



Report to the
Audit Committee

**Citizens Property
Insurance Company**

May 19, 2021



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Communication with Those Charged with Governance

May 19, 2021

Audit Committee
Citizens Property Insurance Corporation
Tallahassee, FL

We have audited the financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP-basis) and the financial statements prepared in accordance with statutory accounting principles prescribed or permitted by the Florida Department of Financial Services, Office of Insurance Regulation (statutory-basis financial statements) (collectively, the financial statements) of Citizens Property Insurance Corporation (Citizens) as of and for the year ended December 31, 2020, and have issued our report thereon dated May 19, 2021. Professional standards require that we provide you with information about our responsibilities 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, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 4, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Citizens are described in Note 2 and Note 3 to the U.S. GAAP-basis and statutory-basis financial statements, respectively. No new accounting policies were adopted and the application of existing policies was not changed during December 31, 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.



Accounting estimates are an integral part of the financial statements prepared by management, and are based on management's knowledge and experience about past and current events, and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

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 (IBNR), 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 and LAE. 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. Management does not discount liabilities for loss reserves and LAE reserves. 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 ceded through reinsurance are credited against losses and LAE incurred.

We evaluated the key factors and assumptions used to develop the liability for losses and LAE in determining that it is reasonable in relation to the Financial Statements taken as a whole. Specifically, we obtained an understanding of the Citizens' financial reporting process and internal controls with respect to the claims reserving process and development of IBNR. We tested the accuracy and completeness of the claims data used in the development of the reserves. Additionally, we performed other substantive procedures to test the appropriateness of reserves including reviewing a sample of case reserve files, testing a sample of closed and re-opened claims, and performing a subsequent look-back analysis on claims paid through issuance. Further we engaged an independent actuary to perform an independent review of Citizens' opening actuary's analysis in order to ascertain the reasonableness of the assumptions and methodologies employed. We concluded that the reserves for losses and LAE as of December 31, 2020 are fairly stated in all material respects to the Financial Statements taken as a whole.



As more information became available to management, it was determined that there was significant development related to Hurricane Eta which resulted in a change in the IBNR estimate of approximately \$71 million. Both management and the third party actuary assessed the development as of December 31, 2020 and determined that the IBNR estimate is still within the reasonable range and no adjustment is considered necessary.

The relevant disclosures regarding loss and LAE reserves can be found in Note 2 (Summary of Significant Accounting Policies), Note 5 (Liability for Loss Reserves and Loss Adjustment Expense Reserves), and Note 6 (Reinsurance Agreements) to the U.S. GAAP-basis financial statements and in Note 3 (Summary of Significant Accounting Policies), Note 6 (Liability for Loss Reserves and Loss Adjustment Expense Reserves), and Note 7 (Reinsurance Agreements) to the statutory-basis financial statements.

Bonds

Long-term investments in the U.S. GAAP-basis financial statements 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. Within the U.S. GAAP-basis financial statements 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.

Within the statutory-basis financial statements, bonds which consist solely of debt securities, are recorded at admitted asset values, as prescribed by the Nation Association of Insurance Commissioner's (NAIC) valuation procedures and are rated in accordance with current NAIC guidelines. Bonds designated by the Securities Valuation Office (SVO) or equivalent as 1 or 2 are reported at amortized cost. Bonds designated as 3-6 are reported at the lower of amortized cost or fair value. Debt securities not backed by other loans are stated at amortized cost using the interest method. Loan backed debt securities and structured securities are stated at amortized cost using the interest method and adjusted retrospectively. Prepayment assumptions were obtained from broker dealer values. Fair values are generally measured using quoted prices in active markets for identical securities or other inputs that are observable either directly or indirectly, such as quoted prices for similar securities.

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 or for certain securities, its expected undiscounted cash flows. 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.



We evaluated the key factors and assumptions used by management, including testing the fair value of the securities through an independent pricing source from that used by management, in determining that the fair value and other-than-temporary impairment charges recorded by management are reasonable in relation to the Financial Statements taken as a whole. Further, management represented that all debt securities in the unrealized loss position at year-end, for which an other than temporary impairment charge was not taken, are fully recoverable, even if through maturity of the underlying securities.

The relevant disclosures regarding bonds can be found in Note 2 (Summary of Significant Accounting Policies), Note 3 (Fair Value Measurements) and Note 4 (Investments) to the U.S. GAAP-basis financial statements and in Note 3 (Summary of Significant Accounting Policies), Note 4 (Fair Value Measurements), and Note 5 (Investments) to the statutory-basis financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements or omitted disclosures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management that are included in the management representation letter included at Appendix A.

Management Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Citizens' financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.



Other Significant Matters, Findings, or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Citizens's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Audit Committee, Board of Governors, and management of Citizens, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Dixon Hughes Goodman LLP

Tampa, FL



Communication of Internal Control Related Matters

May 19, 2021

Audit Committee
Citizens Property Insurance Company
Tallahassee, FL

In planning and performing our audit of the statutory-basis financial statements of Citizens Property Insurance Company (Citizens) as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered Citizens' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the statutory-basis 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's statutory-basis financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.



This communication is intended solely for the information and use of the Audit Committee, Board of Governors, management of the Citizens, and for filing with state regulators and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Dixon Hughes Goodman LLP

Tampa, FL



Independent Auditor's 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 19, 2021

Audit Committee
Citizens Property Insurance Company
Tallahassee, FL

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 statement of net position as of December 31, 2020, 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 19, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Citizens' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Citizens' internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a 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 and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Sincerely,

Dixon Hughes Goodman LLP

Tampa, FL



Appendix A
Management Representation Letter
Statutory Basis

CITIZENS PROPERTY INSURANCE CORPORATION
2101 MARYLAND CIRCLE
TALLAHASSEE, FLORIDA 32303-1001

TELEPHONE: 850-513-3892 FAX: 850-513-3905



May 19, 2021

Dixon Hughes Goodman LLP
400 N. Ashley Drive
Suite 2540
Tampa, Florida 33602

This representation letter is provided in connection with your audits of the statutory-basis financial statements of Citizens Property Insurance Corporation (Citizens), which comprise the statutory-basis statements of admitted assets, liabilities and accumulated surplus as of December 31, 2020 and 2019, and the related statutory-basis statements of operations, changes in accumulated surplus, and cash flows for the years then ended, and the related notes to the statutory-basis financial statements, for the purpose of expressing an opinion as to whether the statutory-basis financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Citizens in conformity with statutory accounting principles prescribed or permitted by the Florida Department of Financial Services, Office of Insurance Regulation (Office), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 4, 2020 for the preparation and fair presentation of the statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the Office.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statutory-basis financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibilities for the design, implementation, and maintenance of internal control to prevent and detect fraud.

Carlos Beruff, Chairman, Manatee County • Marc W. Dunbar, Leon County • Lazaro Fields, Leon County
Jillian Hasner, Palm Beach County • Reynolds Henderson, Walton County • Erin Knight, Miami-Dade County
Carlos Lopez-Cantera, Miami-Dade County • Nelson Telemaco, Broward County • M. Scott Thomas, St. Johns County
Barry Gilway, President/CEO and Executive Director

4. The following have been properly accounted for and disclosed in the statutory-basis financial statements, where applicable:
 - a. Related-party relationships and transactions, including sales, purchases, loans, transfers, reinsurance arrangements, guarantees, and amounts receivable from or payable to related parties;
 - b. Guarantees, whether written or oral, under which Citizens is contingently liable;
 - c. Other liabilities or gain or loss contingencies;
 - d. All liabilities, both actual and contingent;
 - e. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit or similar arrangements;
 - f. All other liens or encumbrances on assets and all other pledges of assets;
 - g. Amounts of contractual obligations for purchase of real property, equipment, other assets, and intangibles;
 - h. Investments in debt securities;
 - i. All leases under long-term leases;
 - j. All significant estimates and material concentrations known to management;
 - k. Assets and liabilities measured at fair value are disclosed;
 - l. Significant estimates and material concentrations known to management or third-party administrators that are required to be disclosed in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 1, *Accounting Policies, Risks & Uncertainties, and Other Disclosures*;
 - m. Amount of credit risk and extent, nature, and terms of financial instruments with off-balance-sheet risk in accordance with SSAP No. 27, *Off-Balance Sheet and Credit Risk Disclosures*.
5. Significant estimates that may be subject to a material change in the near term have been properly disclosed in the statutory-basis financial statements. We understand that "near term" means the period within one year of the date of the statutory-basis financial statements. In addition, we have no knowledge of concentrations existing at the date of the statutory-basis financial statements that make Citizens vulnerable to the risk of severe impact that have not been properly disclosed in the statutory-basis financial statements.
6. Significant assumptions we used in making accounting estimates, including those measured at estimates of fair value, are reasonable.
7. There are no uncorrected or corrected misstatements or omitted disclosures that are material to the statutory-basis financial statements.
8. Citizens has properly classified all assets as admitted or nonadmitted in accordance with SSAP No. 4, *Assets and Nonadmitted Assets*.
9. Premiums receivable or uncollected premiums have been recorded and disclosed in conformity with statutory accounting principles prescribed or permitted by the Office in accordance with SSAP No. 6, *Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers*.

10. The Company's liabilities for unpaid losses and loss adjustment expenses are based on and recorded at management's best estimate in accordance with SSAP No. 55, *Unpaid Claims, Losses and Loss Adjustment Expenses*.

Information Provided

11. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the statutory-basis financial statements, such as records, documentation, and other matters;
 - b. Additional information that you have requested from us for the purpose of performing your audit;
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence;
 - d. Minutes of the meetings of the Board of Governors, and committees thereof, or summaries of actions of recent meetings for which minutes have not yet been prepared, for meetings held in 2020 and 2021 through the date of this letter.
12. All material transactions have been recorded in the accounting records and are reflected in the statutory-basis financial statements.
13. We have disclosed to you the results of our assessment of the risk that the statutory-basis financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud affecting the Company involving:
 - a. Management;
 - b. Employees or third-party's who have significant roles in internal control;
 - c. Others where fraud could have a material effect on the statutory-basis financial statements.
15. There have been no communications from regulatory agencies (including state insurance departments) concerning noncompliance with or deficiencies in financial reporting practices.
16. There have been no material adjustments, including changes in classification, to previously issued statutory-basis financial statements.
17. There are no violations or possible violations of laws or regulations, the effects of which should be considered for disclosure in the statutory-basis financial statements or as a basis for recording a loss contingency.
18. We are aware of no material weaknesses, or significant deficiencies, in the design or operation of internal controls that could adversely affect Citizens' ability to record, process, summarize, and report financial data.

19. We have disclosed to you the identity of the entity's related parties and all related-party relationships and transactions of which we are aware.
20. The Company has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities as of December 31, 2020 and through the date of this letter.
21. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the statutory-basis financial statements.
22. We acknowledge our responsibility for presenting the Supplemental Combining Statutory-Basis Statements of Admitted Assets, Liabilities and Accumulated Surplus by Account, the Supplemental Combining Statutory-Basis Statements of Operations by Account, Summary Investment Schedule, and Supplemental Schedule of Investment Risks Interrogatories (collectively, "Supplementary Information") as of December 31, 2020 and for the year then ended, in conformity with statutory accounting principles, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, and we believe that the Supplementary Information, including its form and content, is fairly presented. The methods of measurement and presentation of the Supplementary Information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the Supplementary Information.
23. 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. Citizens had no unrelated business income during 2020 and therefore no Federal or State income tax was incurred during 2020.

Contingencies

24. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the statutory-basis financial statements or as a basis for recording a loss contingency;
 - b. Unasserted claims or assessments that our attorney (in-house or external) has advised us are probable of assertion and must be disclosed in accordance with SSAP No. 5R, *Liabilities, Contingencies and Impairment of Assets* (SSAP No. 5R).
25. The Company is not aware of any class action lawsuits against the Company, which are likely or probable to result in loss to the Citizens, except as disclosed in the statutory-basis financial statements.
26. The Company has not entered into any buy or sell arrangements which would require it to record a related liability or require disclosure in the statutory-basis financial statements.
27. There were no material commitments for construction or acquisition of property, plant and equipment, or to acquire other noncurrent assets, such as investments or intangibles.
28. We have complied with all aspects of contractual agreements that would have a material effect on the statutory-basis financial statements in the event of noncompliance.

29. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statutory-basis financial statements.

Use of a Specialist

30. We agree with the findings of the independent specialist in evaluating loss and LAE reserves and have adequately considered the qualifications of the independent specialist in determining the amounts and disclosures used in the statutory-basis financial statements and underlying accounting records. We did not give or cause any instructions to be given to the specialist with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence of objectivity of the specialist.

Financial Instruments

31. Citizens has properly recorded investments in debt securities at amortized cost except as disclosed in the statutory-basis financial statements, based on the accounting treatment prescribed by the Office. Investments with original maturity (at the time of purchase) of one year or less are classified as short-term investments.
32. For investments that are impaired, we have evaluated whether the impairment is other-than-temporary. For debt securities that are impaired, we have evaluated whether we intend to sell the security and, if we do not intend to sell, whether it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. We have also evaluated whether we expect to recover the entire amortized cost basis of the debt security, including comparing the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. Other-than-temporary declines in the value of securities have been properly recognized in the statutory-basis financial statements. We have determined that all unrealized losses not recorded as other-than-temporary impairments will be recovered, even if through maturity, by the Company.
33. Investments are appropriately recorded and valued as follows:
- a. Bonds - are recorded and disclosed in accordance with SSAP No. 26, *Bonds, and SSAP No. 43R, Loan-Backed and Structured Securities*, as applicable and interpretations thereof;
 - b. Cash equivalents and Short-term investments - are recorded and disclosed in accordance with SSAP No. 2R, *Revised, Cash, Cash Equivalents, Drafts, and Short-term Investments*, and interpretations thereof.
34. We represent to you the following for Citizens' fair value measurements and disclosures:
- a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action;
 - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied;
 - c. The disclosures related to estimated fair values are complete and adequate, in conformity with statutory accounting principles prescribed or permitted by the Office, and SSAP No. 100R, *Fair Value*;
 - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the statutory-basis financial statements.

35. All investment transactions have credit exposure to the extent that a counterparty may default on an obligation to Citizens. To manage credit risk, Citizens focuses primarily on higher quality, fixed income securities, 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.
36. The methods and significant inputs and assumptions used to determine fair values of financial instruments include the following: valuation of securities based on average bid prices of identical or similar issues with the same life and expected yields. The methods and significant inputs and assumptions used result in a measure of fair value appropriate for statutory-basis financial statement measurement and disclosure purposes.
37. Financial institutions with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the statutory-basis financial statements.

Premiums and Unearned Premiums

38. The inforce files properly reflect all policies and contracts in force for all lines of insurance coverage as of and for the year ended December 31, 2020. We are not aware of any material commitments or concessions to a policyholder that are outside of the terms of the written policy agreements.
39. Unearned premiums are fairly stated at December 31, 2020 and the calculations of such are consistent with those of the preceding year. Business written from all sources, including reinsurance ceded, has been included in premiums in force and unearned. Business expired has been excluded from premiums in force and unearned.
40. We have fully disclosed to you all premium terms, including all rights of return or price adjustments including endorsements and cancellations.
41. As of December 31, 2020, Citizens has other receivables under reinsurance contracts due which represents amounts due under depopulation reinsurance assumption agreements.
42. Citizens determined a premium deficiency reserve is not needed as of December 31, 2020 in accordance with SSAP No. 53- *Property Casualty Contracts-Premiums*. 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.
43. The reserve for unpaid losses and loss adjustment expense (LAE) for Citizens at December 31, 2020 is management's best estimate recorded in accordance with SSAP No. 55, *Unpaid Claims, Losses and Loss Adjustment Expenses* (SSAP No. 55) and makes a reasonable provision for all reported and unreported claims incurred as of December 31, 2020 based upon the consolidation of all information available at the date the statutory-basis financial statements were prepared, including actuarial indications and other factors.
44. The findings of all actuarial studies, which have been completed and accepted by Citizens, have been considered in establishing the required level of loss and LAE reserves.

45. With respect to Citizens' reserve for losses and LAE:
 - a. For the year ended December 31, 2020, we have processed claims received by Citizens in a manner and timing consistent with prior years;
 - b. We have considered all information that, in our judgement, is necessary to adequately estimate the loss and LAE reserves at the balance sheet date, including among other things:
 - i. Anticipated and historical claims experience of Citizens;
 - ii. Expected impact of inflation and other economic or social factors on future payments of losses and LAE incurred at the date of the statutory-basis statement of admitted assets, liabilities and accumulated surplus;
 - iii. Lines and geographical locations of the business written by Citizens;
 - iv. Citizens' underwriting and claims policies and procedures;
 - v. The timeliness and reliability of reports from reinsurers;
 - vi. Estimates of claim recoveries, exclusive of reinsurance recoveries;
 - c. Citizens has considered and properly disclosed in the statutory-basis financial statements all the information with respect to losses and LAE reserves and related claim recoveries, which in our judgement, is necessary to adequately identify and understand the nature of reserving the estimates and underlying coverage issues, including the potential volatility, complexity, and uncertainty of such estimate and the possibility that the ultimate liability may vary significantly from the recorded reserve and related recovery amounts.
46. We believe the reserves for possible claims are adequate to cover claim losses, which might result from pending and possible claims.
47. All material reinsurance transactions have been recorded and disclosed in accordance with SSAP No. 62R, *Property and Casualty Reinsurance* (SSAP No 62R).
48. All reinsurance transactions entered into by Citizens are final and there are no side agreements with reinsurers, or other terms in effect, which allow for the modification of terms under existing reinsurance agreements. All contracts have been reviewed during 2020 and those accounted for as reinsurance meet the risk transfer provisions for which Citizens maintains documentation of risk transfer and are recorded in accordance with SSAP No. 62R.
49. We believe that policy slips and other documents obtained from brokers and counterparties with binding signatures represent enforceable insurance and reinsurance contracts. There are no separate written or oral agreements between Citizens and reinsurers that would under any circumstances, reduce, limit, mitigate, or otherwise affect any actual or potential loss to the parties under the reinsurance contract that, if considered, would change Citizens' application of accounting principles or the amounts recorded with respect to the transaction, other than insuring contracts that are explicitly defined in the reinsurance contract.
50. At December 31, 2020, Citizens has reinsurance recoverables on paid and unpaid losses on catastrophe reinsurance coverage related to Hurricane Irma, including amounts on internally allocated loss adjustment expenses. Citizens believes these reinsurance recoverables are fully collectible under the terms of the applicable reinsurance agreements.

