, consolidated direct written premium decreased \$25,573 (3%). By account, increase (decreases) in direct written premium were \$32,337 (7%), (\$5,129) (-26%), and (\$52,781) (-14%) within the PLA, CLA, and Coastal Account, respectively. An analysis of observed trends in direct written premium, by account, follows:

**Personal Lines Account**

At December 31, 2018, the number of policies inforce within the PLA was approximately 305,000 reflecting a 1.3% increase relative to December 31, 2017. While the number of cancellations and non-renewals in 2018 were relatively unchanged relative to 2017, the number of policies assumed decreased by approximately 50%. Premiums written during 2018 were \$527,770 or \$32,337 (7%) greater than 2017. Premiums ceded through depopulation during 2018 were \$6,164 or \$2,840 (32%) less than 2017.

**Commercial Lines Account**

At December 31, 2018, the number of policies inforce within the CLA was approximately 900 reflecting a 30% decrease relative to December 31, 2017. The number of new policies written during 2018 was 24 and approximated the same number of new policies written during 2017. The number of cancellations (102) and non-renewals (291) contributed most significantly to the year-over-year decrease in policies inforce. Citizens' commercial policies remain attractive to insurers both in the private market and E&S market, particularly commercial policies with higher average premiums, leading to decreases in premiums written surpassing decreases in policies inforce. Premiums written during 2018 were \$14,665 or \$5,129 (26%) less than 2017. Premiums ceded through depopulation during 2018 were \$51 or \$125 (71%) less than 2017.

**Coastal Account**

At December 31, 2018, the number of policies inforce within the Coastal Account was approximately 122,000 reflecting a 14% decrease relative to December 31, 2017. Although policies assumed during 2018 were approximately half the amount assumed during 2017, the number of non-renewals and cancellations outpaced the number of new policies written causing year-over-year declines in policies inforce. Premiums written during 2018 were \$325,981 or \$52,780 (14%) less than 2017. Premiums ceded through depopulation during 2018 were \$11,681 or \$9,866 (46%) less than 2017.

Updated rate filings will go into effect October 2019.

**Losses and LAE incurred**

Non-catastrophe loss and LAE ratios increased slightly during 2018 in comparison to 2017 and was generally due to the proportional increase in the PLA relative to the CLA and Coastal Account. In 2017, the PLA comprised approximately 55% of Citizens' total book of business whereas in 2018, the PLA's composition increased to 61%. Loss and LAE ratios inclusive of catastrophes decreased significantly despite \$151,726 in losses and LAE attributable to Hurricane Michael and \$68,254 of net adverse loss and LAE development related to Hurricane Irma.

At December 31, 2018, consolidated direct ultimate losses and LAE related to Hurricane Irma were increased by \$104,449. This increase was largely concentrated in the PLA and was driven by increases in projected reported claim counts, increases in loss severity, increases in ALAE severity, and overall increases in ULAE costs.

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Preliminary evidence suggests that the increase in loss severity is being driven by increases in inflationary trends, whereby significant increases in the cost of labor have been observed.

Although severity and cost increases have been noted for ALAE and ULAE, the relative increase in Irma-related LAE was less than the increase in Irma-related losses. Contributing to the modest increase in LAE is the reduction in projected litigation rates. Initial projections estimated a litigation rate of approximately 30% although as of December 31, 2018, the projected litigation rate was reduced to 15%.

Across all lines of business within the Coastal Account, direct loss and LAE reserves related to Hurricane Irma were decreased by \$64,944. Reductions in projected litigation rates on personal and commercial residential claims were partially offset by increases in loss and ALAE severity on commercial non-residential claims.

On a consolidated basis, ultimate direct losses and LAE related to Hurricane Irma were \$1,915,425. Of that amount, \$697,283 is recoverable under Citizens' reinsurance contracts with both the FHCF (\$329,822 in the PLA and \$238,237 in the Coastal Account) and private reinsurers (\$129,224 in the Coastal Account only).

On a consolidated basis, ultimate direct losses and LAE related to Hurricane Michael were \$151,726. No reinsurance recoverables associated with Hurricane Michael were recorded due to the losses and LAE not meeting the attachment levels of reinsurance arrangements.

Litigation of non-weather water claims continues to impact the PLA with historically high litigation rates that has remained in the 40 - 50% range. Favorable loss development on older water claims was more than offset by adverse development in ALAE. Additionally, adverse development on older sinkhole claims contributed to an increase in the reported loss and LAE ratio within the PLA.

Within the CLA, volatility in older sinkhole claims continues to contribute to material quarterly variances in the reported loss and LAE ratios. While loss and LAE development within the CLA are less significant to the accident years to which they relate, the diminishing size of the overall commercial lines book of business leaves it more susceptible to material swings in the loss and LAE ratio as a result of development in prior accident years when the commercial lines book of business was considerably larger.

### **3. Net investment income and interest expense**

Net investment income consists of interest earned on Citizens' invested assets, net realized gains on sales of invested assets, and interest expense incurred on senior secured bonds outstanding. Total investment income for 2018 was \$2,311 or \$187,138 (99%) less than 2017. Net realized losses during 2018 were \$23,929, representing an increase of \$41,672 relative to 2017. Net realized losses were taken as portfolio managers maintained duration targets across portfolios, liquidated existing positions to meet scheduled debt service requirements, and met liquidity demands associated with hurricane-related loss and LAE payments. This resulted in an increase in realized losses due to overall rising market interest rates, volatility and fluctuations in credit spreads. Citizens carries its invested assets at fair value within the statements of net position and for the years ended December 31, 2018 and 2017 reported invested assets at a net unrealized loss of \$180,885 and \$49,142, respectively. Changes in net unrealized holding losses on Citizens' invested assets of \$131,917 are included in net investment income for 2018, marking a net decrease of \$189,212 as compared to 2017. Interest expense incurred on senior secured bonds outstanding were \$63,571 during 2018 in comparison to \$94,243 in 2017. Bond maturities that occurred in June 2018 led to the reduction in year-over-year interest expense.

**Citizens Property Insurance Corporation  
Management's Discussion & Analysis  
(Dollars in thousands)**

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**4. Subsequent Events**

Citizens has evaluated subsequent events for disclosure and recognition through May 22, 2019, the date on which these financial statements were available to be issued. There were no events occurring subsequent to the end of the year that merit recognition or disclosure in these statements.

**Citizens Property Insurance Corporation**  
**Statements of Net Position**  
**December 31, 2018 and 2017**  
**(Dollars in thousands)**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 439,080	\$ 957,574
Short-term investments	313,643	266,005
Restricted cash and cash equivalents	8,381	8,243
Investment income due and accrued	67,880	68,958
Reinsurance recoverable on paid losses and loss adjustment expenses	5,988	887
Premiums receivable, net	66,346	72,053
Premiums receivable from assuming companies, net	1,178	129
Other current assets	7,748	8,083
Total current assets	<b>910,244</b>	1,381,932
Noncurrent assets:		
Long-term investments	8,309,416	8,828,078
Capital assets	5,922	7,458
Total noncurrent assets	<b>8,315,338</b>	8,835,536
Total assets	<b>\$ 9,225,582</b>	\$ 10,217,468
<b>LIABILITIES</b>		
Current liabilities:		
Loss reserves, net	\$ 377,527	\$ 738,941
Loss adjustment expense reserves, net	360,844	432,163
Unearned premiums, net	423,572	430,586
Reinsurance premiums payable	45,738	51,024
Advance premiums and suspended cash	19,272	19,153
Return premiums payable	2,335	2,661
Interest payable	6,801	7,857
Current portion of long-term debt	355,259	278,312
Other current liabilities	80,344	69,049
Total current liabilities	<b>1,671,692</b>	2,029,746
Noncurrent liabilities:		
Long-term debt	1,350,002	1,705,261
Reserve for future assessments	141,655	143,590
Total noncurrent liabilities	<b>1,491,657</b>	1,848,851
Total liabilities	<b>\$ 3,163,349</b>	\$ 3,878,597
Net position:		
Invested in capital assets	\$ 5,922	\$ 7,458
Restricted	8,381	8,243
Unrestricted	6,047,930	6,323,170
Total net position	<b>\$ 6,062,233</b>	\$ 6,338,871

**Citizens Property Insurance Corporation**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2018 and 2017**  
**(Dollars in thousands)**

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	<b>2018</b>	<b>2017</b>
Operating revenue:		
Net premiums earned	\$ 622,975	\$ 626,446
Operating expenses:		
Net losses incurred	466,995	1,032,853
Net loss adjustment expenses incurred	222,718	532,243
Service company fees	1,759	1,607
Agent commissions	65,113	68,413
Taxes and fees	11,181	11,435
Other underwriting expenses	<u>135,909</u>	<u>144,862</u>
Total operating expenses	<u>903,675</u>	<u>1,791,413</u>
Operating loss	<u>(280,700)</u>	<u>(1,164,967)</u>
Nonoperating revenues (expenses):		
Net investment income	65,882	283,692
Net interest expense	(63,571)	(94,243)
Assessment income	(9)	908
Other income	<u>1,587</u>	<u>5,063</u>
Total nonoperating income	<u>3,889</u>	<u>195,420</u>
Change in net position	<u>(276,811)</u>	<u>(969,547)</u>
Net position, beginning of year	<u>6,338,871</u>	<u>7,308,311</u>
Other changes in net position	<u>173</u>	<u>107</u>
Net position, end of year	<u>\$ 6,062,233</u>	<u>\$ 6,338,871</u>