Accounting Methods

51. Citizens is responsible for determining and maintaining the adequacy of the allowance for uncollectible premium installment receivables and reinsurance recoverable, as well as estimates used to determine such amounts. In making its determination of the necessary allowance, management considered past experience and all information currently available. Management further considered information with respect to receivable aging and credit ratings of debtors, challenges or potential challenges, including litigation and arbitration proceedings, with respect to reinsurance balances and amounts due from other reinsurers as a result of loss communication, solvency and other actions. Management believed the allowances are adequate to cover uncollectible account balances as of December 31, 2020.
52. Citizens has no plans or intentions to discontinue the operations of any subsidiary or division or to discontinue any significant product lines.
53. We have reviewed long-lived assets to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have determined no adjustments are necessary.

Other

54. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances or similar arrangements have been properly disclosed.
55. Regarding Citizens' Information Systems (IS) function, we have made available to you all information and documentation responsive to your review of the IS function; and we have, to the best of our knowledge and belief, answered all questions and inquiries fully and accurately.
56. None of the Company's third-party service providers, upon which the Company relies, has known problems which would be likely to threaten the reliability of Company's information systems and/or the systems' internal controls, or which could have a material impact on Company's statutory-basis financial statements.
57. In regard to the non-attest services (specifically advising management about appropriate accounting principles and assistance in preparation of audited statutory-based financial statements) performed by you, we have:
 - a. Assumed all management responsibilities;
 - b. Overseen the service by designating an individual within senior management, who possesses suitable skills, knowledge, or experience;
 - c. Evaluated the adequacy and results of the services performed;
 - d. Accepted responsibility for the results of the services;
 - e. Evaluated and maintained internal controls, including monitoring ongoing activities.
58. In accordance with Section 627.351(6) of the Florida Statutes, Citizens is not subject to Risk-Based Capital (RBC) requirements or required to have a pledged deposit on file with the State of Florida.
59. There are no known or expected circumstances, as of the date of this letter that would either threaten the solvency of Citizens under applicable insurance regulations, or require significant capital infusions to Citizens in order to comply with applicable regulations.

60. Citizens has properly disclosed all affiliate transactions in its statutory-basis financial statements.
61. Citizens has no knowledge of any guaranty fund assessments as of December 31, 2020.
62. Citizens is in compliance with all covenants and limitations associated with its outstanding obligations.
63. The statutory-basis financial statements disclose all the matters of which we are aware that are relevant to Citizens' ability to continue as a going concern. We have evaluated whether there are conditions or events, considered in aggregate, that raise substantial doubt about Citizens' ability to continue as a going concern within one year after the date that the statutory-basis financial statements are issued (or within one year after the date that the statutory-basis financial statements are available to be issued when applicable) and determined no such substantial doubt exists.
64. There have been no updates or additional claims which would require disclosure or accrual of a liability under SSAP No. 5R, related to the following internal legal counsel confirmations received since their respective confirmation dates:
 - a. Belinda Miller – Citizens' Interim Legal Counsel – May 11, 2021.
65. Citizens is party to claims and legal actions arising routinely in the ordinary course of business. In the opinion of management, the ultimate disposition of these matter specific to insurance policy claims are included in the methods and assumptions of management's determination of incurred but not reported reserves as of December 31, 2020. The ultimate disposition of these matters is not expected to have a material, adverse effect on the Company's financial position or liquidity.
66. Citizens is named as a defendant in legal actions arising from claims filed under insurance policies it has underwritten and other claims incidental to its normal business activities. In the opinion of management, which is based on the advice of legal counsel, the ultimate outcome of such proceedings is not expected to have a material effect on Citizens' financial position or results of operations.
67. Citizens has issued 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 from the Florida Hurricane Catastrophe Fund (FHCF). The carrying value of the bonds is \$849,690,000 as of December 31, 2020.
68. In accordance with the Florida Office of Insurance Regulation, memorandum OIR-20-04M, Citizens issued a moratorium on cancellations and non-renewals on May 22, 2020. As of December 31, 2020, Citizens appropriately accounted for policies that were cancelled after year-end but would have been cancelled prior to year-end if the moratorium was not in place.
69. Citizens appropriately accounted for the ceded premium adjustment as a result of the final TIV exceeding 10% of projected TIV.

We have evaluated subsequent events through the date of this letter, which is the date the statutory-basis financial statements are available to be issued. No events have occurred subsequent to the statutory-basis statement of admitted assets, liabilities and accumulated surplus date and through the date of this letter except as disclosed in Note 16, Subsequent Events, that would require adjustment to or disclosure in the aforementioned statutory-basis financial statements.

Citizens Property Insurance Company

Barry Gilway

[Barry Gilway \(May 20, 2021 15:21 EDT\)](#)

*Barry Gilway, President, Chief Executive Officer
and Executive Director*

Jennifer Montero

[Jennifer Montero \(May 19, 2021 08:42 EDT\)](#)

Jennifer Montero, Chief Financial Officer

Andrew Woodward

[Andrew Woodward \(May 19, 2021 08:29 EDT\)](#)

Andrew Woodward, Controller

Brian Donovan

[Brian Donovan \(May 19, 2021 09:41 EDT\)](#)

Brian Donovan, Chief Actuary



Appendix B
Management Representation Letter
U.S. GAAP Basis

CITIZENS PROPERTY INSURANCE CORPORATION
2101 MARYLAND CIRCLE
TALLAHASSEE, FLORIDA 32303-1001

TELEPHONE: 850-513-3892 FAX: 850-513-3905



May 19, 2021

Dixon Hughes Goodman LLP
400 N. Ashley Drive
Suite 2540
Tampa, Florida 33602

This representation letter is provided in connection with your audits of the financial statements of Citizens Property Insurance Company (Citizens), an enterprise fund of the State of Florida, which comprise the statements of net position as of December 31, 2020 and 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 4, 2020, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for the preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP established by the Government Accounting Standards Board (GASB), and include all properly classified funds and other financial information of the primary government and all component units required by U.S. GAAP to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.

Carlos Beruff, Chairman, Manatee County • Marc W. Dunbar, Leon County • Lazaro Fields, Leon County
Jillian Hasner, Palm Beach County • Reynolds Henderson, Walton County • Erin Knight, Miami-Dade County
Carlos Lopez-Cantera, Miami-Dade County • Nelson Telemaco, Broward County • M. Scott Thomas, St. Johns County
Barry Gilway, President/CEO and Executive Director

4. The following have been properly accounted for and disclosed in the financial statements, where applicable:
 - a. Related-party relationships and transactions, including sales, purchases, loans, transfers, reinsurance arrangements, and guarantees, and amounts receivable from or payable to related parties;
 - b. Guarantees, whether written or oral, under which Citizens is contingently liable;
 - c. Other liabilities or gain or loss contingencies;
 - d. All liabilities, both actual and contingent;
 - e. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit or similar arrangement;
 - f. All other liens or encumbrances on assets and all other pledges of assets;
 - g. Amounts of contractual obligations for purchase of real property, equipment, other assets, and intangibles;
 - h. Investments in debt securities;
 - i. All leases under long-term leases;
 - j. All significant estimates and material concentrations known to management;
 - k. Assets and liabilities measured at fair value are disclosed.
5. Significant estimates that may be subject to a material change in the near term have been properly disclosed in the financial statements. We understand that "near term" means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make Citizens vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
6. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
7. Significant assumptions we used in making accounting estimates, including estimates of fair value, are reasonable.
8. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
9. There are no uncorrected or corrected misstatements. There are no omitted disclosures material to the financial statements.
10. We are aware of no material weaknesses, including significant deficiencies, in the design or operation of internal controls that could adversely affect Citizens' ability to record, process, summarize, and report financial data.
11. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
12. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

13. Citizens has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net position.
14. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
15. We have not identified any instances that have occurred or are likely to have occurred, of fraud, abuse or noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
16. We have not identified any instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
17. We have not identified any instances that have occurred or are likely to have occurred, or abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
18. Citizens has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, beyond those assets pledged in trust for Senior Secured Bonds as disclosed in footnote 7, Long-Term Debt, of the financial statements.
19. The financial statements properly classify all funds and activities in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB Statement No. 34).
20. All funds that meet the quantitative criteria in GASB Statement No. 34 and 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus - an Amendment of GASB Statement No. 34*, for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
21. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
22. Provisions for uncollectible receivables have been properly identified and recorded.
23. Expenses have been appropriately classified in or allocated to functions and programs in the statements of revenues, expenses and changes in net position, and allocations have been made on a reasonable basis.
24. Deposits and investment securities are properly classified as to risk and are properly disclosed.
25. Capital assets, including infrastructure, are properly capitalized, reported, and, if applicable, depreciated.

26. We have appropriately disclosed Citizens' policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
27. With respect to the Supplemental Combining Statements of Net Position, Supplemental Combining Statements of Revenues, Expenses and Changes in Net Position, and Supplemental Revenues, Expenses and Claim Development Information, (collectively Supplemental Information):
 - a. We acknowledge our responsibility for presenting the Supplemental Information in accordance with U.S. GAAP, and we believe the Supplemental Information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the Supplemental Information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the Supplemental Information;
 - b. We acknowledge our responsibility for the Required Supplementary Information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Information Provided

28. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters, if any, received from funding sources;
 - b. Additional information that you have requested from us for the purpose of the audit;
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence;
 - d. Minutes of the meetings of the Board of Governors, and committees thereof, or summaries of actions of recent meetings for which minutes have not yet been prepared for meetings held in 2020 and 2021 and through the date of this letter.
29. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
30. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
31. We have no knowledge of any fraud or suspected fraud affecting Citizens involving:
 - a. Management;
 - b. Employees who have significant roles in internal control;
 - c. Others when the fraud could have a material effect on the financial statements.
32. We have no knowledge of any allegations of fraud or suspected fraud affecting Citizens' financial statements received in communications from employees, former employees, analysts, regulators, or others.

33. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
34. We have disclosed to you the identity of Citizens' related parties and all the related party relationships and transactions of which we are aware.
35. 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. Citizens had no unrelated business income during 2020 and therefore no Federal or State income tax was incurred during 2020.

Contingencies

36. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency;
 - b. Unasserted claims or assessments that our attorney (in-house or external) has advised us are probable of assertion beyond those disclosed in the notes to the financial statements.
37. Management is not aware of any class action lawsuits against Citizens which are likely or probable to result in loss to Citizens, except for those disclosed in the financial statements.
38. Citizens has not entered into any buy or sell arrangements which would require it to record a related liability or require disclosure in the financial statements.
39. There were no material commitments for construction or acquisition of property, plant and equipment, or to acquire other noncurrent assets, such as investments or intangibles.
40. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
41. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known and actual or possible litigation and claims have been accounted for and disclosed in the financial statements.

Premiums and Unearned Premiums

42. The in-force files properly reflect all policies and contracts in force for all lines of insurance coverage as of and for the year ended December 31, 2020. We are not aware of any material commitments or concessions to a policyholder that are outside of the terms of the written policy agreements.
43. Unearned premiums are fairly stated at December 31, 2020 and the calculations of such are consistent with those of the preceding year. Business written from all sources, including reinsurance ceded, has been included in premiums in force and unearned. Business expired has been excluded from premiums in force and unearned.
44. We have fully disclosed to you all premium terms, including all rights of return or price adjustments including endorsements and cancellations.

45. As of December 31, 2020, Citizens has other receivables under reinsurance contracts due which represents amounts due under depopulation reinsurance assumption agreements.
46. Citizens determined a premium deficiency reserve is not needed as of December 31, 2020. 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 individual accounts required pursuant to Section 627.351 (c) of the Florida Statutes.

Reserve for Loss and Loss Adjustment Expenses

47. Citizens' reserve for unpaid losses and loss adjustment expenses (LAE) at December 31, 2020 is management's best estimate and makes a reasonable provision for all reported and unreported claims incurred as of December 31, 2020 based upon the consolidation of all information available at the date those financial statements were prepared, including actuarial indications and other factors.
48. The findings of all actuarial studies, which have been completed and accepted by Citizens, have been considered in establishing the required level of loss and LAE reserves.
49. With respect to Citizens' reserve for losses and LAE:
 - a. For the year ended December 31, 2020, we have processed claims received by Citizens in a manner and timing consistent with prior years;
 - b. We have considered all information that, in our judgment, is necessary to adequately estimate the loss and loss adjustment expense reserves at the balance sheet date, including among other things:
 - i. Anticipated and historical claims experience of Citizens;
 - ii. Expected impact of inflation and other economic or social factors on future payments of losses incurred at the statement of net position date;
 - iii. Lines and geographical locations of the business written by Citizens;
 - iv. Citizens' underwriting and claims policies and procedures;
 - v. The timeliness and reliability of reports from reinsurers;
 - vi. Estimates of claim recoveries, exclusive of reinsurance recoveries;
 - c. Citizens has considered and properly disclosed in the financial statements all the information with respect to losses and loss adjustment expense reserves and related claim recoveries, which in our judgment, is necessary to adequately identify and understand the nature of reserving estimates and underlying coverage issues, including the potential volatility, complexity, and uncertainty of such estimates and the possibility that the ultimate liability may vary significantly from the recorded reserve and related recovery amounts.
50. We agree with the findings of the specialists in evaluating the loss and loss adjustment expense reserves and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence of objectivity of the specialists.

51. We believe the reserves for possible claims are adequate to cover claim losses, which might result from pending and possible claims.
52. All material reinsurance transactions have been recorded and disclosed.
53. All reinsurance transactions entered into by Citizens are final and there are no side agreements with reinsurers, or other terms in effect, which allow for the modification of terms under existing reinsurance arrangements. All contracts have been reviewed during 2020 and those accounted for as reinsurance meet the risk transfer provisions for which Citizens maintains documentation of risk transfer.
54. We believe that policy slips and other documents obtained from broker and counterparties with binding signatures represent enforceable insurance and reinsurance contracts. There are no separate written or oral agreements between Citizens and reinsurers that would under any circumstances, reduce, limit, mitigate, or otherwise affect any actual or potential loss to the parties under the reinsurance contract that, if considered, would change Citizens' application of accounting principles or the amounts recorded with respect to the transaction, other than insuring contracts that are explicitly defined in the reinsurance contract.
55. At December 31, 2020, Citizens has reinsurance recoverables on paid and unpaid losses on catastrophe reinsurance coverage related to Hurricane Irma, including amounts on internally allocated loss adjustment expenses. Citizens believes these reinsurance recoverables are fully collectible under the terms of the applicable reinsurance agreements.

Accounting Methods

56. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the statement of net position and appropriate provisions have been made for losses that may be sustained on uncollectible receivables.
57. Citizens is responsible for determining and maintaining the adequacy of the allowance for uncollectible premium installment receivables and reinsurance recoverable, as well as estimates used to determine such amounts. In making its determination of the necessary allowance, management considered past experience and all information currently available. Management further considered information with respect to receivable aging and credit ratings of debtors, challenges or potential challenges, including litigation and arbitration proceedings, with respect to reinsurance balances and amounts due from other reinsurers as a result of loss communications, solvency and other actions. Management believes the allowances are adequate to cover uncollectible account balances as of December 31, 2020.
58. Citizens has no plans or intentions to discontinue the operations of any subsidiary or division or to discontinue any significant product lines.
59. We have reviewed long-lived assets to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have determined no adjustments are necessary.

Financial Instruments

60. Citizens has properly recorded investments in debt securities at their fair value.
61. For investments that are impaired, we have evaluated whether the impairment is other than temporary. For debt securities that are impaired, we have evaluated whether we intend to sell the security and, if we do not intend to sell, whether it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis, even if not until maturity. We have also evaluated whether we expect to recover the entire amortized cost basis of the debt security, including comparing the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. Other than temporary declines in the value of securities have been properly recognized in the statutory basis financial statements. We have determined that all material unrealized losses (when considered in the aggregate) not recorded as other-than-temporary impairments will be recovered, even if through maturity, by Citizens, and that from time to time, realized losses may be taken when overall portfolio returns are evaluated as part of the management strategy of our investment portfolio. 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 substantially all of 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, 2020.
62. We represent to you the following for Citizens' fair value measurements and disclosures:
 - a. The underlying assumptions are reasonable, and they appropriately reflect management's intent and ability to carry out its stated courses of action;
 - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied;
 - c. The disclosures related to estimated fair values are complete and adequate;
 - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in financial statements.
63. All investment transactions have credit exposure to the extent that a counterparty may default on an obligation to Citizens. To manage credit risk, Citizens focuses primarily on higher quality, fixed income securities, 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.
64. The methods and significant inputs and assumptions used to determine fair values of financial instruments include the following: valuation of securities based on average bid prices of identical or similar issues with the same life and expected yields. The methods and significant inputs and assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
65. Financial institutions with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.

Other

66. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances or similar arrangements have been properly disclosed.
67. Citizens has made available all communications from regulators. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
68. Regarding Citizens' Information Systems (IS) function, we have made available to you all information and documentation responsive to your review of the IS function; and we have, to the best of our knowledge and belief, answered all questions and inquiries fully and accurately.
69. None of Citizens' third-party service providers, upon which Citizens relies, has known problems which would be likely to threaten the reliability of Citizens' information systems and/or the systems' internal controls, or which could have a material impact on Citizens' financial statements.
70. There are no known or expected circumstances, as of the date of this letter that would either threaten the solvency of Citizens under applicable insurance regulations, or require significant capital infusions to Citizens in order to comply with applicable regulations applicable to their individual domiciliary states or countries.
71. Citizens has properly disclosed all affiliate transactions in its financial statements.
72. Citizens has no knowledge of any guaranty fund assessments as of December 31, 2020.
73. Citizens is in compliance with all covenants and limitations associated with its outstanding obligations.
74. The financial statements disclose all of the matters of which we are aware that are relevant to Citizens' ability to continue as a going concern. We have evaluated whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Citizens' ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable) and determined no such substantial doubt exists.
75. In regard to the non-attest services (specifically advising management about appropriate accounting principles and assistance in preparation of audited financial statements) performed by you, we have:
 - a. Assumed all management responsibilities;
 - b. Overseen the service, by designating an individual, within senior management, who possess suitable skill, knowledge, or experience;
 - c. Evaluated the adequacy and results of the services performed;
 - d. Accepted responsibility for the results of the services;
 - e. Evaluated and maintained internal controls, including monitoring ongoing activities.
76. There have been no updates or additional claims which would require disclosure or accrual of a liability related to the following internal legal counsel confirmations received since their respective confirmation dates:
 - a. Belinda Miller – Citizens' Interim Legal Counsel – May 11, 2021.

77. Citizens is party to claims and legal actions arising routinely in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters specific to insurance policy claims are included in the methods and assumptions of management's determination of incurred but not reported reserves as of December 31, 2020. The results of outstanding legal cases on insurance claims as summarized in Mr. Sumner's legal response letter referenced above are included in the methods and assumptions of management's determination of incurred but not reported reserves as of December 31, 2020. The ultimate disposition of these matters are not expected to have a material, adverse effect on Citizens' financial position or liquidity.
78. Citizens is named as a defendant in legal actions arising from claims filed under insurance policies it has underwritten and other claims incidental to its normal business activities. In the opinion of management, which is based on the advice of legal counsel, the ultimate outcome of such proceedings is not expected to have a material effect on Citizens' financial position or results of operations.
79. Citizens has issued 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 from the Florida Hurricane Catastrophe Fund (FHCF). The carrying value of the bonds is \$849,690,000 as of December 31, 2020.
80. In accordance with the Florida Office of Insurance Regulation, memorandum OIR-20-04M, Citizens issued a moratorium on cancellations and non-renewals on May 22, 2020. As of December 31, 2020, Citizens appropriately accounted for policies that were cancelled after year-end but would have been cancelled prior to year-end if the moratorium was not in place.
81. Citizens appropriately accounted for the ceded premium adjustment as a result of the final TIV exceeding 10% of projected TIV.

We have evaluated subsequent events through the date of this letter, which is the date the financial statements are available to be issued. No events have occurred subsequent to the statement of admitted assets, liabilities and accumulated surplus date and through the date of this letter except as disclosed in Note 16, Subsequent Events, that would require adjustment to or disclosure in the aforementioned statutory-basis financial statements.

Citizens Property Insurance Company

Barry Gilway

[Barry Gilway \(May 20, 2021 15:21 EDT\)](#)

*Barry Gilway, President, Chief Executive Officer
and Executive Director*

Jennifer Montero

[Jennifer Montero \(May 19, 2021 08:42 EDT\)](#)

Jennifer Montero, Chief Financial Officer

Andrew Woodward

[Andrew Woodward \(May 19, 2021 08:29 EDT\)](#)

Andrew Woodward, Controller

Brian Donovan

[Brian Donovan \(May 19, 2021 09:41 EDT\)](#)

Brian Donovan, Chief Actuary



Appendix C

Qualification Letter

May 19, 2021

Audit Committee
Citizens Property Insurance Corporation
Tallahassee, FL

We have audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the statutory-basis financial statements of Citizens Property Insurance Corporation (Citizens) as of and for the years ended December 31, 2020 and 2019, and have issued our report thereon dated May 19, 2021. In connection therewith, we advise you as follows:

- a. We are independent certified public accountants with respect to Citizens and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants and the Rules of Professional Conduct of the Florida Department of Business Regulation, Division of Certified Public Accounting.
- b. The engagement partner and manager, who are certified public accountants, have over 14 years and 5 years, respectively, of experience in public accounting and are experienced in auditing insurance entities. Members of the engagement team, most of whom have had experience in auditing insurance entities and 43% of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.
- c. We understand that Citizens intends to file its audited statutory-basis financial statements and our report thereon with the Florida Department of Financial Services, Office of Insurance Regulation (the Office) and that the Insurance Commissioner of the State of Florida (Insurance Commissioner) will be relying on that information in monitoring and regulating the statutory financial condition of Citizens.

Although we understand that an objective of issuing a report on the statutory-basis financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, Citizens and the Insurance Commissioner should understand that the objective of an audit of statutory-basis financial statements in accordance with GAAS is to form an opinion and issue a report on whether the statutory-basis financial statements present fairly, in all material respects, the admitted assets, liabilities and accumulated surplus as well as the results of operations and cash flows in conformity with accounting practices prescribed or permitted by the Office.

Consequently, under GAAS, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the statutory-basis financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on statutory-basis financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material misstatements caused by error or fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would be assessed differently by the Insurance Commissioner.

It is the responsibility of management of Citizens to adopt sound accounting policies, to maintain an adequate and effective system of accounts and to establish and maintain an internal control that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the Office.

The Insurance Commissioner should exercise due diligence to obtain whatever other information may be necessary for the purpose of monitoring and regulating the statutory financial position of insurers and should not rely solely upon the independent auditor's report.

- d. We will retain audit working papers (including those kept in a hard copy or electronic medium) prepared in compliance with professional standards, for seven years from the date that we grant permission to use our report in connection with the issuance of Citizens' statutory-basis financial statements (report release date). After notification to Citizens, we will make the working papers available for review by the Office, or its delegates, at the offices of the insurer, at our offices, at the office of the Insurance Commissioner, or at any other reasonable place designated by the Insurance Commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Office, photocopies of pertinent audit working papers may be made under the control of Dixon Hughes Goodman LLP and such copies may be retained by the Office. In addition, to the extent requested, we may provide the Office with copies of certain of our audit working papers (such as unlocked electronic copies of Excel spreadsheets that do not contain password protection or encryption). As such, these audit working papers will be subject to potential modification by the Office or by others. We are not responsible for any modifications made to the copies, electronic or otherwise, after they are provided to the Office and we are likewise not responsible for any effect that any such modifications, whether intentional or not, might have on the process, substance or outcome of regulatory examination.

Audit Committee
Citizens Property Insurance Corporation
May 19, 2021
Page 3

- e. The engagement partner has served in that capacity with respect to Citizens since 2020, is licensed by the Florida Board of Accountancy and is a member in good standing of the American Institute of Certified Public Accountants.
- f. To the best of our knowledge and belief, we are in compliance with the requirements of section 7 of the NAIC *Annual Financial Reporting Model Regulation Model Rule (Regulation) Requiring Annual Audited Financial Reports* regarding qualifications of independent certified public accountants.

The letter is intended solely for the information and use of the Audit Committee, Board of Governors, and management of Citizens, and the Office, and is not intended to be, and should not be used for anyone other than these specified parties.

Dixon Hughes Goodman LLP

Tampa, FL



Report to the
Audit Committee

**Citizens Property
Insurance Company**

May 19, 2021



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Communication with Those Charged with Governance

May 19, 2021

Audit Committee
Citizens Property Insurance Corporation
Tallahassee, FL

We have audited the financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP-basis) and the financial statements prepared in accordance with statutory accounting principles prescribed or permitted by the Florida Department of Financial Services, Office of Insurance Regulation (statutory-basis financial statements) (collectively, the financial statements) of Citizens Property Insurance Corporation (Citizens) as of and for the year ended December 31, 2020, and have issued our report thereon dated May 19, 2021. Professional standards require that we provide you with information about our responsibilities 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, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 4, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Citizens are described in Note 2 and Note 3 to the U.S. GAAP-basis and statutory-basis financial statements, respectively. No new accounting policies were adopted and the application of existing policies was not changed during December 31, 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.



Accounting estimates are an integral part of the financial statements prepared by management, and are based on management's knowledge and experience about past and current events, and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

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 (IBNR), 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 and LAE. 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. Management does not discount liabilities for loss reserves and LAE reserves. 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 ceded through reinsurance are credited against losses and LAE incurred.

We evaluated the key factors and assumptions used to develop the liability for losses and LAE in determining that it is reasonable in relation to the Financial Statements taken as a whole. Specifically, we obtained an understanding of the Citizens' financial reporting process and internal controls with respect to the claims reserving process and development of IBNR. We tested the accuracy and completeness of the claims data used in the development of the reserves. Additionally, we performed other substantive procedures to test the appropriateness of reserves including reviewing a sample of case reserve files, testing a sample of closed and re-opened claims, and performing a subsequent look-back analysis on claims paid through issuance. Further we engaged an independent actuary to perform an independent review of Citizens' opening actuary's analysis in order to ascertain the reasonableness of the assumptions and methodologies employed. We concluded that the reserves for losses and LAE as of December 31, 2020 are fairly stated in all material respects to the Financial Statements taken as a whole.



As more information became available to management, it was determined that there was significant development related to Hurricane Eta which resulted in a change in the IBNR estimate of approximately \$71 million. Both management and the third party actuary assessed the development as of December 31, 2020 and determined that the IBNR estimate is still within the reasonable range and no adjustment is considered necessary.

The relevant disclosures regarding loss and LAE reserves can be found in Note 2 (Summary of Significant Accounting Policies), Note 5 (Liability for Loss Reserves and Loss Adjustment Expense Reserves), and Note 6 (Reinsurance Agreements) to the U.S. GAAP-basis financial statements and in Note 3 (Summary of Significant Accounting Policies), Note 6 (Liability for Loss Reserves and Loss Adjustment Expense Reserves), and Note 7 (Reinsurance Agreements) to the statutory-basis financial statements.

Bonds

Long-term investments in the U.S. GAAP-basis financial statements 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. Within the U.S. GAAP-basis financial statements 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.

Within the statutory-basis financial statements, bonds which consist solely of debt securities, are recorded at admitted asset values, as prescribed by the Nation Association of Insurance Commissioner's (NAIC) valuation procedures and are rated in accordance with current NAIC guidelines. Bonds designated by the Securities Valuation Office (SVO) or equivalent as 1 or 2 are reported at amortized cost. Bonds designated as 3-6 are reported at the lower of amortized cost or fair value. Debt securities not backed by other loans are stated at amortized cost using the interest method. Loan backed debt securities and structured securities are stated at amortized cost using the interest method and adjusted retrospectively. Prepayment assumptions were obtained from broker dealer values. Fair values are generally measured using quoted prices in active markets for identical securities or other inputs that are observable either directly or indirectly, such as quoted prices for similar securities.

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 or for certain securities, its expected undiscounted cash flows. 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.



We evaluated the key factors and assumptions used by management, including testing the fair value of the securities through an independent pricing source from that used by management, in determining that the fair value and other-than-temporary impairment charges recorded by management are reasonable in relation to the Financial Statements taken as a whole. Further, management represented that all debt securities in the unrealized loss position at year-end, for which an other than temporary impairment charge was not taken, are fully recoverable, even if through maturity of the underlying securities.

The relevant disclosures regarding bonds can be found in Note 2 (Summary of Significant Accounting Policies), Note 3 (Fair Value Measurements) and Note 4 (Investments) to the U.S. GAAP-basis financial statements and in Note 3 (Summary of Significant Accounting Policies), Note 4 (Fair Value Measurements), and Note 5 (Investments) to the statutory-basis financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements or omitted disclosures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management that are included in the management representation letter included at Appendix A.

Management Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Citizens' financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.



Other Significant Matters, Findings, or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Citizens's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Audit Committee, Board of Governors, and management of Citizens, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Dixon Hughes Goodman LLP

Tampa, FL



Communication of Internal Control Related Matters

May 19, 2021

Audit Committee
Citizens Property Insurance Company
Tallahassee, FL

In planning and performing our audit of the statutory-basis financial statements of Citizens Property Insurance Company (Citizens) as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered Citizens' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the statutory-basis 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's statutory-basis financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.



This communication is intended solely for the information and use of the Audit Committee, Board of Governors, management of the Citizens, and for filing with state regulators and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Dixon Hughes Goodman LLP

Tampa, FL



Independent Auditor's 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 19, 2021

Audit Committee
Citizens Property Insurance Company
Tallahassee, FL

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 statement of net position as of December 31, 2020, 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 19, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Citizens' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Citizens' internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a 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 and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Sincerely,

Dixon Hughes Goodman LLP

Tampa, FL



Appendix A
Management Representation Letter
Statutory Basis

CITIZENS PROPERTY INSURANCE CORPORATION
2101 MARYLAND CIRCLE
TALLAHASSEE, FLORIDA 32303-1001

TELEPHONE: 850-513-3892 FAX: 850-513-3905



May 19, 2021

Dixon Hughes Goodman LLP
400 N. Ashley Drive
Suite 2540
Tampa, Florida 33602

This representation letter is provided in connection with your audits of the statutory-basis financial statements of Citizens Property Insurance Corporation (Citizens), which comprise the statutory-basis statements of admitted assets, liabilities and accumulated surplus as of December 31, 2020 and 2019, and the related statutory-basis statements of operations, changes in accumulated surplus, and cash flows for the years then ended, and the related notes to the statutory-basis financial statements, for the purpose of expressing an opinion as to whether the statutory-basis financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Citizens in conformity with statutory accounting principles prescribed or permitted by the Florida Department of Financial Services, Office of Insurance Regulation (Office), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 4, 2020 for the preparation and fair presentation of the statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the Office.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statutory-basis financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibilities for the design, implementation, and maintenance of internal control to prevent and detect fraud.

Carlos Beruff, Chairman, Manatee County • Marc W. Dunbar, Leon County • Lazaro Fields, Leon County
Jillian Hasner, Palm Beach County • Reynolds Henderson, Walton County • Erin Knight, Miami-Dade County
Carlos Lopez-Cantera, Miami-Dade County • Nelson Telemaco, Broward County • M. Scott Thomas, St. Johns County
Barry Gilway, President/CEO and Executive Director

4. The following have been properly accounted for and disclosed in the statutory-basis financial statements, where applicable:
 - a. Related-party relationships and transactions, including sales, purchases, loans, transfers, reinsurance arrangements, guarantees, and amounts receivable from or payable to related parties;
 - b. Guarantees, whether written or oral, under which Citizens is contingently liable;
 - c. Other liabilities or gain or loss contingencies;
 - d. All liabilities, both actual and contingent;
 - e. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit or similar arrangements;
 - f. All other liens or encumbrances on assets and all other pledges of assets;
 - g. Amounts of contractual obligations for purchase of real property, equipment, other assets, and intangibles;
 - h. Investments in debt securities;
 - i. All leases under long-term leases;
 - j. All significant estimates and material concentrations known to management;
 - k. Assets and liabilities measured at fair value are disclosed;
 - l. Significant estimates and material concentrations known to management or third-party administrators that are required to be disclosed in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 1, *Accounting Policies, Risks & Uncertainties, and Other Disclosures*;
 - m. Amount of credit risk and extent, nature, and terms of financial instruments with off-balance-sheet risk in accordance with SSAP No. 27, *Off-Balance Sheet and Credit Risk Disclosures*.
5. Significant estimates that may be subject to a material change in the near term have been properly disclosed in the statutory-basis financial statements. We understand that "near term" means the period within one year of the date of the statutory-basis financial statements. In addition, we have no knowledge of concentrations existing at the date of the statutory-basis financial statements that make Citizens vulnerable to the risk of severe impact that have not been properly disclosed in the statutory-basis financial statements.
6. Significant assumptions we used in making accounting estimates, including those measured at estimates of fair value, are reasonable.
7. There are no uncorrected or corrected misstatements or omitted disclosures that are material to the statutory-basis financial statements.
8. Citizens has properly classified all assets as admitted or nonadmitted in accordance with SSAP No. 4, *Assets and Nonadmitted Assets*.
9. Premiums receivable or uncollected premiums have been recorded and disclosed in conformity with statutory accounting principles prescribed or permitted by the Office in accordance with SSAP No. 6, *Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers*.

10. The Company's liabilities for unpaid losses and loss adjustment expenses are based on and recorded at management's best estimate in accordance with SSAP No. 55, *Unpaid Claims, Losses and Loss Adjustment Expenses*.

Information Provided

11. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the statutory-basis financial statements, such as records, documentation, and other matters;
 - b. Additional information that you have requested from us for the purpose of performing your audit;
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence;
 - d. Minutes of the meetings of the Board of Governors, and committees thereof, or summaries of actions of recent meetings for which minutes have not yet been prepared, for meetings held in 2020 and 2021 through the date of this letter.
12. All material transactions have been recorded in the accounting records and are reflected in the statutory-basis financial statements.
13. We have disclosed to you the results of our assessment of the risk that the statutory-basis financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud affecting the Company involving:
 - a. Management;
 - b. Employees or third-party's who have significant roles in internal control;
 - c. Others where fraud could have a material effect on the statutory-basis financial statements.
15. There have been no communications from regulatory agencies (including state insurance departments) concerning noncompliance with or deficiencies in financial reporting practices.
16. There have been no material adjustments, including changes in classification, to previously issued statutory-basis financial statements.
17. There are no violations or possible violations of laws or regulations, the effects of which should be considered for disclosure in the statutory-basis financial statements or as a basis for recording a loss contingency.
18. We are aware of no material weaknesses, or significant deficiencies, in the design or operation of internal controls that could adversely affect Citizens' ability to record, process, summarize, and report financial data.