**Citizens Property Insurance Corporation**  
**Statements of Cash Flows**  
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	<b>2018</b>	<b>2017</b>
Cash flows from operating activities:		
Premiums collected, net of reinsurance	\$ 615,131	\$ 578,405
Net losses and loss adjustment expenses paid	(1,125,106)	(1,114,537)
Payments to employees for services	(90,909)	(96,024)
Payments for underwriting expenses	<u>(115,935)</u>	<u>(121,851)</u>
Net cash used in operating activities	<u>(716,819)</u>	<u>(754,007)</u>
Cash flows from noncapital financing activities:		
Debt redemption	(255,000)	(1,348,500)
Interest paid	(87,939)	(127,528)
Other nonoperating receipts	2,536	4,501
Assessment income received (paid)	<u>(151)</u>	<u>739</u>
Net cash used in noncapital financing activities	<u>(340,554)</u>	<u>(1,470,788)</u>
Cash flows from capital and related financing activities:		
Capital assets acquired	<u>(2,318)</u>	<u>(3,399)</u>
Net cash used in capital and related financing activities	<u>(2,318)</u>	<u>(3,399)</u>
Cash flows from investing activities:		
Proceeds from investments sold, matured or repaid	3,051,039	16,833,438
Investment acquisition	(2,783,950)	(14,187,260)
Interest income received	<u>274,246</u>	<u>294,734</u>
Net cash provided by investing activities	<u>541,335</u>	<u>2,940,912</u>
Net change in cash and cash equivalents	(518,356)	712,718
Cash and cash equivalents, beginning of year	<u>965,817</u>	<u>253,099</u>
Cash and cash equivalents, end of year	<u>\$ 447,461</u>	<u>\$ 965,817</u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 439,080	\$ 957,574
Restricted cash and cash equivalents	<u>8,381</u>	<u>8,243</u>
	<u>\$ 447,461</u>	<u>\$ 965,817</u>

**Citizens Property Insurance Corporation**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**  
**(Dollars in thousands)**

**(Continued)**

	<b>2018</b>	<b>2017</b>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (280,700)	\$ (1,164,967)
Adjustments to reconcile net cash used in operating activities:		
Depreciation expense	3,908	4,003
(Increase) decrease in operating assets:		
Reinsurance recoverable on paid losses and LAE	(5,101)	256
Premiums receivable	5,707	6,130
Other assets	(3,292)	7,077
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	(432,733)	451,699
Unearned premiums, net	(7,014)	(9,827)
Reinsurance premiums payable	(5,286)	(40,843)
Advance premiums and suspended cash	119	(5,091)
Other current liabilities	<u>7,573</u>	<u>(2,444)</u>
Net cash used in operating activities	<u>\$ (716,819)</u>	<u>\$ (754,007)</u>

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

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## **Notes to Financial Statements**

### **1. Organization and Description of the Company**

Citizens Property Insurance Corporation (Citizens) was established on August 1, 2002, pursuant to Section 627.351(6), Florida Statutes (the Act), to provide certain residential and non-residential property insurance coverage to qualified risks in the State of Florida under circumstances specified in the Act. This legislation was enacted such that property insurance be provided through Citizens to applicants who are in good faith entitled to procure insurance through the voluntary market but are unable to do so. Citizens results from a combination of the Florida Residential Property and Casualty Joint Underwriting Association (the FRPCJUA) and the Florida Windstorm Underwriting Association (the FWUA). The FRPCJUA was renamed Citizens and the FWUA's rights, obligations, assets, liabilities and all insurance policies were transferred to Citizens. Unlike private insurers offering coverage through the admitted market, Citizens is not required to obtain or to hold a certificate of authority issued by the Florida Department of Financial Services, Office of Insurance Regulation (the Office). Likewise, Citizens is not subject to Risk-Based Capital (RBC) requirements or required to have a pledged deposit on file with the State of Florida. For purposes of its tax-exempt status, Citizens is considered a political subdivision and an integral part of the State of Florida. As such, Citizens' operations may be affected by the legislative process.

Citizens operates pursuant to a Plan of Operation (the Plan), under the Act, approved by the Financial Services Commission (the Commission) of the State of Florida. The Commission is composed of the Governor, the Chief Financial Officer, the Attorney General and the Commissioner of Agriculture of the State of Florida.

Citizens is supervised by a Board of Governors (the Board) which consists of nine individuals who reside in the State of Florida. The Governor appoints three members, and the Chief Financial Officer, the President of the Senate and the Speaker of the House of Representatives each appoint two members of the Board. At least one of the two members appointed by each appointing officer must have a demonstrated expertise in the insurance industry. The Chief Financial Officer designates one of the appointees as the Board's chair. All Board members serve at the pleasure of their appointing officers.

Citizens' President and Chief Executive Officer (Executive Director) and senior managers are engaged by and serve at the pleasure of the Board. The Executive Director is subject to confirmation by the Florida Senate.

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

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Pursuant to the Act, all revenues, expenses, assets and liabilities of Citizens shall remain divided into three separate accounts: the Personal Lines Account, the Commercial Lines Account and the Coastal Account (collectively, the Accounts). A brief history of each account follows:

- *Personal Lines Account History* - The FRPCJUA began operations on January 21, 1993, after Hurricane Andrew, pursuant to Section 627.351(6), Florida Statutes, to provide certain residential property insurance coverage to qualified risks in the State of Florida for applicants who were in good faith entitled to procure insurance through the private market but were unable to do so. Residential property coverage consists of the types of coverage provided to homeowners, mobile homeowners, tenants, condominium unit owners, and similar policies.

The policies provide coverage for all perils covered under a standard residential policy, subject to certain underwriting requirements. Such policies may exclude windstorm coverage on property within eligible areas. This portion of the FRPCJUA's activities became the Personal Lines Account (PLA) under Citizens.

- *Commercial Lines Account History* - The Florida Property and Casualty Joint Underwriting Association (FPCJUA) was activated in early 1994 to provide commercial residential coverage (i.e., coverage for condominium associations, apartment buildings and homeowner associations) to organizations unable to obtain such coverage from a private insurer. During 1995, legislation was enacted to transfer all obligations, rights, assets, and liabilities related to commercial residential coverage from the FPCJUA to the FRPCJUA. The legislation required that the premiums, losses, assets and liabilities be accounted for separately from the FRPCJUA's personal residential business. This portion of the FRPCJUA's activities became the Commercial Lines Account (CLA) under Citizens. In 2006, the FPCJUA was re-activated to provide commercial non-residential wind-only coverage. In 2007, legislation was enacted which resulted in the transfer and assumption of the FPCJUA's commercial non-residential policies by Citizens. These policies were added to the CLA.
- *Coastal Account History* - The FWUA, which was a residual market mechanism for windstorm and hail coverage in select areas of the State of Florida, was created by an act of the Florida Legislature in 1970 pursuant to Section 627.351(2), Florida Statutes. FWUA was a Florida unincorporated association, the members of which were all property insurance companies holding a certificate of authority to provide property insurance coverage in the State of Florida. FWUA provided policies of windstorm insurance for property owners within the eligible areas who were unable to obtain such coverage from private insurers. Insured properties include personal residential, commercial residential and commercial non-residential properties. This portion of the FWUA's activities became the High-Risk Account under Citizens. In 2007, Citizens received authority to issue multi-peril policies in the High-Risk Account. Pursuant to legislative changes during 2011, the High-Risk Account was renamed the Coastal Account.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600. Application of these criteria determines potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete. Based on the application of these criteria, Citizens is a component unit of the State of Florida, and its financial activity is reported in the state's Comprehensive Annual Financial Report by discrete presentation.

The financial statements presented herein relate solely to the financial position and results of operations of Citizens and are not intended to present the financial position of the State of Florida or the results of its operations or its cash flows.

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

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Citizens has determined that it has no component units that should be included in its separately reported financial statements. However, the Florida Market Assistance Plan (FMAP) is a financially related entity. FMAP is a 501(c)(6) entity created by Section 627.3515, Florida Statutes. FMAP was created for the purpose of assisting in the placement of applicants who are unable to procure property or casualty insurance coverage from authorized insurers when such insurance is otherwise generally available. As provided in FMAP's enabling legislation, each person serving on the Board of Citizens also serves on the Board of FMAP. In addition, Citizens is required to fund any deficit incurred by FMAP in performing its statutory purpose.