19. We have disclosed to you the identity of the entity's related parties and all related-party relationships and transactions of which we are aware.
20. The Company has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities as of December 31, 2020 and through the date of this letter.
21. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the statutory-basis financial statements.
22. We acknowledge our responsibility for presenting the Supplemental Combining Statutory-Basis Statements of Admitted Assets, Liabilities and Accumulated Surplus by Account, the Supplemental Combining Statutory-Basis Statements of Operations by Account, Summary Investment Schedule, and Supplemental Schedule of Investment Risks Interrogatories (collectively, "Supplementary Information") as of December 31, 2020 and for the year then ended, in conformity with statutory accounting principles, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, and we believe that the Supplementary Information, including its form and content, is fairly presented. The methods of measurement and presentation of the Supplementary Information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the Supplementary Information.
23. 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. Citizens had no unrelated business income during 2020 and therefore no Federal or State income tax was incurred during 2020.

Contingencies

24. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the statutory-basis financial statements or as a basis for recording a loss contingency;
 - b. Unasserted claims or assessments that our attorney (in-house or external) has advised us are probable of assertion and must be disclosed in accordance with SSAP No. 5R, *Liabilities, Contingencies and Impairment of Assets* (SSAP No. 5R).
25. The Company is not aware of any class action lawsuits against the Company, which are likely or probable to result in loss to the Citizens, except as disclosed in the statutory-basis financial statements.
26. The Company has not entered into any buy or sell arrangements which would require it to record a related liability or require disclosure in the statutory-basis financial statements.
27. There were no material commitments for construction or acquisition of property, plant and equipment, or to acquire other noncurrent assets, such as investments or intangibles.
28. We have complied with all aspects of contractual agreements that would have a material effect on the statutory-basis financial statements in the event of noncompliance.

29. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statutory-basis financial statements.

Use of a Specialist

30. We agree with the findings of the independent specialist in evaluating loss and LAE reserves and have adequately considered the qualifications of the independent specialist in determining the amounts and disclosures used in the statutory-basis financial statements and underlying accounting records. We did not give or cause any instructions to be given to the specialist with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence of objectivity of the specialist.

Financial Instruments

31. Citizens has properly recorded investments in debt securities at amortized cost except as disclosed in the statutory-basis financial statements, based on the accounting treatment prescribed by the Office. Investments with original maturity (at the time of purchase) of one year or less are classified as short-term investments.
32. For investments that are impaired, we have evaluated whether the impairment is other-than-temporary. For debt securities that are impaired, we have evaluated whether we intend to sell the security and, if we do not intend to sell, whether it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. We have also evaluated whether we expect to recover the entire amortized cost basis of the debt security, including comparing the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. Other-than-temporary declines in the value of securities have been properly recognized in the statutory-basis financial statements. We have determined that all unrealized losses not recorded as other-than-temporary impairments will be recovered, even if through maturity, by the Company.
33. Investments are appropriately recorded and valued as follows:
- a. Bonds - are recorded and disclosed in accordance with SSAP No. 26, *Bonds, and SSAP No. 43R, Loan-Backed and Structured Securities*, as applicable and interpretations thereof;
 - b. Cash equivalents and Short-term investments - are recorded and disclosed in accordance with SSAP No. 2R, *Revised, Cash, Cash Equivalents, Drafts, and Short-term Investments*, and interpretations thereof.
34. We represent to you the following for Citizens' fair value measurements and disclosures:
- a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action;
 - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied;
 - c. The disclosures related to estimated fair values are complete and adequate, in conformity with statutory accounting principles prescribed or permitted by the Office, and SSAP No. 100R, *Fair Value*;
 - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the statutory-basis financial statements.

35. All investment transactions have credit exposure to the extent that a counterparty may default on an obligation to Citizens. To manage credit risk, Citizens focuses primarily on higher quality, fixed income securities, 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.
36. The methods and significant inputs and assumptions used to determine fair values of financial instruments include the following: valuation of securities based on average bid prices of identical or similar issues with the same life and expected yields. The methods and significant inputs and assumptions used result in a measure of fair value appropriate for statutory-basis financial statement measurement and disclosure purposes.
37. Financial institutions with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the statutory-basis financial statements.

Premiums and Unearned Premiums

38. The inforce files properly reflect all policies and contracts in force for all lines of insurance coverage as of and for the year ended December 31, 2020. We are not aware of any material commitments or concessions to a policyholder that are outside of the terms of the written policy agreements.
39. Unearned premiums are fairly stated at December 31, 2020 and the calculations of such are consistent with those of the preceding year. Business written from all sources, including reinsurance ceded, has been included in premiums in force and unearned. Business expired has been excluded from premiums in force and unearned.
40. We have fully disclosed to you all premium terms, including all rights of return or price adjustments including endorsements and cancellations.
41. As of December 31, 2020, Citizens has other receivables under reinsurance contracts due which represents amounts due under depopulation reinsurance assumption agreements.
42. Citizens determined a premium deficiency reserve is not needed as of December 31, 2020 in accordance with SSAP No. 53- *Property Casualty Contracts-Premiums*. 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.
43. The reserve for unpaid losses and loss adjustment expense (LAE) for Citizens at December 31, 2020 is management's best estimate recorded in accordance with SSAP No. 55, *Unpaid Claims, Losses and Loss Adjustment Expenses* (SSAP No. 55) and makes a reasonable provision for all reported and unreported claims incurred as of December 31, 2020 based upon the consolidation of all information available at the date the statutory-basis financial statements were prepared, including actuarial indications and other factors.
44. The findings of all actuarial studies, which have been completed and accepted by Citizens, have been considered in establishing the required level of loss and LAE reserves.

45. With respect to Citizens' reserve for losses and LAE:
- a. For the year ended December 31, 2020, we have processed claims received by Citizens in a manner and timing consistent with prior years;
 - b. We have considered all information that, in our judgement, is necessary to adequately estimate the loss and LAE reserves at the balance sheet date, including among other things:
 - i. Anticipated and historical claims experience of Citizens;
 - ii. Expected impact of inflation and other economic or social factors on future payments of losses and LAE incurred at the date of the statutory-basis statement of admitted assets, liabilities and accumulated surplus;
 - iii. Lines and geographical locations of the business written by Citizens;
 - iv. Citizens' underwriting and claims policies and procedures;
 - v. The timeliness and reliability of reports from reinsurers;
 - vi. Estimates of claim recoveries, exclusive of reinsurance recoveries;
 - c. Citizens has considered and properly disclosed in the statutory-basis financial statements all the information with respect to losses and LAE reserves and related claim recoveries, which in our judgement, is necessary to adequately identify and understand the nature of reserving the estimates and underlying coverage issues, including the potential volatility, complexity, and uncertainty of such estimate and the possibility that the ultimate liability may vary significantly from the recorded reserve and related recovery amounts.
46. We believe the reserves for possible claims are adequate to cover claim losses, which might result from pending and possible claims.
47. All material reinsurance transactions have been recorded and disclosed in accordance with SSAP No. 62R, *Property and Casualty Reinsurance* (SSAP No 62R).
48. All reinsurance transactions entered into by Citizens are final and there are no side agreements with reinsurers, or other terms in effect, which allow for the modification of terms under existing reinsurance agreements. All contracts have been reviewed during 2020 and those accounted for as reinsurance meet the risk transfer provisions for which Citizens maintains documentation of risk transfer and are recorded in accordance with SSAP No. 62R.
49. We believe that policy slips and other documents obtained from brokers and counterparties with binding signatures represent enforceable insurance and reinsurance contracts. There are no separate written or oral agreements between Citizens and reinsurers that would under any circumstances, reduce, limit, mitigate, or otherwise affect any actual or potential loss to the parties under the reinsurance contract that, if considered, would change Citizens' application of accounting principles or the amounts recorded with respect to the transaction, other than insuring contracts that are explicitly defined in the reinsurance contract.
50. At December 31, 2020, Citizens has reinsurance recoverables on paid and unpaid losses on catastrophe reinsurance coverage related to Hurricane Irma, including amounts on internally allocated loss adjustment expenses. Citizens believes these reinsurance recoverables are fully collectible under the terms of the applicable reinsurance agreements.

Accounting Methods

51. Citizens is responsible for determining and maintaining the adequacy of the allowance for uncollectible premium installment receivables and reinsurance recoverable, as well as estimates used to determine such amounts. In making its determination of the necessary allowance, management considered past experience and all information currently available. Management further considered information with respect to receivable aging and credit ratings of debtors, challenges or potential challenges, including litigation and arbitration proceedings, with respect to reinsurance balances and amounts due from other reinsurers as a result of loss communication, solvency and other actions. Management believed the allowances are adequate to cover uncollectible account balances as of December 31, 2020.
52. Citizens has no plans or intentions to discontinue the operations of any subsidiary or division or to discontinue any significant product lines.
53. We have reviewed long-lived assets to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have determined no adjustments are necessary.

Other

54. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances or similar arrangements have been properly disclosed.
55. Regarding Citizens' Information Systems (IS) function, we have made available to you all information and documentation responsive to your review of the IS function; and we have, to the best of our knowledge and belief, answered all questions and inquiries fully and accurately.
56. None of the Company's third-party service providers, upon which the Company relies, has known problems which would be likely to threaten the reliability of Company's information systems and/or the systems' internal controls, or which could have a material impact on Company's statutory-basis financial statements.
57. In regard to the non-attest services (specifically advising management about appropriate accounting principles and assistance in preparation of audited statutory-based financial statements) performed by you, we have:
 - a. Assumed all management responsibilities;
 - b. Overseen the service by designating an individual within senior management, who possesses suitable skills, knowledge, or experience;
 - c. Evaluated the adequacy and results of the services performed;
 - d. Accepted responsibility for the results of the services;
 - e. Evaluated and maintained internal controls, including monitoring ongoing activities.
58. In accordance with Section 627.351(6) of the Florida Statutes, Citizens is not subject to Risk-Based Capital (RBC) requirements or required to have a pledged deposit on file with the State of Florida.
59. There are no known or expected circumstances, as of the date of this letter that would either threaten the solvency of Citizens under applicable insurance regulations, or require significant capital infusions to Citizens in order to comply with applicable regulations.

60. Citizens has properly disclosed all affiliate transactions in its statutory-basis financial statements.
61. Citizens has no knowledge of any guaranty fund assessments as of December 31, 2020.
62. Citizens is in compliance with all covenants and limitations associated with its outstanding obligations.
63. The statutory-basis financial statements disclose all the matters of which we are aware that are relevant to Citizens' ability to continue as a going concern. We have evaluated whether there are conditions or events, considered in aggregate, that raise substantial doubt about Citizens' ability to continue as a going concern within one year after the date that the statutory-basis financial statements are issued (or within one year after the date that the statutory-basis financial statements are available to be issued when applicable) and determined no such substantial doubt exists.
64. There have been no updates or additional claims which would require disclosure or accrual of a liability under SSAP No. 5R, related to the following internal legal counsel confirmations received since their respective confirmation dates:
 - a. Belinda Miller – Citizens' Interim Legal Counsel – May 11, 2021.
65. Citizens is party to claims and legal actions arising routinely in the ordinary course of business. In the opinion of management, the ultimate disposition of these matter specific to insurance policy claims are included in the methods and assumptions of management's determination of incurred but not reported reserves as of December 31, 2020. The ultimate disposition of these matters is not expected to have a material, adverse effect on the Company's financial position or liquidity.
66. Citizens is named as a defendant in legal actions arising from claims filed under insurance policies it has underwritten and other claims incidental to its normal business activities. In the opinion of management, which is based on the advice of legal counsel, the ultimate outcome of such proceedings is not expected to have a material effect on Citizens' financial position or results of operations.
67. Citizens has issued 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 from the Florida Hurricane Catastrophe Fund (FHCF). The carrying value of the bonds is \$849,690,000 as of December 31, 2020.
68. In accordance with the Florida Office of Insurance Regulation, memorandum OIR-20-04M, Citizens issued a moratorium on cancellations and non-renewals on May 22, 2020. As of December 31, 2020, Citizens appropriately accounted for policies that were cancelled after year-end but would have been cancelled prior to year-end if the moratorium was not in place.
69. Citizens appropriately accounted for the ceded premium adjustment as a result of the final TIV exceeding 10% of projected TIV.

We have evaluated subsequent events through the date of this letter, which is the date the statutory-basis financial statements are available to be issued. No events have occurred subsequent to the statutory-basis statement of admitted assets, liabilities and accumulated surplus date and through the date of this letter except as disclosed in Note 16, Subsequent Events, that would require adjustment to or disclosure in the aforementioned statutory-basis financial statements.

Citizens Property Insurance Company

Barry Gilway

[Barry Gilway \(May 20, 2021 15:21 EDT\)](#)

*Barry Gilway, President, Chief Executive Officer
and Executive Director*

Jennifer Montero

[Jennifer Montero \(May 19, 2021 08:42 EDT\)](#)

Jennifer Montero, Chief Financial Officer

Andrew Woodward

[Andrew Woodward \(May 19, 2021 08:29 EDT\)](#)

Andrew Woodward, Controller

Brian Donovan

[Brian Donovan \(May 19, 2021 09:41 EDT\)](#)

Brian Donovan, Chief Actuary



Appendix B
Management Representation Letter
U.S. GAAP Basis

CITIZENS PROPERTY INSURANCE CORPORATION
2101 MARYLAND CIRCLE
TALLAHASSEE, FLORIDA 32303-1001

TELEPHONE: 850-513-3892 FAX: 850-513-3905



May 19, 2021

Dixon Hughes Goodman LLP
400 N. Ashley Drive
Suite 2540
Tampa, Florida 33602

This representation letter is provided in connection with your audits of the financial statements of Citizens Property Insurance Company (Citizens), an enterprise fund of the State of Florida, which comprise the statements of net position as of December 31, 2020 and 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 4, 2020, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for the preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP established by the Government Accounting Standards Board (GASB), and include all properly classified funds and other financial information of the primary government and all component units required by U.S. GAAP to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.

Carlos Beruff, Chairman, Manatee County • Marc W. Dunbar, Leon County • Lazaro Fields, Leon County
Jillian Hasner, Palm Beach County • Reynolds Henderson, Walton County • Erin Knight, Miami-Dade County
Carlos Lopez-Cantera, Miami-Dade County • Nelson Telemaco, Broward County • M. Scott Thomas, St. Johns County
Barry Gilway, President/CEO and Executive Director

4. The following have been properly accounted for and disclosed in the financial statements, where applicable:
 - a. Related-party relationships and transactions, including sales, purchases, loans, transfers, reinsurance arrangements, and guarantees, and amounts receivable from or payable to related parties;
 - b. Guarantees, whether written or oral, under which Citizens is contingently liable;
 - c. Other liabilities or gain or loss contingencies;
 - d. All liabilities, both actual and contingent;
 - e. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit or similar arrangement;
 - f. All other liens or encumbrances on assets and all other pledges of assets;
 - g. Amounts of contractual obligations for purchase of real property, equipment, other assets, and intangibles;
 - h. Investments in debt securities;
 - i. All leases under long-term leases;
 - j. All significant estimates and material concentrations known to management;
 - k. Assets and liabilities measured at fair value are disclosed.
5. Significant estimates that may be subject to a material change in the near term have been properly disclosed in the financial statements. We understand that "near term" means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make Citizens vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
6. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
7. Significant assumptions we used in making accounting estimates, including estimates of fair value, are reasonable.
8. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
9. There are no uncorrected or corrected misstatements. There are no omitted disclosures material to the financial statements.
10. We are aware of no material weaknesses, including significant deficiencies, in the design or operation of internal controls that could adversely affect Citizens' ability to record, process, summarize, and report financial data.
11. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
12. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

13. Citizens has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net position.
14. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
15. We have not identified any instances that have occurred or are likely to have occurred, of fraud, abuse or noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
16. We have not identified any instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
17. We have not identified any instances that have occurred or are likely to have occurred, or abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
18. Citizens has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, beyond those assets pledged in trust for Senior Secured Bonds as disclosed in footnote 7, Long-Term Debt, of the financial statements.
19. The financial statements properly classify all funds and activities in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB Statement No. 34).
20. All funds that meet the quantitative criteria in GASB Statement No. 34 and 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus - an Amendment of GASB Statement No. 34*, for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
21. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
22. Provisions for uncollectible receivables have been properly identified and recorded.
23. Expenses have been appropriately classified in or allocated to functions and programs in the statements of revenues, expenses and changes in net position, and allocations have been made on a reasonable basis.
24. Deposits and investment securities are properly classified as to risk and are properly disclosed.
25. Capital assets, including infrastructure, are properly capitalized, reported, and, if applicable, depreciated.

26. We have appropriately disclosed Citizens' policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
27. With respect to the Supplemental Combining Statements of Net Position, Supplemental Combining Statements of Revenues, Expenses and Changes in Net Position, and Supplemental Revenues, Expenses and Claim Development Information, (collectively Supplemental Information):
 - a. We acknowledge our responsibility for presenting the Supplemental Information in accordance with U.S. GAAP, and we believe the Supplemental Information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the Supplemental Information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the Supplemental Information;
 - b. We acknowledge our responsibility for the Required Supplementary Information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Information Provided

28. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters, if any, received from funding sources;
 - b. Additional information that you have requested from us for the purpose of the audit;
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence;
 - d. Minutes of the meetings of the Board of Governors, and committees thereof, or summaries of actions of recent meetings for which minutes have not yet been prepared for meetings held in 2020 and 2021 and through the date of this letter.
29. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
30. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
31. We have no knowledge of any fraud or suspected fraud affecting Citizens involving:
 - a. Management;
 - b. Employees who have significant roles in internal control;
 - c. Others when the fraud could have a material effect on the financial statements.
32. We have no knowledge of any allegations of fraud or suspected fraud affecting Citizens' financial statements received in communications from employees, former employees, analysts, regulators, or others.

33. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
34. We have disclosed to you the identity of Citizens' related parties and all the related party relationships and transactions of which we are aware.
35. 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. Citizens had no unrelated business income during 2020 and therefore no Federal or State income tax was incurred during 2020.

Contingencies

36. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency;
 - b. Unasserted claims or assessments that our attorney (in-house or external) has advised us are probable of assertion beyond those disclosed in the notes to the financial statements.
37. Management is not aware of any class action lawsuits against Citizens which are likely or probable to result in loss to Citizens, except for those disclosed in the financial statements.
38. Citizens has not entered into any buy or sell arrangements which would require it to record a related liability or require disclosure in the financial statements.
39. There were no material commitments for construction or acquisition of property, plant and equipment, or to acquire other noncurrent assets, such as investments or intangibles.
40. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
41. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known and actual or possible litigation and claims have been accounted for and disclosed in the financial statements.

Premiums and Unearned Premiums

42. The in-force files properly reflect all policies and contracts in force for all lines of insurance coverage as of and for the year ended December 31, 2020. We are not aware of any material commitments or concessions to a policyholder that are outside of the terms of the written policy agreements.
43. Unearned premiums are fairly stated at December 31, 2020 and the calculations of such are consistent with those of the preceding year. Business written from all sources, including reinsurance ceded, has been included in premiums in force and unearned. Business expired has been excluded from premiums in force and unearned.
44. We have fully disclosed to you all premium terms, including all rights of return or price adjustments including endorsements and cancellations.

45. As of December 31, 2020, Citizens has other receivables under reinsurance contracts due which represents amounts due under depopulation reinsurance assumption agreements.
46. Citizens determined a premium deficiency reserve is not needed as of December 31, 2020. 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 individual accounts required pursuant to Section 627.351 (c) of the Florida Statutes.

Reserve for Loss and Loss Adjustment Expenses

47. Citizens' reserve for unpaid losses and loss adjustment expenses (LAE) at December 31, 2020 is management's best estimate and makes a reasonable provision for all reported and unreported claims incurred as of December 31, 2020 based upon the consolidation of all information available at the date those financial statements were prepared, including actuarial indications and other factors.
48. The findings of all actuarial studies, which have been completed and accepted by Citizens, have been considered in establishing the required level of loss and LAE reserves.
49. With respect to Citizens' reserve for losses and LAE:
 - a. For the year ended December 31, 2020, we have processed claims received by Citizens in a manner and timing consistent with prior years;
 - b. We have considered all information that, in our judgment, is necessary to adequately estimate the loss and loss adjustment expense reserves at the balance sheet date, including among other things:
 - i. Anticipated and historical claims experience of Citizens;
 - ii. Expected impact of inflation and other economic or social factors on future payments of losses incurred at the statement of net position date;
 - iii. Lines and geographical locations of the business written by Citizens;
 - iv. Citizens' underwriting and claims policies and procedures;
 - v. The timeliness and reliability of reports from reinsurers;
 - vi. Estimates of claim recoveries, exclusive of reinsurance recoveries;
 - c. Citizens has considered and properly disclosed in the financial statements all the information with respect to losses and loss adjustment expense reserves and related claim recoveries, which in our judgment, is necessary to adequately identify and understand the nature of reserving estimates and underlying coverage issues, including the potential volatility, complexity, and uncertainty of such estimates and the possibility that the ultimate liability may vary significantly from the recorded reserve and related recovery amounts.
50. We agree with the findings of the specialists in evaluating the loss and loss adjustment expense reserves and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence of objectivity of the specialists.

51. We believe the reserves for possible claims are adequate to cover claim losses, which might result from pending and possible claims.
52. All material reinsurance transactions have been recorded and disclosed.
53. All reinsurance transactions entered into by Citizens are final and there are no side agreements with reinsurers, or other terms in effect, which allow for the modification of terms under existing reinsurance arrangements. All contracts have been reviewed during 2020 and those accounted for as reinsurance meet the risk transfer provisions for which Citizens maintains documentation of risk transfer.
54. We believe that policy slips and other documents obtained from broker and counterparties with binding signatures represent enforceable insurance and reinsurance contracts. There are no separate written or oral agreements between Citizens and reinsurers that would under any circumstances, reduce, limit, mitigate, or otherwise affect any actual or potential loss to the parties under the reinsurance contract that, if considered, would change Citizens' application of accounting principles or the amounts recorded with respect to the transaction, other than insuring contracts that are explicitly defined in the reinsurance contract.
55. At December 31, 2020, Citizens has reinsurance recoverables on paid and unpaid losses on catastrophe reinsurance coverage related to Hurricane Irma, including amounts on internally allocated loss adjustment expenses. Citizens believes these reinsurance recoverables are fully collectible under the terms of the applicable reinsurance agreements.

Accounting Methods

56. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the statement of net position and appropriate provisions have been made for losses that may be sustained on uncollectible receivables.
57. Citizens is responsible for determining and maintaining the adequacy of the allowance for uncollectible premium installment receivables and reinsurance recoverable, as well as estimates used to determine such amounts. In making its determination of the necessary allowance, management considered past experience and all information currently available. Management further considered information with respect to receivable aging and credit ratings of debtors, challenges or potential challenges, including litigation and arbitration proceedings, with respect to reinsurance balances and amounts due from other reinsurers as a result of loss communications, solvency and other actions. Management believes the allowances are adequate to cover uncollectible account balances as of December 31, 2020.
58. Citizens has no plans or intentions to discontinue the operations of any subsidiary or division or to discontinue any significant product lines.
59. We have reviewed long-lived assets to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have determined no adjustments are necessary.

Financial Instruments

60. Citizens has properly recorded investments in debt securities at their fair value.
61. For investments that are impaired, we have evaluated whether the impairment is other than temporary. For debt securities that are impaired, we have evaluated whether we intend to sell the security and, if we do not intend to sell, whether it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis, even if not until maturity. We have also evaluated whether we expect to recover the entire amortized cost basis of the debt security, including comparing the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. Other than temporary declines in the value of securities have been properly recognized in the statutory basis financial statements. We have determined that all material unrealized losses (when considered in the aggregate) not recorded as other-than-temporary impairments will be recovered, even if through maturity, by Citizens, and that from time to time, realized losses may be taken when overall portfolio returns are evaluated as part of the management strategy of our investment portfolio. 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 substantially all of 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, 2020.
62. We represent to you the following for Citizens' fair value measurements and disclosures:
 - a. The underlying assumptions are reasonable, and they appropriately reflect management's intent and ability to carry out its stated courses of action;
 - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied;
 - c. The disclosures related to estimated fair values are complete and adequate;
 - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in financial statements.
63. All investment transactions have credit exposure to the extent that a counterparty may default on an obligation to Citizens. To manage credit risk, Citizens focuses primarily on higher quality, fixed income securities, 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.
64. The methods and significant inputs and assumptions used to determine fair values of financial instruments include the following: valuation of securities based on average bid prices of identical or similar issues with the same life and expected yields. The methods and significant inputs and assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
65. Financial institutions with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.

Other

66. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances or similar arrangements have been properly disclosed.
67. Citizens has made available all communications from regulators. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
68. Regarding Citizens' Information Systems (IS) function, we have made available to you all information and documentation responsive to your review of the IS function; and we have, to the best of our knowledge and belief, answered all questions and inquiries fully and accurately.
69. None of Citizens' third-party service providers, upon which Citizens relies, has known problems which would be likely to threaten the reliability of Citizens' information systems and/or the systems' internal controls, or which could have a material impact on Citizens' financial statements.
70. There are no known or expected circumstances, as of the date of this letter that would either threaten the solvency of Citizens under applicable insurance regulations, or require significant capital infusions to Citizens in order to comply with applicable regulations applicable to their individual domiciliary states or countries.
71. Citizens has properly disclosed all affiliate transactions in its financial statements.
72. Citizens has no knowledge of any guaranty fund assessments as of December 31, 2020.
73. Citizens is in compliance with all covenants and limitations associated with its outstanding obligations.
74. The financial statements disclose all of the matters of which we are aware that are relevant to Citizens' ability to continue as a going concern. We have evaluated whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Citizens' ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable) and determined no such substantial doubt exists.
75. In regard to the non-attest services (specifically advising management about appropriate accounting principles and assistance in preparation of audited financial statements) performed by you, we have:
 - a. Assumed all management responsibilities;
 - b. Overseen the service, by designating an individual, within senior management, who possess suitable skill, knowledge, or experience;
 - c. Evaluated the adequacy and results of the services performed;
 - d. Accepted responsibility for the results of the services;
 - e. Evaluated and maintained internal controls, including monitoring ongoing activities.
76. There have been no updates or additional claims which would require disclosure or accrual of a liability related to the following internal legal counsel confirmations received since their respective confirmation dates:
 - a. Belinda Miller – Citizens' Interim Legal Counsel – May 11, 2021.

77. Citizens is party to claims and legal actions arising routinely in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters specific to insurance policy claims are included in the methods and assumptions of management's determination of incurred but not reported reserves as of December 31, 2020. The results of outstanding legal cases on insurance claims as summarized in Mr. Sumner's legal response letter referenced above are included in the methods and assumptions of management's determination of incurred but not reported reserves as of December 31, 2020. The ultimate disposition of these matters are not expected to have a material, adverse effect on Citizens' financial position or liquidity.
78. Citizens is named as a defendant in legal actions arising from claims filed under insurance policies it has underwritten and other claims incidental to its normal business activities. In the opinion of management, which is based on the advice of legal counsel, the ultimate outcome of such proceedings is not expected to have a material effect on Citizens' financial position or results of operations.
79. Citizens has issued 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 from the Florida Hurricane Catastrophe Fund (FHCF). The carrying value of the bonds is \$849,690,000 as of December 31, 2020.
80. In accordance with the Florida Office of Insurance Regulation, memorandum OIR-20-04M, Citizens issued a moratorium on cancellations and non-renewals on May 22, 2020. As of December 31, 2020, Citizens appropriately accounted for policies that were cancelled after year-end but would have been cancelled prior to year-end if the moratorium was not in place.
81. Citizens appropriately accounted for the ceded premium adjustment as a result of the final TIV exceeding 10% of projected TIV.

We have evaluated subsequent events through the date of this letter, which is the date the financial statements are available to be issued. No events have occurred subsequent to the statement of admitted assets, liabilities and accumulated surplus date and through the date of this letter except as disclosed in Note 16, Subsequent Events, that would require adjustment to or disclosure in the aforementioned statutory-basis financial statements.

Citizens Property Insurance Company

Barry Gilway

[Barry Gilway \(May 20, 2021 15:21 EDT\)](#)

*Barry Gilway, President, Chief Executive Officer
and Executive Director*

Jennifer Montero

[Jennifer Montero \(May 19, 2021 08:42 EDT\)](#)

Jennifer Montero, Chief Financial Officer

Andrew Woodward

[Andrew Woodward \(May 19, 2021 08:29 EDT\)](#)

Andrew Woodward, Controller

Brian Donovan

[Brian Donovan \(May 19, 2021 09:41 EDT\)](#)

Brian Donovan, Chief Actuary



Appendix C

Qualification Letter

May 19, 2021

Audit Committee
Citizens Property Insurance Corporation
Tallahassee, FL

We have audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the statutory-basis financial statements of Citizens Property Insurance Corporation (Citizens) as of and for the years ended December 31, 2020 and 2019, and have issued our report thereon dated May 19, 2021. In connection therewith, we advise you as follows:

- a. We are independent certified public accountants with respect to Citizens and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants and the Rules of Professional Conduct of the Florida Department of Business Regulation, Division of Certified Public Accounting.
- b. The engagement partner and manager, who are certified public accountants, have over 14 years and 5 years, respectively, of experience in public accounting and are experienced in auditing insurance entities. Members of the engagement team, most of whom have had experience in auditing insurance entities and 43% of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.
- c. We understand that Citizens intends to file its audited statutory-basis financial statements and our report thereon with the Florida Department of Financial Services, Office of Insurance Regulation (the Office) and that the Insurance Commissioner of the State of Florida (Insurance Commissioner) will be relying on that information in monitoring and regulating the statutory financial condition of Citizens.

Although we understand that an objective of issuing a report on the statutory-basis financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, Citizens and the Insurance Commissioner should understand that the objective of an audit of statutory-basis financial statements in accordance with GAAS is to form an opinion and issue a report on whether the statutory-basis financial statements present fairly, in all material respects, the admitted assets, liabilities and accumulated surplus as well as the results of operations and cash flows in conformity with accounting practices prescribed or permitted by the Office.

Consequently, under GAAS, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the statutory-basis financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on statutory-basis financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material misstatements caused by error or fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would be assessed differently by the Insurance Commissioner.

It is the responsibility of management of Citizens to adopt sound accounting policies, to maintain an adequate and effective system of accounts and to establish and maintain an internal control that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the Office.

The Insurance Commissioner should exercise due diligence to obtain whatever other information may be necessary for the purpose of monitoring and regulating the statutory financial position of insurers and should not rely solely upon the independent auditor's report.

- d. We will retain audit working papers (including those kept in a hard copy or electronic medium) prepared in compliance with professional standards, for seven years from the date that we grant permission to use our report in connection with the issuance of Citizens' statutory-basis financial statements (report release date). After notification to Citizens, we will make the working papers available for review by the Office, or its delegates, at the offices of the insurer, at our offices, at the office of the Insurance Commissioner, or at any other reasonable place designated by the Insurance Commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Office, photocopies of pertinent audit working papers may be made under the control of Dixon Hughes Goodman LLP and such copies may be retained by the Office. In addition, to the extent requested, we may provide the Office with copies of certain of our audit working papers (such as unlocked electronic copies of Excel spreadsheets that do not contain password protection or encryption). As such, these audit working papers will be subject to potential modification by the Office or by others. We are not responsible for any modifications made to the copies, electronic or otherwise, after they are provided to the Office and we are likewise not responsible for any effect that any such modifications, whether intentional or not, might have on the process, substance or outcome of regulatory examination.

Audit Committee
Citizens Property Insurance Corporation
May 19, 2021
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- e. The engagement partner has served in that capacity with respect to Citizens since 2020, is licensed by the Florida Board of Accountancy and is a member in good standing of the American Institute of Certified Public Accountants.
- f. To the best of our knowledge and belief, we are in compliance with the requirements of section 7 of the NAIC *Annual Financial Reporting Model Regulation Model Rule (Regulation) Requiring Annual Audited Financial Reports* regarding qualifications of independent certified public accountants.

The letter is intended solely for the information and use of the Audit Committee, Board of Governors, and management of Citizens, and the Office, and is not intended to be, and should not be used for anyone other than these specified parties.

Dixon Hughes Goodman LLP

Tampa, FL



Citizens Property Insurance Corporation

Statutory-Basis Financial Statements and Supplementary Information

Years Ended December 31, 2020 and 2019



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Independent Auditors' Report

Audit Committee
Citizens Property Insurance Corporation
Tallahassee, FL

We have audited the accompanying statutory-basis financial statements of Citizens Property Insurance Corporation (Citizens), which comprise the statutory-basis statements of admitted assets, liabilities and accumulated surplus as of December 31, 2020 and 2019, and the related statutory-basis statements of operations, changes in accumulated surplus, and cash flows for the years then ended, and the related notes to the statutory-basis financial statements.

Management's Responsibility for the Statutory-Basis Financial Statements

Management is responsible for the preparation and fair presentation of these statutory-basis financial statements in accordance with the statutory accounting practices prescribed or permitted by the Florida Department of Financial Services, Office of Insurance Regulation (the Office); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory-basis 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 statutory-basis financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory-basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory-basis financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory-basis 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 statutory-basis 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 statutory-basis financial statements.

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



Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in Note 2 to the statutory-basis financial statements, the statutory-basis financial statements are prepared by Citizens in accordance with the statutory accounting principles prescribed or permitted by the Office, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Office. The effects on the statutory-basis financial statements of the variances between the statutory-basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America are described in Note 14.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America” paragraph, the statutory-basis financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Citizens as of December 31, 2020 and 2019 or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory-Basis of Accounting

In our opinion, the statutory-basis financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities and accumulated surplus of Citizens as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in accordance with statutory accounting principles prescribed or permitted by the Office.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the basic statutory-basis financial statements taken as a whole. The Supplemental Combining Statutory-Basis Statements of Admitted Assets, Liabilities and Accumulated Surplus by Account, Supplemental Combining Statutory-Basis Statements of Operations by Account, Summary Investment Schedule, and the Supplemental Investment Risks Interrogatories (collectively, “Supplementary Information”) on pages 31 through 38 as of and for the year ended December 31, 2020, are presented for purposes of additional analysis and are not required as part of the basic statutory-basis financial statements. This additional information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic statutory-basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic statutory-basis 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 statutory-basis financial statements or to the basic statutory-basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the significance of the matter described in the “Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America” paragraph, it is inappropriate to and we do not express an opinion on the Supplementary Information in accordance with accounting principles generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic statutory-basis financial statements as a whole, in accordance with statutory accounting principles prescribed or permitted by the Office.

Dixon Hughes Goodman LLP

Tampa, FL
May 19, 2021

Citizens Property Insurance Corporation
Statutory-Basis Statements of Admitted Assets, Liabilities and Accumulated Surplus
December 31, 2020 and 2019
(Dollars in thousands)

	<u>2020</u>	<u>2019</u>
ADMITTED ASSETS		
Cash and invested assets:		
Bonds	\$ 8,096,132	\$ 8,113,871
Cash, cash equivalents, and short-term investments	<u>649,619</u>	<u>741,767</u>
Total cash and invested assets	8,745,751	8,855,638
Investment income due and accrued, net	56,344	61,455
Premiums receivable, net	102,811	69,096
Reinsurance recoverable on paid losses and loss adjustment expenses	70,460	97,759
Other receivables under reinsurance contracts, net	317	2,318
Other assets	<u>615</u>	<u>24,205</u>
Total admitted assets	<u>\$ 8,976,298</u>	<u>\$ 9,110,471</u>
LIABILITIES AND ACCUMULATED SURPLUS		
Liabilities:		
Loss reserves, net	\$ 442,657	\$ 393,658
Loss adjustment expense reserves, net	325,586	307,917
Retroactive reinsurance ceded	(1,178)	(1,190)
Unearned premiums, net	627,953	446,486
Reserve for future assessments	140,790	140,806
Reinsurance payable	44,041	43,564
Provision for reinsurance	20	75
Bonds payable	849,690	1,350,003
Interest payable	3,407	5,411
Advance premiums and suspended cash	20,434	18,433
Return premiums payable	4,557	4,486
Taxes and fees payable	681	114
Other liabilities	<u>75,854</u>	<u>82,775</u>
Total liabilities	<u>2,534,492</u>	<u>2,792,538</u>
Accumulated surplus:		
Restricted	-	8,534
Unrestricted	<u>6,441,806</u>	<u>6,309,399</u>
Total accumulated surplus	<u>6,441,806</u>	<u>6,317,933</u>
Total liabilities and accumulated surplus	<u>\$ 8,976,298</u>	<u>\$ 9,110,471</u>

See accompanying notes to the statutory-basis financial statements.

Citizens Property Insurance Corporation
Statutory-Basis Statements of Operations
Years Ended December 31, 2020 and 2019
(Dollars in thousands)

	<u>2020</u>	<u>2019</u>
Underwriting income:		
Net premiums earned	<u>\$ 761,577</u>	<u>\$ 616,075</u>
Underwriting expenses:		
Net losses incurred	371,457	331,849
Net loss adjustment expenses incurred	248,603	168,112
Other underwriting expenses incurred	<u>239,844</u>	<u>213,173</u>
Total underwriting expenses	<u>859,904</u>	<u>713,134</u>
Net underwriting loss	<u>(98,327)</u>	<u>(97,059)</u>
Investment income:		
Net interest income	198,686	225,622
Net realized capital gains	63,836	6,825
Net interest expense	<u>(34,193)</u>	<u>(51,621)</u>
Total net investment income	<u>228,329</u>	<u>180,826</u>
Other (expense) income:	<u>(1,035)</u>	<u>2,562</u>
Net income	<u><u>\$ 128,967</u></u>	<u><u>\$ 86,329</u></u>

Citizens Property Insurance Corporation
Statutory-Basis Statements of Changes in Accumulated Surplus
Years Ended December 31, 2020 and 2019
(Dollars in thousands)

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total Accumulated Surplus</u>
Balance at December 31, 2018	\$ 8,381	\$ 6,222,348	\$ 6,230,729
Net income	-	86,329	86,329
Change in nonadmitted assets	-	(311)	(311)
Net assessments advanced from FLSO	153	-	153
Change in provision for reinsurance	-	1,098	1,098
Other	-	(65)	(65)
Balance at December 31, 2019	8,534	6,309,399	6,317,933
Net income	-	128,967	128,967
Change in nonadmitted assets	-	(4,894)	(4,894)
Release of restricted assets	(8,534)	8,534	-
Change in provision for reinsurance	-	55	55
Other	-	(255)	(255)
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 6,441,806</u>	<u>\$ 6,441,806</u>

Citizens Property Insurance Corporation
Statutory-Basis Statements of Cash Flows
Years Ended December 31, 2020 and 2019
(Dollars in thousands)

	<u>2020</u>	<u>2019</u>
Operating activities:		
Premiums collected, net of reinsurance	\$ 905,701	\$ 631,648
Loss and loss adjustment expenses paid	(532,614)	(631,613)
Underwriting expenses paid	(233,478)	(212,953)
Net investment income received	183,557	196,807
Other income received (paid)	(1,117)	2,561
Net cash provided by (used) in operating activities	<u>322,049</u>	<u>(13,550)</u>
Investing activities:		
Proceeds from investments sold, matured or repaid	3,085,262	2,828,342
Investments acquired	<u>(3,014,259)</u>	<u>(2,500,326)</u>
Net cash provided by investing activities	<u>71,003</u>	<u>328,016</u>
Financing and miscellaneous activities:		
Borrowed funds repaid	(485,000)	(335,000)
Other cash (paid) received	<u>(200)</u>	<u>3,941</u>
Net cash used in financing and miscellaneous activities	<u>(485,200)</u>	<u>(331,059)</u>
Net decrease in cash, cash equivalents, and short-term investments	(92,148)	(16,593)
Cash, cash equivalents, and short-term investments:		
Beginning of year	<u>741,767</u>	<u>758,360</u>
End of year	<u>\$ 649,619</u>	<u>\$ 741,767</u>

Notes to Statutory Basis 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 (FRPCJUA) and the Florida Windstorm Underwriting Association (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 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.

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 (HRA) under Citizens. In 2007, Citizens received authority to issue multi-peril policies in the HRA. Pursuant to legislative changes during 2011, the HRA was renamed the Coastal Account.

To provide relief to policyholders affected by COVID-19, a moratorium on cancellation or non-renewals of insurance policies was established and effected in March 2020. Citizens continued its normal billing for premium but did not send cancellation and non-renewal notices, resulting in continued coverage for policyholders who could not pay on time. Effective February 1, 2021, this moratorium was lifted and payment exceptions were curtailed, resulting in the cancellation of policies due to non-payment of premium. At December 31, 2020, premiums receivable were reduced by \$28,178 for policies with a balance due at December 31, 2020 that subsequently cancelled on or after February 16, 2021 due to non-payment of premium, of which \$21,725, \$5,063 and \$1,390 were charged against direct written premium, to bad debt expense and nonadmitted for balances greater than 90 days passed due, respectively.

2. Basis of Presentation

Citizens prepares its statutory-basis financial statements in conformity with Florida statutes and accounting rules prescribed by the Office for insurance companies domiciled in the State of Florida. The statutory-basis financial statements have been prepared in conformity with the Statutory Accounting Principles (SAP) of the National Association of Insurance Commissioners' (the NAIC) Accounting Practices and Procedures Manual, subject to any deviations prescribed or permitted by the Office, as described below.

Citizens Property Insurance Corporation
Notes to Statutory-Basis Financial Statements
(Dollars in thousands)

SAP is a comprehensive basis of accounting other than accounting principles general accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). The significant SAP which differ from GAAP are as follows:

Certain assets are defined under SAP as “nonadmitted.” These include furniture and equipment, leasehold improvements, certain prepaid assets, certain computer software, investments over prescribed limits and receivables in the course of collection with balances more than 90 days past due. The net change in such nonadmitted assets during the year is charged or credited directly to accumulated surplus. Conversely, GAAP includes these as assets net of any applicable valuation allowance.

Investments in bonds are reported at amortized cost or fair value based on their NAIC rating; for GAAP, these investments would be reported at fair value with unrealized holding gains and losses reported in the statement of operations.

All single class and multi-class mortgage-backed/asset-backed securities, such as collateralized mortgage obligations (CMOs), when it is determined that a decline in fair value is other-than-temporary, the amortized cost basis is written down to the present value of future cash flows. The difference between the amortized cost basis and the present value of future cash flows is recognized as a realized loss in the statutory-basis statements of operations. For GAAP, all securities held representing beneficial interests in securitized assets, such as CMOs, mortgage-backed securities and other asset-backed securities, excluding high credit quality securities, are written down to fair value if the decline is determined to be other-than-temporary.

Cash, cash equivalents, and short-term investments in the statutory-basis statements of admitted assets, liabilities and accumulated surplus and cash flows represent cash balances and investments with original maturities of one year or less at the date of acquisition. Under GAAP, the corresponding caption of cash and cash equivalents would include cash balances and investments with original maturities of three months or less at the date of acquisition. Also under GAAP, short-term investments are disclosed separately from cash and cash equivalents. The statutory-basis statements of cash flows does not classify cash flows consistent with GAAP.

Certain other reported amounts in the statutory-basis financial statements prepared on the basis of SAP are classified or presented differently than they would be under GAAP. Statutory requirements include that the statutory-basis financial statements of Citizens be filed with state regulatory authorities. Accordingly, the statutory-basis financial statements are presented in a format similar to the filed annual statement, which differs from the format of financial statements presented under GAAP. Required statutory disclosures that are not applicable to Citizens are not included in the notes to statutory-basis financial statements.

Citizens Property Insurance Corporation
Notes to Statutory-Basis Financial Statements
(Dollars in thousands)

Differences between Florida prescribed practices and SAP which affect Citizens are provided in Section 625.305, Florida Statutes. This statute provides limitations on the admission of invested assets as a percentage of total admitted assets, for securities with ratings of 5 and 6 as issued by the Securities Valuation Office (SVO) or equivalent rating agency, among other limitations not applicable to Citizens. Measurement for nonadmitted invested assets under this prescribed practice is performed separately for each of Citizens' Accounts. The effect of the prescribed practice on accumulated surplus is provided below. There is no effect on net income as a result of the prescribed practice.

Description	<u>State</u>	<u>2020</u>	<u>2019</u>
Accumulated surplus, state basis	FL	\$ 6,441,806	\$ 6,317,933
Effect of state prescribed practices			
F.S. 625.305(4) d. Nonadmitted Invested Assets	FL	-	-
Accumulated surplus, SAP basis		<u>\$ 6,441,806</u>	<u>\$ 6,317,933</u>

Citizens has no permitted practices for the year ended December 31, 2020.

3. Significant Accounting Policies

Use of Estimates

The preparation of the statutory-basis financial statements in accordance with SAP 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 statutory-basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Bonds

Bonds, which consist solely of debt securities, are recorded at admitted asset values, as prescribed by the NAIC's valuation procedures and are rated in accordance with current NAIC guidelines.

Bonds designated by the SVO or equivalent as 1 or 2 are reported at amortized cost. Bonds designated as 3 through 6 are reported at the lower of amortized cost or fair value. Debt securities not backed by other loans are stated at amortized cost using the interest method. Loan-backed debt securities and structured securities are stated at amortized cost using the interest method and adjusted retrospectively. Prepayment assumptions were obtained from broker dealer values. Fair values are generally measured using quoted prices in active markets for identical securities or other inputs that are observable either directly or indirectly, such as quoted prices for similar securities.

Citizens Property Insurance Corporation
Notes to Statutory-Basis Financial Statements
(Dollars in thousands)

Declines in the estimated fair value of bonds below amortized cost are evaluated for other-than-temporary impairment (OTTI) losses on a regular basis. Impairment losses for declines in the estimated fair value of bonds below amortized cost attributable to issuer-specific events are evaluated based upon all relevant facts and circumstances for each investment and are recognized when appropriate in accordance with SAP and related guidance. In determining OTTI, Citizens considers many factors, including (1) the length of time and extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; (3) whether the market decline was affected by macroeconomic conditions; (4) the present value of the expected future cash flows associated with the debt security compared to its carrying value; and (5) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery, which may be maturity. The assessment of whether an OTTI decline exists involves a high degree of subjectivity and judgment, and is based on the information available at a point in time. Citizens records an impairment charge to the extent that the amortized cost exceeds the estimated fair value of the securities and the decline in value is determined to be other than temporary. Citizens recognizes OTTI losses on its loan-backed and structured securities measured as the difference between amortized cost and estimated present value of projected future cash flows. OTTI charges are recognized in net realized capital gains (losses).

Cash, Cash Equivalents, and Short-term Investments

Cash and cash equivalents consists of money market mutual funds and highly liquid investments with remaining maturities of three months or less at the date of purchase. Short-term investments are investments with remaining maturities of one year or less at the date of purchase (excluding those investments classified as cash) and are generally recorded at cost.

Short-term investments include amounts invested in commercial paper, short-term municipal securities, short-term corporate bonds and U.S. government agency short-term notes.

Net Investment Income

Net investment income includes interest income, amortization and accretion, realized gains and losses on sales or maturity of investments that are recognized on the specific identification basis, and interest expense. Gains and losses from call redemptions and repayments are charged or credited to investment income. Net investment income also includes bond interest, bond expenses and investment expenses. Interest is recognized on the accrual basis and uncollected interest is recorded in investment income due and accrued in the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus. Accrual of income is suspended for bonds that are in default or when the receipt of interest payments is in doubt.

Furniture, Fixtures and Equipment

Furniture, fixtures and equipment 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

The cost and accumulated depreciation for EDP equipment was \$33,771 and \$33,195 at December 31, 2020, and \$33,671 and \$32,153 at December 31, 2019, respectively.

Citizens Property Insurance Corporation
Notes to Statutory-Basis Financial Statements
(Dollars in thousands)

Depreciation and amortization expense was \$2,130 and \$2,792 for the years ended December 31, 2020 and 2019, respectively, and is included in other underwriting expenses incurred on the accompanying statutory-basis statements of operations. Nonadmitted balances for fixed assets, excluding EDP equipment, at December 31, 2020 and 2019 were \$1,411 and \$2,336, respectively. Net admitted EDP equipment of \$576 and \$1,518 at December 31, 2020 and 2019, is included in other admitted assets on the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus.

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 and LAE. 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 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 method 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. Premiums collected in excess of amounts due are reported as return premiums payable. 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, LAE, commissions and other acquisition costs exceed 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 policies are marketed, serviced, and measured for the profitability of such contracts. Additionally, premium deficiency calculations are performed for each Account separately. At December 31, 2020 and 2019, 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. Citizens nonadmits assets due from insureds for which a portion of the receivable is more than 90 days past due. Premiums receivable are charged to bad debt expense in the period determined uncollectible.

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Recoveries received on amounts previously charged off are credited to bad debt expense in the period received. As of December 31, 2020 and 2019, nonadmitted premiums receivable totaled \$7,225 and \$1,203 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. Associated policy fees and inspection fees are included within other income.

Underwriting Expenses

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to operations as incurred.

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 records a receivable and recognizes revenue for the amount of policy surcharges that are expected to be received to recoup any assessment levied by FIGA. Collections in excess of the original assessment are reported as assessments payable on the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus until remitted to FIGA. Uncollected balances associated with FIGA assessments are reported as assessments receivable on the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus.

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 15). 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 statutory-basis statements of admitted assets, liabilities and accumulated surplus 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 are recorded as receivables. All catastrophe reinsurance premiums are recorded as premiums ceded and are amortized over the life of the Atlantic hurricane season, from June 1 to November 30, for which the premiums apply. Premiums ceded include Florida Hurricane Catastrophe Fund (FHCF), private catastrophe reinsurance purchases and depopulation premiums.

Other receivables under reinsurance contracts represent amounts receivable from reinsurers on depopulation premiums. Reinsurance premiums payable represents amounts due to the FHCF, private reinsurers, and as a result of depopulation, which is 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.

Retroactive reinsurance ceded on the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus represents ceded losses and loss adjustment expenses associated with a 100% quota-share reinsurance agreement that qualified for retroactive treatment in accordance with SSAP No. 62R, *Property and Casualty Reinsurance* (SSAP No. 62R). All policies ceded under the agreement were fully earned as of December 31, 2020 and 2019. Changes in retroactive reinsurance reserves are recognized on the accompanying statutory-basis statements of operations within other income.

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In accordance with SSAP No. 62R, a provision for reinsurance is established to offset credit taken in various balance sheet accounts for reinsurance ceded to unauthorized reinsurers in excess of collateral held by the Company.

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 during 2020 or 2019.

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' 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, investing surplus cash in highly rated money market funds, 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 has the contractual right to obtain letters of credit from any unauthorized reinsurer and certified reinsurer. As of December 31, 2020, 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.

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Components of Unrestricted Surplus

Unrestricted surplus for the years ended December 31 was charged with the following items:

	<u>2020</u>	<u>2019</u>
Nonadmitted assets:		
Premiums receivable	\$ (7,226)	\$ (1,203)
Furniture, fixtures and equipment	(1,411)	(2,336)
Prepaid expenses	(7,594)	(7,804)
Other assets	<u>(629)</u>	<u>(623)</u>
Total nonadmitted assets	<u>\$ (16,860)</u>	<u>\$ (11,966)</u>
Provision for reinsurance	<u>\$ 20</u>	<u>\$ 75</u>
Other	<u>\$ (376)</u>	<u>\$ (121)</u>

4. 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 under SSAP No. 100R, *Fair Value*. 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 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.

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The following tables reflect the carrying values and estimated fair values of all admitted assets and liabilities that are financial instruments at December 31, 2020 and 2019. The estimated fair values are categorized into the three-level fair value hierarchy as described below.