## **2. Summary of Significant Accounting Policies**

### **Basis of Presentation**

The accounting policies and practices of Citizens conform to accounting principles generally accepted in the United States (U.S. GAAP) applicable to a proprietary fund of a government unit. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

GASB Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Government*, established standards for financial reporting for all state and local governmental entities, which includes a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. It requires net position to be classified and reported in three components: invested in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. As of December 31, 2018 and 2017, Citizens did not have any outstanding debt that was attributable to capital assets.
- Restricted - This component of net position includes assets subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. Restricted net position on the statements of net position includes funds advanced to Citizens by the Florida Surplus Lines Service Office (FSLSO) for obligations under the 2005 Citizens Emergency Assessment.
- Unrestricted - This component of net position consists of assets that do not meet the definition of "Restricted" or "Invested in capital assets."

### **Use of Estimates**

The preparation of the financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

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**Measurement Focus**

As an enterprise fund, Citizens' financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities associated with the operations of Citizens are included in the statements of net position. The statements of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position. The statements of cash flows provides information about how Citizens finances and meets the cash flow needs of its activities.

**Cash, Cash Equivalents, and Investments**

Cash and cash equivalents consists of demand deposits held with financial institutions, various highly liquid money market funds, other short-term corporate obligations and agency discount notes. Demand deposits and highly liquid investments with original maturities of three months or less at the time of acquisition are considered to be cash and cash equivalents. Money-market funds, including money-market mutual funds, are included in the statements of net position as cash equivalents.

Short-term investments consist of commercial paper, short-term municipal securities, short-term corporate bonds and U.S. government agency notes. Short-term investments are classified as all securities with original maturities greater than three months and less than twelve months at the time of acquisition.

Long-term investments consist solely of debt securities issued by municipal bodies, U.S. Treasury, U.S. government agencies, asset-backed securities, and corporate bonds with an original maturity greater than twelve months at the time of acquisition. Such investments are recorded at fair value, which is generally based on independent quoted market prices. If quoted market prices are not available, broker quotes or an estimation of the current liquidation values is determined through a collaborative process among various pricing experts and sources in the marketplace. Changes in fair value are reflected as a component of net investment income.

When, in the opinion of management, a decline in the estimated fair value of an investment is considered to be other than temporary, the investment is written down to its estimated fair value. The determination of an other than temporary decline in estimated fair value includes, in addition to other relevant factors, consideration of the nature of the investments, the severity of the impairments, including the number of securities impaired, and the duration of the impairment.

**Net Investment Income**

Net investment income includes interest income, amortization and accretion, changes in unrealized gains and losses based on estimated fair value, and realized gains and losses on sales of investments that are recognized on the specific identification basis. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year and included in net investment income in the statements of revenues, expenses and changes in net position. Gains and losses from call redemptions and repayments are charged to investment income.

**Capital Assets**

Capital assets are depreciated using the straight-line method over the assets' estimated useful life. The estimated useful lives, by asset class, are as follows:

Electronic data processing (EDP) equipment:	3 years
Office equipment and automobiles:	5 years
Furniture and equipment:	7 years
Leasehold improvements:	10 years

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

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The cost and accumulated depreciation for capital assets was \$88,705 and \$82,783 at December 31, 2018, and \$86,526 and \$79,068 at December 31, 2017, respectively. Depreciation and amortization expense was \$3,908 and \$4,003 for the years ended December 31, 2018 and 2017, respectively and is included in other underwriting expenses on the accompanying statements of revenues, expenses and changes in net position.

***Loss Reserves and Loss Adjustment Expense Reserves***

Liabilities for loss reserves and loss adjustment expense (LAE) reserves are estimated based on claims adjusters' evaluations and on actuarial evaluations for incurred but not reported reserves, using Citizens' loss experience and industry statistics. While the ultimate amount of losses and LAE incurred is dependent on future development, in management's opinion, the estimated reserves are adequate to cover the expected future payment of losses. However, the ultimate settlement of losses may vary significantly from the reserves provided. Adjustments to estimates recorded resulting from subsequent actuarial evaluations or ultimate payments will be reflected in operations in the period in which such adjustments are known or estimable. Citizens does not discount liabilities for loss reserves and LAE reserves. The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and the estimated liabilities are modified, if necessary.

In the event of loss recoveries through reinsurance agreements, loss and LAE reserves are reported net of reinsurance amounts recoverable for unpaid losses and LAE. Losses and LAE incurred and ceded through reinsurance are credited against losses and LAE incurred.

Salvage and subrogation recoveries are not recorded until cash is received.

***Premiums***

Premiums written are recorded on the effective date of the policy and earned using the daily pro rata basis over the policy period. The portion of premiums not earned at the end of the reporting period are recorded as unearned premiums. Premiums collected prior to the effective date of the policy are recorded as advance premiums. Amounts incurred for ceded reinsurance premiums are deducted from written, earned and unearned premiums. Funds collected that are not readily identifiable with a Citizens policy, primarily as a result of depopulation, are temporarily recorded as suspended cash until such time as the funds can be settled or returned by Citizens.

If anticipated losses and LAE exceed Citizens' recorded unearned premium reserve, a premium deficiency is recognized by recording an additional liability for the deficiency. Citizens anticipates investment income as a factor in the premium deficiency calculation. For purposes of determining premium deficiencies, contracts are grouped in a manner consistent with how Citizens' policies are marketed, serviced, and measured for the profitability of such contracts. Additionally, Citizens' premium deficiency calculation is performed separately for the Accounts. At December 31, 2018 and 2017, management determined that no premium deficiency reserve was required.

Premiums receivable includes amounts due from policyholders for billed premiums. Billings are calculated using estimated annual premiums for each policy and are paid either through an installment plan offered by Citizens or in their entirety at the inception of the policy. An allowance for doubtful accounts is recorded for the estimated uncollectible amounts, and amounted to \$451 and \$1,854 at December 31, 2018 and 2017, respectively.

Premium revenues and associated policy fees and inspection fees are recognized in accordance with the rates, rules, and forms as filed with the Office and included within net premiums earned and other income, respectively.

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

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***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from premiums charged to policyholders. Operating expenses include incurred losses, loss adjustment expenses, policy acquisition costs and necessary costs incurred to provide and administer residential and commercial property insurance coverage and to carry out programs for the reduction of new and renewal writings.

***Guaranty Fund and Other Assessments***

Citizens is subject to assessments by the Florida Insurance Guaranty Association (FIGA). For the property lines of insurance, FIGA collects assessments from solvent insurance companies operating in Florida to cover the costs resulting from insolvency or rehabilitation of other insurance companies. Assessments are charged to expense and a liability is accrued when Citizens is notified that an assessment will be levied. After paying the FIGA assessment, Citizens recoups the assessment from its own insureds. Citizens recognizes revenue for the amount of policy surcharges that are charged to policyholders on subsequent billings to recoup any assessment levied by FIGA.

Citizens is also required to assess insurers and insureds in Florida for deficits incurred by Citizens. Assessments made pursuant to the Act and the Plan are recognized as revenue and recorded as receivable in the period approved by the Board and the Office and levied by Citizens (see Note 14). Assessment receivables are considered to be fully collectible. Under the Plan, amounts collected in excess of the calculated assessment are carried as a liability on the accompanying statements of net position as reserve for future assessments until such time as their permitted use is determined by the Board in accordance with the Plan.

***Reinsurance***

Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums. Reinsurance recoverables on unpaid losses and LAE are recorded as a reduction to loss and LAE reserves. Reinsurance recoverables on paid losses and LAE are recorded as receivables. All catastrophe reinsurance payments are recorded as premiums ceded and are amortized over the life of the hurricane season for which the payments apply, while depopulation premiums ceded are earned pro-rata over the life of the underlying policies. Premiums ceded include Florida Hurricane Catastrophe Fund (FHCF), private catastrophic reinsurance purchases and depopulation premiums.

Premiums receivable from assuming companies contracts represent amounts receivable from reinsurers on depopulation premiums. Reinsurance premiums payable represent amounts due to reinsurers and are presented as a liability. For multi-year treaties, ceded reinsurance is incurred in the treaty year in proportion to the coverage provided and amortized over the life of the hurricane season. Amounts unpaid for the current treaty year are recorded as reinsurance payable under the terms of the treaty.

***Income Taxes***

Pursuant to a determination letter received from the Internal Revenue Service, Citizens is exempt from federal income tax as a political subdivision and integral part of the State of Florida and as such, is liable for income taxes only on business income unrelated to the purpose for which it is exempt. No federal or state income tax was incurred in 2018 or 2017.

***Significant Concentrations of Risks***

Citizens has geographic exposure to catastrophic losses. Catastrophes can be caused by various events including, but not limited to, hurricanes, windstorms, hail and fire. The occurrence and severity of catastrophes are inherently unpredictable. Citizens attempts to mitigate its exposure to losses from catastrophes by purchasing catastrophe reinsurance coverage. Catastrophes, depending on their path and severity, could result in losses exceeding Citizens' reinsurance protection, and could have a material adverse effect on Citizens' financial condition and results of operations.