	2020				
	<u>Carrying Value</u>	<u>Estimated Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:					
Bonds	\$ 8,096,132	\$ 8,627,970	\$ 1,516,587	\$ 7,111,383	\$ -
Cash, cash equivalents, and short-term investments	649,619	649,640	599,802	49,838	-
Investment income due and accrued, net	<u>56,344</u>	<u>56,344</u>	-	<u>56,344</u>	-
Total financial assets	<u>\$ 8,802,095</u>	<u>\$ 9,333,954</u>	<u>\$ 2,116,389</u>	<u>\$ 7,217,565</u>	<u>\$ -</u>
Financial liabilities:					
Bonds payable	\$ 849,690	\$ 891,629	\$ -	\$ 891,629	\$ -
Interest payable	<u>3,407</u>	<u>3,407</u>	-	<u>3,407</u>	-
Total financial liabilities	<u>\$ 853,097</u>	<u>\$ 895,036</u>	<u>\$ -</u>	<u>\$ 895,036</u>	<u>\$ -</u>
	2019				
	<u>Carrying Value</u>	<u>Estimated Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:					
Bonds	\$ 8,113,871	\$ 8,308,866	\$ 1,629,040	\$ 6,679,826	\$ -
Cash, cash equivalents, and short-term investments	741,767	741,875	713,426	28,449	-
Investment income due and accrued, net	<u>61,455</u>	<u>61,455</u>	-	<u>61,455</u>	-
Total financial assets	<u>\$ 8,917,093</u>	<u>\$ 9,112,196</u>	<u>\$ 2,342,466</u>	<u>\$ 6,769,730</u>	<u>\$ -</u>
Financial liabilities:					
Bonds payable	\$ 1,350,003	\$ 1,396,843	\$ -	\$ 1,396,843	\$ -
Interest payable	<u>5,411</u>	<u>5,411</u>	-	<u>5,411</u>	-
Total financial liabilities	<u>\$ 1,355,414</u>	<u>\$ 1,402,254</u>	<u>\$ -</u>	<u>\$ 1,402,254</u>	<u>\$ -</u>

The following describe 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.

Bonds 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.

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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. Even though these inputs are unobservable, Citizens believes they are consistent with those which other market participants would use when pricing such securities and are considered appropriate, given the circumstances. Generally, these investments are classified as Level 3.

Cash and Cash Equivalents

The estimated fair value approximates carrying value and are classified as Level 1, given the nature of cash and cash equivalents.

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.

Bonds Payable

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 financial instrument levels during the year end December 31, 2020 and 2019.

5. Investments

Investment Policy and Impairment

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.

Citizens did not recognize any other-than-temporary impairments during the year ended December 31, 2020. During the year ended December 31, 2019, Citizens recognized \$12,801 of other-than-temporary impairments on the basis of Citizens' intent to sell the securities. These securities were sold prior to the year ended December 31, 2019 and are included in net realized capital gains (losses) in the statutory-basis statements of operations. Citizens evaluates external indicators, such as issuer credit ratings along with the extent and duration of declines, and internal indicators such as ability and intent with respect to retention of impaired securities in determining whether declines in market value are temporary or other-than-temporary.

The investment policies require any repurchase agreement be collateralized to at least 102% with U.S. Government or Agency securities, excluding mortgage-backed securities. Repurchase agreements shall not represent more than 15% of the portfolio's amortized cost and must have a maximum maturity of 30 days or less. Reverse repurchase agreements and securities lending are not permitted investments. Citizens had no investments in agency repurchase agreements as of December 31, 2020 and 2019.

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Bonds

The carrying value, gross unrealized gains and losses, and estimated fair value of bonds at December 31, 2020 were as follows:

	<u>Carrying Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Bonds:				
U.S. Treasury and U.S. government securities	\$ 1,447,070	\$ 70,693	\$ (1,176)	\$ 1,516,587
All other government	2,235	222	-	2,457
States, territories and possessions	189,436	9,485	(34)	198,887
Political subdivisions of states, territories and possessions	267,668	9,755	(5)	277,418
Special revenue	1,157,393	53,430	(854)	1,209,969
Industrial and miscellaneous	4,629,337	369,044	(738)	4,997,643
Mortgage-backed securities	<u>402,993</u>	<u>22,110</u>	<u>(94)</u>	<u>425,009</u>
Total admitted bonds	<u>\$ 8,096,132</u>	<u>\$ 534,739</u>	<u>\$ (2,901)</u>	<u>\$ 8,627,970</u>

The carrying value, gross unrealized gains and losses, and estimated fair value of bonds at December 31, 2019 were as follows:

	<u>Carrying Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Bonds:				
U.S. Treasury and U.S. government securities	\$ 1,608,293	\$ 23,746	\$ (2,999)	\$ 1,629,040
All other government	11,093	58	(12)	11,139
States, territories and possessions	202,212	2,706	(383)	204,535
Political subdivisions of states, territories and possessions	266,098	4,309	(821)	269,586
Special revenue	1,422,506	19,441	(3,109)	1,438,838
Industrial and miscellaneous	4,307,987	145,934	(823)	4,453,098
Mortgage-backed securities	<u>295,682</u>	<u>7,489</u>	<u>(541)</u>	<u>302,630</u>
Total admitted bonds	<u>\$ 8,113,871</u>	<u>\$ 203,683</u>	<u>\$ (8,688)</u>	<u>\$ 8,308,866</u>

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The unrealized loss position of bonds at December 31, 2020 was as follows:

	<u>Less than 12 months</u>		<u>More than 12 months</u>		<u>Total</u>	
	<u>Estimated Fair Value</u>	<u>Gross Unrealized Loss</u>	<u>Estimated Fair Value</u>	<u>Gross Unrealized Loss</u>	<u>Estimated Fair Value</u>	<u>Gross Unrealized Loss</u>
Bonds:						
U.S. Treasury and U.S. government securities	\$ 61,470	\$ (1,175)	\$ 2,373	\$ (1)	\$ 63,843	\$ (1,176)
States, territories and possessions	18,237	(34)	-	-	18,237	(34)
Political subdivisions of states, territories and possessions	2,282	(5)	-	-	2,282	(5)
Special revenue	37,976	(316)	8,639	(538)	46,615	(854)
Industrial and miscellaneous	89,070	(738)	1,000	-	90,070	(738)
Mortgage-backed securities	<u>22,240</u>	<u>(94)</u>	<u>-</u>	<u>-</u>	<u>22,240</u>	<u>(94)</u>
Total	<u>\$ 231,275</u>	<u>\$ (2,362)</u>	<u>\$ 12,012</u>	<u>\$ (539)</u>	<u>\$ 243,287</u>	<u>\$ (2,901)</u>

The unrealized loss position of bonds at December 31, 2019 was as follows:

	<u>Less than 12 months</u>		<u>More than 12 months</u>		<u>Total</u>	
	<u>Estimated Fair Value</u>	<u>Gross Unrealized Loss</u>	<u>Estimated Fair Value</u>	<u>Gross Unrealized Loss</u>	<u>Estimated Fair Value</u>	<u>Gross Unrealized Loss</u>
Bonds:						
U.S. Treasury and U.S. government securities	\$ 103,959	\$ (1,431)	\$ 362,334	\$ (1,569)	\$ 466,293	\$ (2,999)
All other government States, territories and possessions	-	-	3,002	(12)	3,002	(12)
Political subdivisions of states, territories and possessions	35,627	(361)	6,277	(22)	41,904	(383)
Special revenue	26,725	(762)	40,927	(58)	67,652	(821)
Industrial and miscellaneous	89,110	(1,338)	271,058	(1,771)	360,168	(3,109)
Mortgage-backed securities	90,777	(375)	197,963	(448)	288,740	(823)
	<u>5,674</u>	<u>(167)</u>	<u>39,196</u>	<u>(374)</u>	<u>44,870</u>	<u>(541)</u>
Total	<u>\$ 351,872</u>	<u>\$ (4,434)</u>	<u>\$ 920,757</u>	<u>\$ (4,254)</u>	<u>\$ 1,272,629</u>	<u>\$ (8,688)</u>

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There were 128 and 522 bond holdings in an unrealized loss position for more than 12 months at December 31, 2020 and 2019, respectively.

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. government, 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, 2020 and 2019.

Proceeds from maturities and sales of bonds during 2020 were \$3,061,045 with gross realized gains of \$67,587 and gross realized losses of \$3,806 and during 2019 were \$2,862,578 with gross realized gains of \$26,719 and gross realized losses of \$13,517. Investment dispositions and purchases are measured and recorded in the financial statements using the trade date, which may differ from the date on which settlement of the trade activity occurs. Proceeds related to gains (losses) on cash, cash equivalents, and short-term investments during 2020 and 2019 were \$55 and \$(6,377) respectively.

The carrying value and estimated fair value of securities at December 31, 2020, 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.

	Carrying Value	Estimated Fair Value
Maturity:		
In 2021	\$ 775,080	\$ 780,589
2022 - 2025	2,924,793	3,039,723
2026 - 2030	3,299,359	3,634,805
After 2030	693,907	747,844
Mortgage-backed securities	<u>402,993</u>	<u>425,009</u>
Total	<u>\$ 8,096,132</u>	<u>\$ 8,627,970</u>

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

	<u>2020</u>	<u>2019</u>
Gross interest income:		
Bonds	\$ 197,084	\$ 209,780
Cash, cash equivalents, and short-term investments	<u>5,630</u>	<u>20,322</u>
Total gross interest income	202,714	230,102
Investment expenses	<u>(4,028)</u>	<u>(4,480)</u>
Net interest income	<u>198,686</u>	<u>225,622</u>
Net realized gain (loss) on sales of invested assets:		
Bonds	63,781	13,202
Cash, cash equivalents, and short-term investments	<u>55</u>	<u>(6,377)</u>
Net realized capital gains (losses)	<u>63,836</u>	<u>6,825</u>
Interest expense:		
Bond interest	<u>(34,193)</u>	<u>(51,621)</u>
Net investment income	<u>\$ 228,329</u>	<u>\$ 180,826</u>

For the year ended December 31, 2020, one hundred and fifty securities were called, 50 of which included prepayment penalties or acceleration fees of \$1,618 and is included in net interest income.

Restricted Assets

Restricted assets (including pledged assets) are summarized as follows by restricted asset category:

Restricted Asset Category	<u>Gross Restricted</u>			Total Current Year Admitted	<u>Percentage</u>	
	<u>Total from Current Year</u>	<u>Total from Prior Year</u>	<u>Increase (Decrease)</u>		<u>Gross Restricted to Total Assets</u>	<u>Admitted Restricted to Total Admitted Assets</u>
Pledged as collateral not captured in other categories	\$ 120,896	\$ 244,340	\$ (123,444)	\$ 120,896	1.3%	1.3%
Other restricted assets	<u>-</u>	<u>8,534</u>	<u>(8,534)</u>	<u>-</u>	<u>0.0%</u>	<u>0.0%</u>
Total restricted assets	<u>\$ 120,896</u>	<u>\$ 252,874</u>	<u>\$ (131,978)</u>	<u>\$ 120,896</u>	<u>1.3%</u>	<u>1.3%</u>

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Restricted assets pledged as collateral above consist of debt sinking funds on deposit with Citizens' Indenture Trustee for the purpose of funding principal and interest obligations associated with outstanding bonds payable. Other restricted assets consist of assessments that were 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 this cash 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. Pursuant to Consent Order 256458-19, in June 2020, \$8,534 held as restricted surplus was released and transferred to unrestricted surplus.

6. Liability for Loss Reserves and Loss Adjustment Expense Reserves

Activity in the liability for loss and LAE reserves for December 31 was as follows:

	<u>2020</u>	<u>2019</u>
Direct loss and loss adjustment expense reserves, beginning of year	\$ 1,008,252	\$ 1,346,141
Less reinsurance recoverables on reserves	<u>(306,677)</u>	<u>(606,348)</u>
Net loss and loss adjustment expense reserves, beginning of year	701,575	739,793
Incurred related to:		
Current accident year	550,878	405,139
Prior accident years	<u>69,182</u>	<u>94,822</u>
Total incurred	<u>620,060</u>	<u>499,961</u>
Paid related to:		
Current accident year	(231,683)	(168,707)
Prior accident years	<u>(321,709)</u>	<u>(369,472)</u>
Total paid	<u>(553,392)</u>	<u>(538,179)</u>
Net loss and loss adjustment expense reserves, end of year	768,243	701,575
Add reinsurance recoverables on reserves	<u>182,205</u>	<u>306,677</u>
Gross Balance at end of year	<u>\$ 950,448</u>	<u>\$ 1,008,252</u>

As a result of changes in estimates of insured events in prior years, the provision for loss and LAE reserves increased by approximately \$69,182 and \$94,822 net of reinsurance, in 2020 and 2019, respectively. Increases in overall projected claims counts and loss severity of claims from Hurricane Irma contributed most significantly to the overall increase in the provision for loss and LAE reserves of \$69,182 during 2020. 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 2020 and 2019, net recoveries with respect to reinsurance recoverable on paid losses and LAE was \$207,773 and \$390,150 respectively.

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For the years ended December 31, 2020 and 2019, ultimate losses and LAE attributable to Hurricane Irma were \$2,270,341 and \$2,160,170, respectively, excluding recorded anticipated reinsurance recoveries of \$935,780 and \$879,778, respectively. For the years ended December 31, 2020 and 2019, ultimate losses and LAE attributable to Hurricane Michael were \$149,953 and \$149,861, respectively, 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 as LAE.

7. 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 \$1,009,377 and \$1,140,744 in the Coastal Account and PLA and CLA, respectively, for 2020, and \$1,033,202 and \$979,560 in the Coastal Account and PLA and CLA, respectively, for 2019. Reinsurance coverage purchased in the Coastal Account and PLA through traditional and capital markets totaled \$803,000 and \$218,000 for 2020, respectively, and \$1,272,855 and \$175,500 for 2019, respectively. At December 31, 2020, Citizens was party to two outstanding insurance-linked securities (ILS) contracts as a ceding insurer that provide aggregate maximum proceeds of \$250,000 for directly-written insurance risks by Citizens at an attachment level of \$1,446,000 in the Coastal Account and aggregate maximum proceeds of \$110,000 for directly-written insurance risks by Citizens at an attachment level of \$1,641,000 in the PLA.

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

	2020		2019	
	Written	Earned	Written	Earned
Direct premiums	\$ 1,182,125	\$ 996,996	\$ 876,558	\$ 860,795
FHCF ceded premiums	(142,720)	(142,720)	(133,602)	(133,602)
Private ceded premiums	(83,989)	(83,989)	(94,639)	(94,639)
Depopulation ceded premiums	(12,372)	(8,710)	(9,328)	(16,479)
Net premiums	<u>\$ 943,044</u>	<u>\$ 761,577</u>	<u>\$ 639,989</u>	<u>\$ 616,075</u>

Ceded premiums include premiums ceded to companies that assume policies pursuant to a depopulation program (see Note 11). Ceded losses and LAE incurred were \$56,002 and \$182,250 during 2020 and 2019, respectively. Unearned premiums on the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus are net of ceded unearned premiums on depopulation contracts of \$7,710 and \$4,048 at December 31, 2020 and 2019, respectively. There were no ceded unearned premiums with respect to the FHCF or traditional and capital markets reinsurance agreements at December 31, 2020 and 2019.

Citizens Property Insurance Corporation
Notes to Statutory-Basis Financial Statements
(Dollars in thousands)

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. FHCF and private 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, 2020, Citizens reported a net recoverable due from FHCF in the amount of \$195,938, or approximately 3.0% of accumulated surplus. As of December 31, 2019, Citizens reported a net recoverable due from FHCF in the amount of \$353,809, or approximately 5.5% of accumulated surplus. FHCF net recoverable amounts at December 31, 2020 and 2019 are comprised of ceded loss and LAE reserves for claims arising from Hurricane Irma.

As of December 31, 2020 and 2019, Citizens recorded a provision for reinsurance as a liability with a corresponding charge to surplus in the amount of \$20 and \$75, respectively, on the statutory-basis statements of admitted assets, liabilities and accumulated surplus as a result of uncollateralized net recoverable balances arising due to anticipated losses and LAE attributed to Hurricane Irma. For 2020, the provision for reinsurance includes \$20 and \$0 for unauthorized and certified reinsurers, respectively. For 2019, the provision for reinsurance includes \$32 and \$43 for unauthorized and certified reinsurers, respectively. Citizens does not believe there to be significant credit risk associated with net recoverable balances under its reinsurance program.

8. Bonds Payable

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:

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	\$ -	-	3.000% - 5.000%	\$ 175,000	\$4,300
Series 2012A-1 Senior Secured Bonds (Pre-event PLA/CLA)	Jun 21, 2012	320,000	323,508	3.000% - 5.000%	160,000	19,934
Series 2015A-1 Senior Secured Bonds (Pre-event Coastal)	Jun 2, 2015	500,000	526,182	3.000% - 5.000%	150,000	25,757
Total		<u>\$ 820,000</u>	<u>\$ 849,690</u>		<u>\$ 485,000</u>	<u>\$ 49,991</u>

Interest expense includes net amortization for and accretion of premiums and discounts of \$13,794 and \$20,258 and for the years ended December 31, 2020 and 2019, respectively. Net unamortized premium at December 31, 2020 and 2019 was \$29,690 and \$45,003 respectively.

Citizens Property Insurance Corporation
Notes to Statutory-Basis Financial Statements
(Dollars in thousands)

A schedule of bond maturities is as follows:

Years ended December 31,	<u>2012A-1 Bonds</u>	<u>2015A-1 Bonds</u>	<u>Total</u>
2021	160,000	-	160,000
2022	160,000	225,000	385,000
2023	-	-	-
2024	-	-	-
2025	<u>-</u>	<u>275,000</u>	<u>275,000</u>
	<u>\$ 320,000</u>	<u>\$ 500,000</u>	<u>\$ 820,000</u>

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>
2021	160,000	36,217	196,217
2022	385,000	21,722	406,722
2023	-	13,750	13,750
2024	-	13,750	13,750
2025	<u>275,000</u>	<u>5,729</u>	<u>280,729</u>
	<u>\$ 820,000</u>	<u>\$ 91,168</u>	<u>\$ 911,168</u>

On January 10, 2020, Citizens exercised an optional redemption of Series 2015A-1 Senior Secured pre-event fixed-rate bonds at par value for \$150,000 with an original maturity of June 1, 2020. Citizens recognized a gain of \$1,519 as a result of the redemption due to the carrying value of the bonds exceeding the optional redemption price at execution. In June 2020, the Series 2011A-1 Senior Secured pre-event fixed-rate bonds reached their contractual maturity and were paid in-full.