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

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Citizens' exposure to concentrations of credit risk consists primarily of its cash, investments, and reinsurance balances. Citizens minimizes this risk by maintaining cash at highly rated financial institutions, adhering to an investment strategy that emphasizes preservation of principal and contracting with reinsurance companies that meet certain rating criteria and other qualifications. Financial instruments that potentially subject Citizens to concentrations of credit risk consist principally of cash and cash equivalents, and investments. Citizens' cash management and investment policies restrict investments by type, credit and issuer, and Citizens performs periodic evaluations of the credit standing of the financial institutions with which it deals. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250 per depositor. Bank deposits at times may exceed federally insured limits. An increased risk of loss occurs as more investments are acquired from one issuer or a group of issuers within one industry which results in a concentration of credit risk. Excluding securities issued by U.S. Government & Agencies, Citizens does not hold any securities from any single issuer that exceeded 5% of the investment portfolio. Citizens' investment strategy focuses primarily on higher quality, fixed income securities. Citizens reviews the credit strength of all entities in which it invests, limits its exposure in any one investment, and monitors portfolio quality, taking into account credit ratings assigned by recognized credit rating organizations. Citizens enters into reinsurance treaties with highly rated reinsurers and obtains a letter of credit from any unauthorized reinsurer and certain certified reinsurers. As of December 31, 2018, management believes Citizens had no significant concentrations of credit risk.

Citizens is exposed to interest rate risk, which is the risk that interest rates will change and cause a decrease in the value of fixed-rate investments. Citizens mitigates this risk by attempting to match the maturity schedule of its assets with the expected payout of its liabilities.

***Application of Recent Accounting Pronouncements***

The GASB released Statement No. 72 – *Fair Value Measurement and Application*, related to fair value measurements to provide guidance for determining a fair value measurement for financial reporting purpose. The adoption of these changes did not have a material impact on the Citizens' financial statements.

In June 2017, the GASB issued Statement No. 87 – *Leases*. The guidance increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2019, and shall be adopted on a prospective basis. Citizens is currently evaluating the impact to this statement to the financial statements.

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

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### **3. Fair Value Measurements**

Citizens' estimates of fair value for financial assets and financial liabilities are based on the framework established in the fair value measurements and disclosures accounting guidance. 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 includes a hierarchy based on whether significant valuation inputs 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 Citizens' significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market corroborated inputs.
- Level 3: Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement, and includes broker quotes which are non-binding.

At December 31, 2018 and 2017, Citizens financial assets measured at estimated fair value on a recurring basis include long-term and short-term investments. Citizens has no financial liabilities measured at estimated fair value on a recurring basis.

The following tables reflect the estimated fair values of all assets and liabilities that are financial instruments at December 31, 2018 and 2017, including those measured at estimated fair value on a recurring basis. The estimated fair values are categorized into the three-level fair value hierarchy as described below.

	<b>2018</b>			
	<b>Estimated Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets:</b>				
Long-term investments	\$ 8,309,416	\$ 1,410,406	\$ 6,899,010	\$ -
Short-term investments	313,643	223,470	90,173	-
Cash and cash equivalents	447,461	372,522	74,939	-
Investment income due and accrued	<u>67,880</u>	-	<u>67,880</u>	-
Total financial assets	<u>\$ 9,138,400</u>	<u>\$ 2,006,398</u>	<u>\$ 7,132,002</u>	<u>\$ -</u>
<b>Financial liabilities:</b>				
Long-term debt	\$ 1,748,923	\$ -	\$ 1,748,923	\$ -
Interest payable	<u>6,801</u>	<u>-</u>	<u>6,801</u>	<u>-</u>
Total financial liabilities	<u>\$ 1,755,724</u>	<u>\$ -</u>	<u>\$ 1,755,724</u>	<u>\$ -</u>

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

	<b>2017</b>			
	<b>Estimated Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Financial assets:				
Long-term investments	\$ 8,828,078	\$ 1,577,978	\$ 7,250,100	\$ -
Short-term investments	266,005	200,401	65,604	-
Cash and cash equivalents	965,817	748,121	217,796	-
Investment income due and accrued	<u>68,958</u>	<u>-</u>	<u>68,958</u>	<u>-</u>
Total financial assets	<u><u>\$ 10,128,858</u></u>	<u><u>\$ 2,526,500</u></u>	<u><u>\$ 7,602,458</u></u>	<u><u>\$ -</u></u>
Financial liabilities:				
Long-term debt	\$ 2,057,040	\$ -	\$ 2,057,040	\$ -
Interest payable	<u>7,857</u>	<u>-</u>	<u>7,857</u>	<u>-</u>
Total financial liabilities	<u><u>\$ 2,064,897</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,064,897</u></u>	<u><u>\$ -</u></u>

The following describes fair value methodologies that may not be indicative of net realizable value or reflective of future fair values. Furthermore, Citizens believes different methodologies or assumptions used to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

#### ***Long-term and Short-Term Investments***

When available, the estimated fair values are based on quoted prices in active markets that are readily and regularly obtainable. Generally, these investments are classified in Level 1 and are the most liquid of Citizens' securities holdings, and valuation of these securities does not involve management's judgment.

When quoted prices in active markets are not available, the determination of estimated fair value is based on market standard valuation methodologies, giving priority to observable inputs. The significant inputs to the market standard valuation methodologies for certain types of securities with reasonable levels of price transparency are inputs that are observable in the market or which can be derived principally from or corroborated by observable market data. Generally, these investments are classified as Level 2.

When observable inputs are not available, the market standard valuation methodologies for determining the estimated fair value of certain types of securities that trade infrequently, and therefore have little or no price transparency, rely on inputs that are significant to the estimated fair value that are not observable in the market or which cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management's judgment or estimation and cannot be supported by reference or market activity. Generally, these investments are classified as Level 3.

#### ***Cash and Cash Equivalents***

The estimated fair value of cash and cash equivalents, including restricted cash and cash equivalents, that represent highly liquid deposits generally approximates carrying value and is classified as Level 1. The estimated fair value of investment securities classified as cash equivalents is determined based on significant observable inputs and is generally classified as Level 2.

#### ***Investment Income Due and Accrued and Interest Payable***

The estimated fair value is determined based on significant observable inputs. These amounts are generally classified as Level 2.

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

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**Long-term Debt**

Citizens' bonds trade on the bond market. The estimated fair value is based on trading activity and closing market prices on December 31.

At the end of each reporting period, Citizens evaluates whether or not any event has occurred or circumstances have changed that would cause an instrument to be transferred between Levels 1 and 2. This policy also applies to transfers into or out of Level 3. No transfers were made between levels during the years ended December 31, 2018 and 2017.

**4. Investments**

Citizens' invested assets are governed by five investment policies, three for taxable operating funds and two for tax-exempt bond proceeds:

- Liquidity Fund (Taxable): generally this policy governs the investment of funds and surplus that, in addition to internally managed cash, are the first monies used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.
- Liquidity Fund (Tax-exempt): generally this policy governs the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens uses these monies to pay claims after an event or to pay principal and / or interest payments on an as needed basis.
- Claims-Paying Fund (Taxable): generally this policy governs the investment of funds used to pay post-event claims after Citizens has expended all monies in the Liquidity Fund. Only monies eligible for investment in taxable instruments are deposited in this fund.
- Claims-Paying Fund (Tax-exempt): generally this policy governs the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens uses these monies to pay claims after an event, typically after all funds in the Liquidity Fund have been expended.
- Claims-Paying Long Duration Fund (Taxable): generally this policy governs the investment of funds that will be used to pay post-event claims after Citizens has expended all monies in the Liquidity Funds and Claims-Paying Funds.

*Custodial Credit Risk* - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Citizens would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Citizens had no investments with custodial credit risk as of December 31, 2018 and 2017, respectively. All investments were held by Citizens or its agent in Citizens' name.

*Concentration of Credit Risk* - An increased risk of loss occurs as more investments are acquired from one issuer or a group of issuers with one industry which results in a concentration of credit risk. Excluding securities issued by U.S. Government & Agencies, Citizens does not hold any securities from any single issuer that exceeded 5% of the investment portfolio.

**Citizens Property Insurance Corporation**  
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**(Dollars in thousands)**

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**Interest Rate Risk** - Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Citizens measures this risk by using the weighted average maturity (WAM) method and a set limit on the maximum WAM for each investment policy. Citizens' investment policies require that the WAM of the Liquidity Fund (taxable), Claims Paying Fund (taxable) and Claims Paying Long Duration Fund (taxable) portfolios not exceed 548 days, 6 years and 10 years, respectively, whereas the WAM for the Claims Paying Fund (tax-exempt) portfolios not exceed 3 years and 6 months and 4 years for the Series 2011 and 2012, and Series 2015 portfolios, respectively. This policy takes interest rate reset dates, primarily related to tax-exempt variable rate demand notes and floating rate notes, into consideration.

**Foreign Currency Risk** - Citizens had no investments with foreign currency risk at December 31, 2018 and 2017, respectively. All investments are settled in U.S. dollars.

**Credit Risk Disclosure** - Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. All long-term and short-term securities held in the investment portfolio are rated by two of the three nationally recognized rating agencies. The following table presents the fair value by rating classification as reported by Moody's at December 31, 2018.

<b>Rating</b>	<b>Estimated Fair Value</b>
A1	\$ 823,731
A2	785,123
A3	764,068
A3e	2,225
Aa1	501,319
Aa2	597,811
Aa3	449,942
Aaa	2,596,755
Aaae	9,555
B3	885
Baa1	950,688
Baa1e	1,811
Baa2	377,695
Baa3	56,138
MIG1	16,211
WR	19,376
NR	669,726
	<hr/>
	<hr/> <u>\$ 8,623,059</u>

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
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The following tables provide a summary of investments estimated fair value, amortized cost, and net unrealized gain (loss) by type as of December 31, 2018 and 2017.

	2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Non-asset backed securities:</b>				
U.S. treasury and U.S. government	\$ 1,658,101	\$ 4,268	\$ (28,493)	\$ 1,633,876
All other government	12,559	-	(260)	12,299
State, territories & possessions	230,215	128	(2,123)	228,220
Political subdivisions	326,973	683	(2,332)	325,324
Special revenue	1,762,921	2,167	(21,858)	1,743,230
Industrial and miscellaneous	4,490,258	16,127	(142,793)	4,363,592
<b>Asset-backed securities:</b>				
Residential and commercial mortgage backed	319,735	164	(6,547)	313,352
Industrial and miscellaneous	3,170	-	(4)	3,166
	<u>\$ 8,803,932</u>	<u>\$ 23,537</u>	<u>\$ (204,410)</u>	<u>\$ 8,623,059</u>
	2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Non-asset backed securities:</b>				
U.S. treasury and U.S. government	\$ 1,790,188	\$ 336	\$ (27,695)	\$ 1,762,829
All other government	12,481	-	(77)	12,404
State, territories & possessions	287,318	391	(2,354)	285,355
Political subdivisions	414,681	632	(3,279)	412,034
Special revenue	2,043,573	2,355	(21,990)	2,023,918
Industrial and miscellaneous	4,309,921	41,978	(37,676)	4,314,223
<b>Asset-backed securities:</b>				
Residential and commercial mortgage backed	281,791	1,023	(2,670)	280,144
Industrial and miscellaneous	3,169	7	-	3,176
	<u>\$ 9,143,122</u>	<u>\$ 46,722</u>	<u>\$ (95,741)</u>	<u>\$ 9,094,083</u>

**Citizens Property Insurance Corporation**  
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The following tables summarize unrealized losses on investments by the length of time that the securities have continuously been in unrealized loss positions as of December 31, 2018 and 2017.

	2018					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury and U.S government	\$ 234,901	\$ (1,027)	\$ 1,120,406	\$ (27,466)	\$ 1,355,307	\$ (28,493)
All other government States, territories and possessions	-	-	12,299	(260)	12,299	(260)
Political subdivisions	30,585	(233)	145,683	(1,890)	176,268	(2,123)
Special revenue	32,443	(69)	207,149	(2,263)	239,592	(2,332)
Industrial and miscellaneous	124,186	(1,010)	1,193,767	(20,848)	1,317,953	(21,858)
Asset-backed securities	1,668,808	(42,941)	2,326,769	(99,852)	3,995,577	(142,793)
Total	<u>136,303</u>	<u>(2,208)</u>	<u>158,531</u>	<u>(4,343)</u>	<u>294,834</u>	<u>(6,551)</u>
	<u><u>\$ 2,227,226</u></u>	<u><u>\$ (47,488)</u></u>	<u><u>\$ 5,164,604</u></u>	<u><u>\$ (156,922)</u></u>	<u><u>\$ 7,391,830</u></u>	<u><u>\$ (204,410)</u></u>

	2017					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury and U.S government	\$ 606,258	\$ (4,755)	\$ 1,073,043	\$ (22,940)	\$ 1,679,301	\$ (27,695)
All other government States, territories and possessions	5,815	(23)	6,589	(54)	12,404	(77)
Political subdivisions	103,139	(994)	142,070	(1,360)	245,209	(2,354)
Special revenue	74,926	(615)	251,025	(2,664)	325,951	(3,279)
Industrial and miscellaneous	512,505	(5,102)	1,209,343	(16,888)	1,721,848	(21,990)
Asset-backed securities	928,307	(5,266)	1,518,475	(32,410)	2,446,782	(37,676)
Total	<u>107,649</u>	<u>(652)</u>	<u>93,149</u>	<u>(2,018)</u>	<u>200,798</u>	<u>(2,670)</u>
	<u><u>\$ 2,338,599</u></u>	<u><u>\$ (17,407)</u></u>	<u><u>\$ 4,293,694</u></u>	<u><u>\$ (78,333)</u></u>	<u><u>\$ 6,632,293</u></u>	<u><u>\$ (95,741)</u></u>

Citizens believes there were no fundamental issues such as credit losses or other factors with respect to any of its bond securities that are in an unrealized loss position. The unrealized losses on bonds were primarily caused by interest rate changes. It is expected that the securities would not be settled at a price less than the par value of the bonds. Citizens evaluates U.S. treasury, corporate, and state and municipal bonds based upon factors such as expected cash flows and the financial condition, and near-term and long-term prospects of the issuer, and evaluates mortgage-backed securities and asset-backed securities based on actual and projected cash flows after considering such factors as the quality of the underlying collateral, expected prepayment speeds, current and forecasted severity, consideration of the payment terms of the underlying assets, and payment priority of the security. Because the decline in fair value is attributable to changes in interest rates or market conditions and not credit quality, and because Citizens has the ability and intent to hold its bond securities until a market price recovery or maturity, Citizens does not consider any of its bonds to be other than temporarily impaired at December 31, 2018 and 2017.

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The estimated fair value and amortized cost of securities at December 31, 2018, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	<b>Estimated Fair Value</b>	<b>Amortized Cost</b>
<b>Maturity:</b>		
In 2019	\$ 982,256	\$ 982,163
2020 - 2023	3,986,393	4,061,082
2024 - 2028	2,829,964	2,933,951
After 2028	507,929	503,831
Asset-backed securities	<u>316,517</u>	<u>322,905</u>
 Total	 <u>\$ 8,623,059</u>	 <u>\$ 8,803,932</u>

Sources and uses of investment income for the years ended December 31 were as follows:

	<b>2018</b>	<b>2017</b>
<b>Gross interest income earned:</b>		
Bonds	\$ 205,125	\$ 200,069
Cash, cash equivalents, and short-term investments	<u>21,091</u>	<u>13,222</u>
 Total gross interest income earned	 <u>226,216</u>	 <u>213,291</u>
<b>Net realized gains (losses):</b>		
Net realized capital gains (losses) on sales		
Bonds	(26,216)	14,313
Cash, cash equivalents, and short-term investments	<u>2,287</u>	<u>3,430</u>
 Total net realized capital gains (losses) on sales	 <u>(23,929)</u>	 17,743
Gain on optional debt redemption	-	687
 Net realized gains (losses)	 <u>(23,929)</u>	 18,430
Net increase (decrease) in the fair value of investments	<u>(131,917)</u>	<u>57,294</u>
Investment expenses	<u>(4,488)</u>	<u>(5,323)</u>
 Net investment income	 <u>\$ 65,882</u>	 <u>\$ 283,692</u>

**Citizens Property Insurance Corporation**  
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**5. Liability for Loss Reserves and Loss Adjustment Expense Reserves**

Activity in the net liability for loss and LAE reserves for the years ended December 31, 2018 and 2017, were as follows:

	<b>2018</b>	<b>2017</b>
Direct loss and LAE expense reserves, beginning of year	\$ 1,832,958	\$ 720,400
Less reinsurance recoverables on reserves	<u>(661,854)</u>	<u>(995)</u>
Net loss and loss adjustment expense reserves, beginning of year	<u>1,171,104</u>	<u>719,405</u>
Incurred related to:		
Current accident year	553,502	1,526,420
Prior accident years	<u>136,211</u>	<u>38,676</u>
Total incurred	<u>689,713</u>	<u>1,565,096</u>
Paid related to:		
Current accident year	(249,825)	(796,181)
Prior accident years	<u>(872,628)</u>	<u>(317,197)</u>
Total paid	<u>(1,122,453)</u>	<u>(1,113,378)</u>
Change in retroactive reinsurance reserves ceded	7	(19)
Net loss and LAE reserves, end of year	738,371	1,171,104
Add reinsurance recoverables on reserves	<u>606,348</u>	<u>661,854</u>
Direct loss and loss adjustment expense reserves, end of year	<u>\$ 1,344,719</u>	<u>\$ 1,832,958</u>

As a result of changes in estimates of insured events in prior years, the provision for loss and LAE reserves increased by \$136,211 and \$38,676, net of reinsurance, in 2018 and 2017, respectively. Increases in overall projected claims counts and loss severity of claims from Hurricane Irma, increases in LAE on litigated non-weather water claims, and settlements of sinkhole claims contributed most significantly to the overall increase in the provision for loss and LAE reserves of \$136,211 during 2018. These adjustments are the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. There can be no assurance that the ultimate settlement of losses will not vary significantly from the recorded provision for losses and LAE. However, management believes the provision for losses and LAE is adequate to cover the cost of unpaid claims incurred. During 2018 and 2017, net recoveries with respect to reinsurance recoverable on paid losses and LAE was \$86,620 and \$256, respectively.

For the years ended December 31, 2018 and 2017, reserves for losses and LAE include reserves attributable to Hurricane Irma of \$1,915,425 and \$1,810,976, respectively, excluding recorded anticipated reinsurance recoveries of \$697,284 and \$661,088, respectively. For the year ended December 31, 2018, reserves for losses and LAE include reserves attributable to Hurricane Michael of \$151,726 with no anticipated reinsurance recoveries.

For both catastrophic and non-catastrophic claims, the loss adjusting function is performed by Citizens through its employees and through contracted independent adjusting firms. Citizens compensates independent adjusting firms, depending upon the type or nature of the claims, either on a per-day rate or on a graduated fee schedule based on the gross claim amount. Such costs are included in loss adjustment expenses.

**Citizens Property Insurance Corporation**  
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## **6. Reinsurance Agreements**

Citizens has entered into various contracts with reinsurers for the purpose of reducing its net exposure to qualifying losses should such losses occur. These contracts provide for the recovery of amounts above specified retention levels, subject to contractual limits, under per occurrence and aggregate catastrophe excess of loss arrangements. Reinsurance coverage is purchased separately for the Coastal Account and combined for the PLA and CLA. As required by statute, Citizens participates in the FHCF. Coverage provided by and premium ceded to the FHCF as respects the Coastal Account is measured and recognized as though the Coastal Account is a separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. Likewise, the PLA and CLA are considered together as a single, separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. Reinsurance coverage purchased through the FHCF was \$1,121,535 and \$1,078,781 in the Coastal Account and PLA and CLA, respectively, for 2018, and \$1,296,462 and \$1,028,389 in the Coastal Account and PLA and CLA, respectively, for 2017. Reinsurance coverage purchased in the Coastal Account through traditional and capital markets totaled \$1,422,960 and \$1,329,920 for 2018 and 2017, respectively. At December 31, 2018, Citizens was party to two outstanding insurance-linked securities (ILS) contracts as a ceding insurer that provide aggregate maximum proceeds of \$550 for directly-written insurance risks by Citizens at an attachment level of \$1,735.

The effect of reinsurance on premiums written and earned is as follows:

	2018		2017	
	<u>Written</u>	<u>Earned</u>	<u>Written</u>	<u>Earned</u>
Direct premiums	\$ 868,417	\$ 884,755	\$ 893,990	\$ 923,852
FHCF ceded premiums	(146,151)	(146,151)	(153,935)	(153,935)
Private ceded premiums	(88,409)	(88,409)	(92,710)	(92,710)
Depopulation ceded premiums	(17,896)	(27,220)	(30,726)	(50,761)
Net premiums	<u>\$ 615,961</u>	<u>\$ 622,975</u>	<u>\$ 616,619</u>	<u>\$ 626,446</u>

Ceded premiums include premiums ceded to companies that assume policies pursuant to a depopulation program (see Note 10). Ceded losses and LAE incurred were \$36,215 and \$661,048 during 2018 and 2017, respectively. For the years ended December 31, 2018 and 2017, ceded unearned premiums on depopulation contracts of \$11,199 and \$20,523, respectively, are reported as a reduction of net unearned premium on the accompanying statements of net position. There were no ceded unearned premiums on FHCF or traditional and capital markets agreements at December 31, 2018 and 2017.

Amounts recoverable from reinsurers on unpaid losses and LAE are estimated based on the allocation of estimated unpaid losses and LAE among Citizens' coverage lines. Actual amounts recoverable will depend on the ultimate settlement of losses and LAE. Reinsurance contracts do not relieve Citizens from its obligation to policyholders. Citizens remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under their reinsurance agreements. As of December 31, 2018, Citizens recorded ceded loss and LAE reserves of \$476,515 and \$130,188 for FHCF and private reinsurance coverage, respectively.

## **7. Long-Term Debt**

Citizens has issued multiple Senior Secured Bonds for the purpose of funding losses in the event of a future catastrophe. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any surcharges, regular, and emergency assessments, and/or reimbursements received from the FHCF. The following table provides pertinent information regarding each issuance of the Senior Secured Bonds:

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The following table provides pertinent information regarding each issuance of the Senior Secured Bonds:

Bond Issue	Issuance Date	Face Value	Carrying Value	Stated Interest Rate	Current Year Principal Paid	Current Year Interest Paid
Series 2011A-1 Senior Secured Bonds (Pre-event HRA)	Jul 14, 2011	350,000	350,783	3.000% - 5.000%	125,000	20,361
Series 2012A-1 Senior Secured Bonds (Pre-event PLA/CLA)	Jun 21, 2012	640,000	655,859	3.000% - 5.000%	130,000	35,178
Series 2015A-1 Senior Secured Bonds (Pre-event Coastal)	Jun 2, 2015	650,000	698,619	3.000% - 5.000%	-	32,400
Total		\$ 1,640,000	\$ 1,705,261		\$ 255,000	\$ 87,939

Interest expense includes the amortization and accretion of premiums and discounts of \$23,313 and \$28,396 for the years ended December 31, 2018 and 2017, respectively. Effective December 1, 2017, Citizens exercised an optional redemption of \$350,000 of outstanding Series 2015A Senior Secured pre-event bonds. The optional redemption included \$50,000 of fixed rate Series 2015A-1 Senior Secured Bonds with original maturities of June 1, 2018 along with \$300,000 of SIFMA floating-rate Series 2015A-2 Senior Secured Bonds with original maturities of June 1, 2018 and June 1, 2020 each at \$150,000. As a result, Citizens recognized a gain of \$687 due to the carrying value of the bonds exceeding the redeemed par value upon execution. The realized gain is reported within net realized capital gains on the accompanying statements of revenues, expenses, and changes in net position. Net unamortized premium at December 31, 2018 and 2017 was \$65,261 and \$88,573 respectively.

A schedule of bond maturities is as follows:

Years ended December 31,	2011 Bonds	2012 Bonds	2015 Bonds	Total
2019	175,000	160,000	-	335,000
2020	175,000	160,000	150,000	485,000
2021	-	160,000	-	160,000
2022	-	160,000	225,000	385,000
2023	-	-	-	-
After	-	-	275,000	275,000
	\$ 350,000	\$ 640,000	\$ 650,000	\$ 1,640,000

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A schedule of debt service requirements, including principal and interest, is as follows:

Years ended December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	335,000	71,880	406,880
2020	485,000	50,904	535,904
2021	160,000	36,217	196,217
2022	385,000	21,722	406,722
2023	-	13,750	13,750
After	<u>275,000</u>	<u>19,479</u>	<u>294,479</u>
	<u>\$ 1,640,000</u>	<u>\$ 213,952</u>	<u>\$ 1,853,952</u>

## **8. Retirement Plan**

Citizens sponsors a 457(b)/401(a) defined contribution employee savings plan for qualified employees (the Savings Plan). The Savings Plan qualifies as a deferred salary arrangement under Section 401(a) of the Internal Revenue Code. Under the Savings Plan, participating eligible employees may defer a portion of their pretax earnings, up to the Internal Revenue Service annual contribution limit. Citizens matches 100% of each employee's contributions, up to a maximum of 8% of the employee's pretax earnings. Citizens' matching contributions to the Savings Plan were \$5,731 and \$6,243 for the years ended December 31, 2018 and 2017, respectively.

## **9. Agent Commissions and Servicing Company Fees**

Citizens has contracted with various insurance agents licensed in the State of Florida. These agreements provide for commissions to be paid to the agents at rates established by the Board and calculated as a percentage of direct written premiums, net of certain surcharges and assessments. Agent commissions were \$65,113 and \$68,413 during 2018 and 2017, respectively.

Additionally, Citizens is a party to an agreement with a servicing company to provide underwriting and policy management services. The agreement provides for monthly compensation to the company based on a "Per Transaction Fee" applied to the number of transactions processed in a monthly cycle. These services are for both Citizens' Commercial Lines and Personal Lines business. The amount per transaction ranges from \$3.00 to \$140.00, depending on the complexity and volume of each transaction. Service company fees incurred were \$1,759 and \$1,607, during 2018 and 2017, respectively.

## **10. Depopulation**

Pursuant to the Act, Citizens is authorized to adopt one or more programs, subject to approval by the Office, for the reduction of both new and renewal writings. Policies may be removed from Citizens at policy renewal or as part of a bulk assumption. In an assumption, the assuming insurer (Takeout Company) is responsible for losses occurring from the assumption date through the expiration of the Citizens' policy period (the assumption period). Subsequent to the assumption period, the Takeout Company will write the policy directly. In January 2007, Florida law was amended to state that assumed policies are the direct insurance of the Takeout Company, for the purpose of clarifying that FIGA is liable for assumption period losses occurring during the assumption period if a Takeout Company were liquidated and unable to meet its obligation to policyholders.

During 2018 and 2017, Citizens recognized ceded written premiums of \$17,896 and \$30,726, respectively as a result of depopulation.

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Citizens provides policy administration services with respect to the assumed policies. All agreements provide for the Takeout Company to adjust losses. While Citizens is not liable to cover claims after the assumption Citizens continues to service policies for items such as policyholder endorsements or cancellation refunds. Should Citizens process and provide a refund to policyholders, such amount is subsequently collected from the Takeout Company. At December 31, 2018 and 2017, assumed premiums recoverable in the amount of \$1,178 and \$129, respectively were due from certain Takeout Companies and are reported as premiums receivable from assuming companies in the statements of net position. In addition, premiums due to Takeout Companies of \$7,304 and \$9,877, at December 31, 2018 and 2017, respectively, are included in reinsurance premiums payable on the accompanying statements of net position.

## **11. Operating Leases**

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to \$7,836 and \$7,419 for the years ended December 31, 2018 and 2017, respectively. There are no contingent rental payments or unusual renewal options, escalation clauses or restrictions and there have been no early terminations of existing leases. Future minimum payments under operating leases are as follows:

2019	5,929
2020	5,094
2021	5,179
2022	5,304
2023	5,432
After	<hr/> 14,398
Total	\$ <hr/> 41,336

## **12. Commitments and Contingencies**

Citizens is involved in certain litigation and disputes incidental to its operations. In the opinion of management, after consultation with legal counsel, there are substantial defenses to such litigation and disputes and any ultimate liability, in excess of reserves resulting there from, will not have a material adverse effect on the financial condition or results of operations of Citizens.

### ***Multi-Year Reinsurance Treaties***

Citizens is party to reinsurance arrangements that provide coverage into 2019, including a traditional aggregate catastrophic excess of loss agreements as well as aggregate catastrophe bonds placed in the capital markets. Premiums ceded under multi-year contracts are determined before each contractual reset period and are based upon defined risk parameters within the contracts that may result in increases or decreases to premiums ceded. Such adjustments to premiums ceded are included in the treaty year to which they apply. On May 3, 2017, the multi-year reinsurance arrangement with Everglades Re II that provided coverage of \$300,000 was terminated as a result of the early redemption of the Everglades Re II Series 2015-1 bonds. These bonds were redeemed at par and were not subject to a call premium.

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**Risk Management Programs**

In addition to claims under the insurance policies it issues, Citizens is potentially exposed to various risks of loss, including those related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. As a state government entity, Citizens has immunity from certain claims. For the years ending December 31, 2018 and 2017, Citizens had insurance protection in place from various commercial insurance carriers covering various exposures, including workers' compensation, property loss, employee liability, general liability, data-breach liability, and directors' and officers' liability. Management continuously reviews the limits of coverage and believes that current coverage is adequate. There were no significant reductions in insurance coverage from the previous year.

**13. Reconciliation of U.S. GAAP to SAP**

A reconciliation of Citizens' U.S. GAAP basis (as determined by the Governmental Accounting Standards Board) change in net position and net position to statutory-basis net loss and accumulated surplus for the years ended December 31, 2018 and 2017 are as follows:

	<b>2018</b>	<b>2017</b>
Change in net position – U.S. GAAP basis	\$ (276,811)	\$ (969,547)
Adjustments:		
Change in allowance for doubtful accounts	(6,457)	(635)
Change in FIGA assessment income	9	(907)
Change in other expense	(8)	-
Change in net unrealized gain on investments	<u>131,917</u>	<u>(57,294)</u>
Net loss - statutory basis	<u>\$ (151,350)</u>	<u>\$ (1,028,383)</u>
	<b>2018</b>	<b>2017</b>
Net position – U.S. GAAP basis	\$ 6,062,233	\$ 6,338,871
Adjustments:		
Nonadmitted assets, net of allowance	(11,204)	(11,432)
Provision for reinsurance	(1,173)	(17,281)
Net unrealized gain on investments	<u>180,873</u>	<u>49,142</u>
Accumulated surplus - statutory basis	<u>\$ 6,230,729</u>	<u>\$ 6,359,300</u>

**14. Assessments**

Citizens' enabling legislation and the Plan establish a process by which Citizens is required to levy assessments to recover deficits incurred in a given plan year for any of its three accounts. Deficits are calculated separately, and assessments are levied separately, for each of the three accounts. The Plan provides for deficits to be determined in accordance with GASB, adjusted for certain items.

In the event of a Plan Year Deficit in any Account, Citizens must first levy an assessment against the premium of each Citizens policyholder (the Citizens Policyholder Surcharge) in each of Citizens' Accounts, as a uniform percentage of the premium of the policy of up to 15% of such premium. Citizens Policyholder Surcharges are not subject to commissions, fees, or premium taxes; however, failure to pay a Citizens Policyholder Surcharge will be treated as failure to pay premium.

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If the Citizens Policyholder Surcharge is insufficient to eliminate a deficit in the Coastal account, Citizens would then levy a Regular Assessment on assessable insurers, as defined in Section 627.351(6), Florida Statutes. The assessment is based upon each assessable insurer's share of direct written premium for the Subject Lines of Business in the State of Florida for the calendar year preceding the year in which the deficit occurred, and is applied as a uniform percentage of up to 2% of subject premiums. The Regular Assessment is not available for deficits within the PLA or CLA.

If the deficit in any year in any account is greater than the amount that may be recovered through Citizens' Policyholder Surcharges and Regular Assessments, Citizens is required to levy any remaining Plan Year Deficit as an Emergency Assessment. An Emergency Assessment is to be collected by all assessable insurers, Surplus Lines Agents, and Citizens from policyholders upon the issuance or renewal of policies for Subject Lines of Business for as many years as necessary to cover the Plan Year Deficit in the account.

The primary difference between the assessment base for Regular Assessments and Emergency Assessments is the inclusion of Citizens' direct written premium in the assessment base for Emergency Assessments, in addition to the Regular Assessment being limited to the Coastal account only.

For purposes of Regular Assessments and Emergency Assessments, the "Subject Lines of Business" are all lines of property and casualty insurance, including automobile lines, but excluding accident and health, workers' compensation, and medical malpractice insurance, and also excluding insurance under the National Flood and Federal Crop insurance programs.

In November 2012, Citizens received notice of an assessment from FIGA totaling \$27,759. Amounts recouped from policyholders relating to this assessment were \$154 and \$1,059 during 2018 and 2017, respectively. As of December 31, 2017 Citizens reported an over-collection in the amount of \$152 reported within other current liabilities on the statements of net position. Citizens discontinued collections effective March 1, 2018 and settled the net over-collection in May 2018 with FIGA pursuant to Section 631.57(3)(f), Florida Statutes, and filed a final reconciliation with the Office.

Effective March 5, 2015, the 2005 Emergency Assessment was terminated for all policies with effective dates on or after July 1, 2015. The 2005 Emergency Assessment was anticipated to be collected over a ten year period commencing July 1, 2007. As of December 31, 2018 and 2017, collections in excess of the Emergency Assessment were \$141,655 and \$143,590, respectively. These balances are reported as the reserve for future assessments on the accompanying statements of net position until such time as the Board approves a change to direct these excess collections to be used for any lawful purpose available within the Plan.

## **15. Restricted Cash**

Restricted cash and surplus represents assessments that were, in accordance with the Act, over-collected by the Florida Surplus Lines Servicing Office (FSLSO) from surplus lines insureds with respect to the 2004 Plan Year Deficit. Pursuant to a consent order, the Office, FSLSO and Citizens agreed that \$70,585 would be included in Citizens restricted surplus until such time future regular and emergency assessments would otherwise be payable by surplus lines insureds. As amounts have been approved by FSLSO with respect to regular and emergency assessments for Citizens' 2005 Plan Year deficit, Citizens has transferred these funds to unrestricted surplus. For the years ended December 31, 2018 and 2017 restricted cash and restricted surplus of \$8,381 and \$8,243, respectively, are included within the statements of net position.

**Citizens Property Insurance Corporation  
Notes to Financial Statements  
(Dollars in thousands)**

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**16. Subsequent Events**

Citizens has evaluated subsequent events for disclosure and recognition through May 22, 2019, the date on which these financial statements were available to be issued. There were no events occurring subsequent to the end of the year that merit recognition or disclosure in these statements.

***Supplementary Information***

**Citizens Property Insurance Corporation**  
**Supplemental Combining Statements of Net Position**  
**December 31, 2018**  
**(Dollars in thousands)**

	<u>Combined</u>	<u>Personal Lines Account</u>	<u>Commercial Lines Account</u>	<u>Coastal Account</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 439,080	\$ 35,556	\$ 194,972	\$ 208,552
Short-term investments	313,643	119,288	15,592	178,763
Restricted cash and cash equivalents	8,381	-	-	8,381
Investment income due and accrued	67,880	23,304	13,438	31,138
Reinsurance recoverable on paid losses and LAE	5,988	5,944	-	44
Premiums receivable, net	66,346	39,503	903	25,940
Premiums receivable from assuming companies, net	1,178	116	97	965
Other current assets	7,748	6,840	43	865
Inter-account receivable (payable)	-	(1,488)	1,574	(86)
Total current assets	<u>910,244</u>	<u>229,063</u>	<u>226,619</u>	<u>454,562</u>
Noncurrent assets:				
Long-term investments	8,309,416	2,917,711	1,645,405	3,746,300
Capital assets	<u>5,922</u>	<u>5,922</u>	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>8,315,338</u>	<u>2,923,633</u>	<u>1,645,405</u>	<u>3,746,300</u>
Total assets	<u>\$ 9,225,582</u>	<u>\$ 3,152,696</u>	<u>\$ 1,872,024</u>	<u>\$ 4,200,862</u>
<b>LIABILITIES</b>				
Current liabilities:				
Loss reserves, net	\$ 377,527	\$ 261,023	\$ 57,935	\$ 58,569
Loss adjustment expense reserves, net	360,844	278,499	12,050	70,295
Unearned premiums	423,572	263,550	6,782	153,240
Reinsurance premiums payable	45,738	1,002	-	44,736
Advance premiums and suspended cash	19,272	10,781	380	8,111
Return premiums payable	2,335	1,396	73	866
Interest payable	6,801	2,298	363	4,140
Current portion of long-term debt	355,259	144,588	22,837	187,834
Other current liabilities	<u>80,344</u>	<u>63,934</u>	<u>956</u>	<u>15,454</u>
Total current liabilities	<u>1,671,692</u>	<u>1,027,071</u>	<u>101,376</u>	<u>543,245</u>
Noncurrent liabilities:				
Long-term debt	1,350,002	421,812	66,622	861,568
Reserve for future assessments	<u>141,655</u>	<u>-</u>	<u>-</u>	<u>141,655</u>
Total noncurrent liabilities	<u>1,491,657</u>	<u>421,812</u>	<u>66,622</u>	<u>1,003,223</u>
Total liabilities	<u>3,163,349</u>	<u>1,448,883</u>	<u>167,998</u>	<u>1,546,468</u>
Net position:				
Invested in capital assets	5,922	5,922	-	-
Restricted	8,381	-	-	8,381
Unrestricted	<u>6,047,930</u>	<u>1,697,891</u>	<u>1,704,026</u>	<u>2,646,013</u>
Total net position	<u>\$ 6,062,233</u>	<u>\$ 1,703,813</u>	<u>\$ 1,704,026</u>	<u>\$ 2,654,394</u>

**Citizens Property Insurance Corporation**  
**Supplemental Combining Statements of Revenues, Expenses and Changes in Net Position**  
**Year Ended December 31, 2018**  
**(Dollars in thousands)**

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	<b>Combined</b>	<b>Personal Lines Account</b>	<b>Commercial Lines Account</b>	<b>Coastal Account</b>
Operating revenue:				
Net premiums earned	\$ 622,975	\$ 437,674	\$ 13,020	\$ 172,281
Operating expenses:				
Net losses incurred	466,995	287,075	35,408	144,512
Net loss adjustment expenses incurred	222,718	198,275	(1,706)	26,149
Service company fees	1,759	1,330	28	401
Agent commissions	65,113	37,237	1,586	26,290
Taxes and fees	11,181	7,061	204	3,916
Other underwriting expenses	135,909	83,949	2,284	49,676
Total operating expenses	903,675	614,927	37,804	250,944
Operating loss	(280,700)	(177,253)	(24,784)	(78,663)
Nonoperating revenues (expenses):				
Net investment income	65,882	18,265	6,941	40,676
Net interest expense	(63,571)	(21,257)	(3,357)	(38,957)
Assessment income	(9)	(5)	(2)	(2)
Other income	1,587	1,173	(21)	435
Total nonoperating income	3,889	(1,824)	3,561	2,152
Change in net position	(276,811)	(179,077)	(21,223)	(76,511)
Net position, beginning of year	6,338,871	1,882,889	1,725,250	2,730,732
Other changes in net position	173	-	-	173
Net position, end of year	\$ 6,062,233	\$ 1,703,812	\$ 1,704,027	\$ 2,654,394

**Citizens Property Insurance Corporation**  
**Supplemental Revenues, Expenses and Claim Development Information**  
**(Unaudited)**  
**(Dollars in thousands)**

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	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Gross earned premiums and investment revenue	\$ 2,521,096	\$ 2,509,794	\$ 3,054,678	\$ 3,408,112	\$ 3,066,913	\$ 2,530,077	\$ 1,770,837	\$ 1,208,796	\$ 1,207,544	\$ 950,637
Ceded earned premiums	698,869	421,501	601,934	881,571	1,073,819	996,252	899,532	479,845	297,406	261,780
Net earned premiums and investment revenue	\$ 1,822,227	\$ 2,088,293	\$ 2,452,744	\$ 2,526,541	\$ 1,993,094	\$ 1,533,825	\$ 871,305	\$ 728,951	\$ 910,138	\$ 688,857
Unallocated expenses	\$ 342,840	\$ 293,047	\$ 366,109	\$ 507,579	\$ 495,680	\$ 366,261	\$ 278,787	\$ 241,460	\$ 226,317	\$ 213,962
Gross incurred claims and claims expenses, as originally reported	\$ 674,431	\$ 786,223	\$ 1,236,012	\$ 1,049,652	\$ 686,676	\$ 525,725	\$ 356,735	\$ 426,236	\$ 2,187,505	\$ 533,501
Incurred claims and expenses ceded, as originally reported	\$ -	\$ -	\$ -	\$ 5	\$ 2,127	\$ -	\$ -	\$ -	\$ 661,088	\$ -
Net incurred claims and claims expenses, as originally reported	\$ 674,431	\$ 786,223	\$ 1,236,012	\$ 1,049,647	\$ 684,549	\$ 525,725	\$ 356,735	\$ 426,236	\$ 1,526,417	\$ 533,501

See independent auditors' report on the supplementary information.

**Citizens Property Insurance Corporation**  
**Supplemental Revenues, Expenses and Claim Development Information**  
**(Unaudited)**  
**(Dollars in thousands)**

**(Continued)**

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Paid (cumulative) as of:</b>										
End of policy year	\$ 307,072	\$ 330,603	\$ 501,310	\$ 516,059	\$ 352,354	\$ 272,398	\$ 189,275	\$ 157,912	\$ 796,179	\$ 249,825
One year later	472,476	553,965	799,332	785,930	520,164	431,384	309,997	287,506	1,425,245	
Two years later	532,779	643,424	965,456	900,022	593,799	477,993	380,930	370,297		
Three years later	553,356	702,357	1,120,696	980,299	621,673	499,597	425,403			
Four years later	566,641	798,270	1,265,008	1,017,004	635,403	517,732				
Five years later	587,168	890,356	1,327,294	1,039,769	652,548					
Six years later	607,998	927,379	1,352,225	1,054,857						
Seven years later	625,002	937,161	1,385,031							
Eight years later	634,333	946,248								
Nine years later	650,807									
<b>Re-estimated incurred claims and claims expenses ceded</b>										
	\$ -	\$ -	\$ -	\$ 20	\$ 2,272	\$ -	\$ -	\$ -	\$ 697,492	\$ -
<b>Re-estimated net incurred claims and expense:</b>										
End of policy year	\$ 674,431	\$ 786,223	\$ 1,236,012	\$ 1,049,647	\$ 684,549	\$ 525,725	\$ 356,735	\$ 426,236	\$ 1,526,417	\$ 533,501
One year later	651,058	876,415	1,237,713	1,068,384	648,934	548,044	447,773	426,974	1,616,623	
Two years later	624,955	886,308	1,259,076	1,045,511	664,324	544,336	462,153	454,204		
Three years later	622,057	893,876	1,342,169	1,069,951	664,381	545,888	469,551			
Four years later	622,963	962,361	1,384,234	1,066,689	668,832	537,857				
Five years later	634,117	976,708	1,393,538	1,070,375	667,898					
Six years later	639,930	966,779	1,396,260	1,070,683						
Seven years later	643,192	962,569	1,406,454							
Eight years later	650,673	961,063								
Nine years later	684,395									
<b>Increase (decrease) in estimated incurred claims and expense from end of policy year</b>										
	\$ 9,964	\$ 174,840	\$ 170,442	\$ 21,036	\$ (16,651)	\$ 12,132	\$ 112,816	\$ 27,968	\$ 90,206	\$ -

See independent auditors' report on the supplementary information.



## **Independent Auditors' 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**

May 22, 2019

Audit Committee  
Citizens Property Insurance Corporation  
Tallahassee, Florida

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 Citizens Property Insurance Corporation (Citizens), which comprise the statements of net position as of December 31, 2018, and the related statements of revenue, expenses and changes in net position, and cash flows for the year ended and the related notes to the financial statements, which collectively comprise the Citizens' basic financial statements, and have issued our report thereon dated May 22, 2019.

### ***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Citizens' 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 Citizens' internal control. Accordingly, we do not express an opinion on the effectiveness of Citizens' 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 entity'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.

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 Citizens' financial statements are free from 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 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

**Charlotte, North Carolina**  
**May 22, 2019**