9. 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 \$6,044 and \$5,684 for the years ended December 31, 2020 and 2019, respectively.

10. 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 included in other underwriting expenses incurred were \$87,858 and \$65,155 during 2020 and 2019, 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 servicing 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 \$7.25 to \$67.32 (dollars), depending on the complexity and volume of each transaction. Servicing company fees included in other underwriting expenses incurred were \$2,398 and \$2,187 during 2020 and 2019, respectively. There were no premiums written by service providers which individually are more than 5% of policyholders' surplus.

11. 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 2020 and 2019, Citizens recognized ceded written premiums of \$12,372 and \$9,328 respectively, as a result of depopulation.

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, 2020 and 2019, net assumed premiums receivable in the amount of \$317 and \$2,318 respectively, were due from certain Takeout Companies and are reported as other receivables under reinsurance contracts in the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus. In addition, premiums due to Takeout Companies of \$6,049 and \$147, at December 31, 2020 and 2019, respectively, are included in reinsurance payable on the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus.

12. Operating Leases

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to \$6,355 and \$7,168 for the years ended December 31, 2020 and 2019, 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.

Citizens Property Insurance Corporation
Notes to Statutory-Basis Financial Statements
(Dollars in thousands)

Future minimum payments under operating leases are as follows:

2021	5,294
2022	5,423
2023	5,554
2024	5,620
2025	5,601
After	<u>3,082</u>
Total	<u>\$ 30,574</u>

13. 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 2021, including 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.

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, 2020 and 2019, 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 minimal changes in insurance coverage, terms or conditions from the previous year.

Emergency Order – COVID-19 Pandemic

In December 2019, a coronavirus (COVID-19) was reported in China and in March 2020 the World Health Organization declared it a pandemic. This contagious disease outbreak has continued to spread across the globe and is impacting worldwide economic activity and financial markets. On March 9, 2020, the Governor of Florida declared a state of emergency in order to receive federal funding for the state as did many other states. As a result, there is a risk and uncertainty surrounding the impact this pandemic might have on the Company.

Citizens Property Insurance Corporation
Notes to Statutory-Basis Financial Statements
(Dollars in thousands)

14. Reconciliation of SAP to GAAP

A reconciliation of Citizens' 2020 and 2019 statutory-basis net income (loss) and accumulated surplus to GAAP basis (as determined by the Governmental Accounting Standards Board) change in net position and net position, respectively, is as follows:

	<u>2020</u>	<u>2019</u>
Net income (loss) - statutory basis	\$ 128,967	\$ 86,329
Adjustments:		
Change in allowance for doubtful accounts	(6,023)	(752)
Change in FIGA assessment income	-	(1)
Change in other income	-	1
Change in net unrealized gain (loss) on investments	<u>336,343</u>	<u>376,042</u>
Change in net position - GAAP basis	<u>\$ 459,287</u>	<u>\$ 461,619</u>
Accumulated surplus - statutory basis	\$ 6,441,806	\$ 6,317,933
Adjustments:		
Nonadmitted assets, net of allowance	9,635	10,764
Provision for reinsurance	20	75
Net unrealized gain (loss) on investments	<u>531,858</u>	<u>195,103</u>
Net position - GAAP basis	<u>\$ 6,983,319</u>	<u>\$ 6,523,875</u>

15. Assessments and Other Regulatory Matters

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 is treated as failure to pay premium.

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".

Citizens Property Insurance Corporation
Notes to Statutory-Basis Financial Statements
(Dollars in thousands)

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 the FIGA totaling \$27,759. Amounts recouped from policyholders relating to this assessment were \$0 and \$1 during 2020 and 2019, respectively. As of December 31, 2017, Citizens reported an over-collection in the amount of \$152 as assessments payable on the statutory-basis statements of admitted assets, liabilities and accumulated surplus. 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, 2020 and 2019, collections in excess of the Emergency Assessment were \$140,790 and \$140,806, respectively. These balances are reported as the reserve for future assessments on the statutory-basis statements of admitted assets, liabilities and accumulated surplus 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.

In November of 2019, approximately 20,200 policies were written within the PLA to accommodate the placement of policies and provide coverage to policyholders as a result of a private market carrier discontinuing operations. As of December 31, 2019, approximately 18,000 of these policies remained inforce.

16. Subsequent Events

Subsequent events have been considered through May 19, 2021, the date of issuance of these statutory-basis financial statements.

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 Statutory-Basis Statements of Admitted Assets, Liabilities
and Accumulated Surplus by Account
December 31, 2020
(Dollars in thousands)

	<u>Combined</u>	<u>Personal Lines Account</u>	<u>Commercial Lines Account</u>	<u>Coastal Account</u>
ADMITTED ASSETS				
Cash and invested assets:				
Bonds	\$ 8,096,132	\$ 2,666,865	\$ 1,812,636	\$ 3,616,631
Cash, cash equivalents, and short-term investments	649,619	316,552	133,226	199,841
Total cash and invested assets	8,745,751	2,983,417	1,945,862	3,816,472
Investment income due and accrued, net	56,344	17,424	12,482	26,438
Premiums receivable, net	102,811	69,155	750	32,906
Reinsurance recoverable on paid losses and loss adjustment expenses	70,460	24,218	-	46,242
Other receivables under reinsurance contracts, net	317	84	-	233
Other assets	615	615	-	-
Inter-account receivable (payable)	-	(3,470)	439	3,031
Total admitted assets	<u>\$ 8,976,298</u>	<u>\$ 3,091,443</u>	<u>\$ 1,959,533</u>	<u>\$ 3,925,322</u>
LIABILITIES AND ACCUMULATED SURPLUS				
Liabilities:				
Loss reserves, net	\$ 442,657	\$ 314,313	\$ 34,595	\$ 93,749
Loss adjustment expense reserves, net	325,586	256,115	8,428	61,043
Retroactive reinsurance ceded	(1,178)	(1,084)	-	(94)
Unearned premiums, net	627,953	427,229	6,320	194,404
Reserve for future assessments	140,790	-	-	140,790
Reinsurance payable	44,041	14,573	-	29,468
Provision for reinsurance	20	-	-	20
Bonds payable	849,690	279,381	44,127	526,182
Interest payable	3,407	1,147	181	2,079
Advance premiums and suspended cash	20,434	13,255	332	6,847
Return premiums payable	4,557	2,839	44	1,674
Taxes and fees payable (receivable)	681	1,064	22	(405)
Other liabilities	75,854	62,488	2,754	10,612
Total liabilities	<u>2,534,492</u>	<u>1,371,320</u>	<u>96,803</u>	<u>1,066,369</u>
Accumulated surplus:				
Restricted	-	-	-	-
Unrestricted	6,441,806	1,720,123	1,862,730	2,858,953
Total accumulated surplus	<u>6,441,806</u>	<u>1,720,123</u>	<u>1,862,730</u>	<u>2,858,953</u>
Total liabilities and accumulated surplus	<u>\$ 8,976,298</u>	<u>\$ 3,091,443</u>	<u>\$ 1,959,533</u>	<u>\$ 3,925,322</u>

Citizens Property Insurance Corporation
Supplemental Combining Statutory-Basis Statements of Operations by Account
Year Ended December 31, 2020
(Dollars in thousands)

	<u>Combined</u>	<u>Personal Lines Account</u>	<u>Commercial Lines Account</u>	<u>Coastal Account</u>
Underwriting income:				
Net premiums earned	\$ 761,577	\$ 547,177	\$ 9,788	\$ 204,612
Underwriting expenses:				
Net losses incurred	371,457	294,984	866	75,607
Net loss adjustment expenses incurred	248,603	197,266	883	50,454
Other underwriting expenses incurred	239,844	157,199	3,118	79,527
Total underwriting expense	859,904	649,449	4,867	205,588
Net underwriting (loss) gain	(98,327)	(102,272)	4,921	(976)
Investment income:				
Net interest income	198,686	66,593	46,188	85,905
Net realized capital gains	63,836	23,280	17,276	23,280
Interest expense	(34,193)	(12,385)	(1,956)	(19,852)
Total net investment income	228,329	77,488	61,508	89,333
Other (expense) income	(1,035)	(329)	41	(747)
Net income (loss)	<u>\$ 128,967</u>	<u>\$ (25,113)</u>	<u>\$ 66,470</u>	<u>\$ 87,610</u>

Citizens Property Insurance Corporation
Summary Investment Schedule
December 31, 2020
(Dollars in thousands)

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	Percentage	Amount	Percentage
Bonds				
U.S. Governments	\$ 1,456,728	16.8%	\$ 1,456,728	16.8%
All Other Governments	2,235	0.0%	2,235	0.0%
U.S. States, Territories and Possessions, etc. Guaranteed	188,650	2.2%	188,650	2.2%
U.S. Political Subdivisions of States, Territories and Possessions, Guaranteed	268,453	3.1%	268,453	3.1%
U.S. Special Revenue & Special Assessment Obligations, etc. Non-Guaranteed	1,550,729	17.7%	1,550,729	17.7%
Industrial and Miscellaneous	4,629,337	52.9%	4,629,337	52.9%
Hybrid Securities	-	0.0%	-	0.0%
Parent, Subsidiaries and Affiliates	-	0.0%	-	0.0%
SVO Identified Funds	-	0.0%	-	0.0%
Unaffiliated Bank Loans	-	0.0%	-	0.0%
Preferred Stocks				
Industrial and Miscellaneous (Unaffiliated)	-	0.0%	-	0.0%
Parent, Subsidiaries and Affiliates	-	0.0%	-	0.0%
Common Stocks				
Industrial and Misc. Publicly Traded (Unaffiliated)	-	0.0%	-	0.0%
Industrial and Misc. Other (Unaffiliated)	-	0.0%	-	0.0%
Parent, Subsidiaries and Affiliates Publicly Traded	-	0.0%	-	0.0%
Parent, Subsidiaries and Affiliates Other	-	0.0%	-	0.0%
Mutual Funds	-	0.0%	-	0.0%
Unit Investment Trusts	-	0.0%	-	0.0%
Closed-End Funds	-	0.0%	-	0.0%
Mortgage Loans				
Farm Mortgages	-	0.0%	-	0.0%
Residential Mortgages	-	0.0%	-	0.0%
Commercial Mortgages	-	0.0%	-	0.0%
Mezzanine Real Estate Loans	-	0.0%	-	0.0%
Real Estate				
Properties Occupied by Company	-	0.0%	-	0.0%
Properties Held for Production of Income	-	0.0%	-	0.0%
Properties Held for Sale	-	0.0%	-	0.0%
Cash (Schedule E, Part 1)	(39,859)	-0.5%	(39,859)	-0.5%
Cash Equivalents (Schedule E, Part 2)	580,453	6.6%	580,453	6.6%
Short-Term Investments (Schedule DA)	109,025	1.2%	109,025	1.2%
Total Invested Assets	\$ 8,745,751	100.0%	\$ 8,745,751	100.0%

Citizens Property Insurance Corporation
Supplemental Schedule of Investment Risks Interrogatories
December 31, 2020
(Dollars in thousands)

1. Reporting entity's total admitted assets:

\$ 8,976,298

2. Ten largest exposures to a single issuer/borrower/investment.

	<u>Issuer</u>	<u>Description of Exposure</u>	<u>Carrying Amount</u>	<u>Percentage of Total Admitted Assets</u>
2.01	Fannie Mae	Bonds	\$ 478,827	5.3%
2.02	Freddie Mac	Bonds	302,358	3.3%
2.03	Morgan Stanley	Bonds, Short-term Investments	220,131	2.4%
2.04	JPMorgan Chase & Co.	Bonds, Short-term Investments	181,925	2.0%
2.05	Blackrock Inc.	Bonds, Short-term Investments	149,276	1.6%
2.06	Goldman Sachs Group Inc.	Bonds, Short-term Investments	129,354	1.4%
2.07	Bank of America Corp.	Bonds	90,449	1.0%
2.08	Citigroup Inc.	Bonds	86,135	0.9%
2.09	Federal Home Loan Banks	Bonds	79,194	0.8%
2.10	Verizon Communications Inc.	Bonds	77,025	0.8%

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

		<u>Carrying Amount</u>	<u>Percentage of Total Admitted Assets</u>
	<i>Bonds:</i>		
3.01	NAIC-1	\$ 6,100,834	67.9%
3.02	NAIC-2	2,101,954	23.4%
3.03	NAIC-3	4,264	0.0%
3.04	NAIC-4	-	0.0%
3.05	NAIC-5	-	0.0%
3.06	NAIC-6	-	0.0%
	<i>Preferred Stocks:</i>		
3.07	P/RP-1	-	0.0%
3.08	P/RP-2	-	0.0%
3.09	P/RP-3	-	0.0%
3.10	P/RP-4	-	0.0%
3.11	P/RP-5	-	0.0%
3.12	P/RP-6	-	0.0%

Citizens Property Insurance Corporation
Supplemental Schedule of Investment Risks Interrogatories
December 31, 2020
(Dollars in thousands)

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?

Yes [] No [X]

	<u>Carrying Amount</u>	<u>Percentage of Total Admitted Assets</u>
4.02 Total admitted assets held in foreign investments	\$ 512,975	5.7%
4.03 Foreign currency-denominated investments	-	0.0%
4.04 Insurance liabilities denominated in that same foreign currency	-	0.0%

If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

	<u>Carrying Amount</u>	<u>Percentage of Total Admitted Assets</u>
5.01 Countries designated NAIC 1	\$ 497,404	5.5%
5.02 Countries designated NAIC 2	10,145	0.1%
5.03 Countries designated NAIC-3 or below	5,426	0.0%

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

	<u>Carrying Amount</u>	<u>Percentage of Total Admitted Assets</u>
<i>Countries designated NAIC 1:</i>		
6.01 United Kingdom	\$ 156,268	1.7%
6.02 Netherlands	66,878	0.7%
<i>Countries designated NAIC 2:</i>		
6.03 Mexico	10,145	0.1%
6.04	-	0.0%
<i>Countries designated NAIC 3 or below:</i>		
6.05 Multi-National	5,164	0.0%
6.06 Guernsey	262	0.0%

7. Aggregate unhedged foreign currency exposure:

Not applicable.

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(Dollars in thousands)

8. **Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:**
Not applicable.

9. **Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:**
Not applicable.

10. **Ten largest non-sovereign (i.e. non-governmental) foreign issues:**

	<u>Issuer</u>	<u>NAIC Designation</u>	<u>Carrying Amount</u>	<u>Percentage of Total Admitted Assets</u>
10.01	HSBC Holdings PLC	1	\$ 37,000	0.4%
10.02	Credit Suisse Group AG	1,2	34,668	0.3%
10.03	Royal Dutch Shell PLC	1	31,444	0.3%
10.04	Westpac Banking Corp.	1	29,533	0.3%
10.05	Sumitomo Mitsui Financial Group Inc.	1	28,554	0.3%
10.06	BP PLC	1	24,529	0.2%
10.07	Takeda Pharmaceutical Co. LTD	2	20,400	0.2%
10.08	Total SE	1	20,298	0.2%
10.09	Barclays PLC	1,2	19,436	0.2%
10.10	Banco Santander SA	1	19,260	0.2%

11. **Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:**

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?
Yes [X] No []

If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

12. **Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:**

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?
Yes [X] No []

If response to 12.01 is yes, detail is not required for the remainder of Interrogatory 12.

13. **Amounts and percentages of admitted assets held in the ten largest equity interests:**

13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets?
Yes [X] No []

If response to 13.01 is yes, detail is not required for the remainder of Interrogatory 13.

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14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated privately placed equities:

- 14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?
Yes No

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

- 15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?
Yes No

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

- 16.01 Are mortgage loans reported in Schedule B less 2.5% of the reporting entity's total admitted assets?
Yes No

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Not applicable.

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

- 18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?
Yes No

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in mezzanine real estate loans.

- 19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's admitted assets?
Yes No

If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.

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20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	<u>At Year End</u>		<u>At End of Each Quarter</u>		
			<u>1st Qtr.</u>	<u>2nd Qtr.</u>	<u>3rd Qtr.</u>
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$ -	0.0%	\$ -	\$ -	\$ -
20.02 Repurchase agreements	-	0.0%	-	-	-
20.03 Reverse repurchase agreements	-	0.0%	-	-	-
20.04 Dollar repurchase agreements	-	0.0%	-	-	-
20.05 Dollar reverse repurchase agreements	-	0.0%	-	-	-

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

	<u>Owned</u>		<u>Written</u>	
21.01 Hedging	\$ -	0.0%	\$ -	0.0%
21.02 Income generation	-	0.0%	-	0.0%
21.03 Other	-	0.0%	-	0.0%

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	<u>At Year End</u>		<u>At End of Each Quarter</u>		
			<u>1st Qtr.</u>	<u>2nd Qtr.</u>	<u>3rd Qtr.</u>
22.01 Hedging	\$ -	0.0%	\$ -	\$ -	\$ -
22.02 Income generation	-	0.0%	-	-	-
22.03 Replications	-	0.0%	-	-	-
22.04 Other	-	0.0%	-	-	-

23. Amounts and percentages of the reporting entity's total admitted assets of potential for future contracts:

	<u>At Year End</u>		<u>At End of Each Quarter</u>		
			<u>1st Qtr.</u>	<u>2nd Qtr.</u>	<u>3rd Qtr.</u>
23.01 Hedging	\$ -	0.0%	\$ -	\$ -	\$ -
23.02 Income generation	-	0.0%	-	-	-
23.03 Replications	-	0.0%	-	-	-
23.04 Other	-	0.0%	-	-	-



Citizens Property Insurance Corporation

Financial Statements and Supplementary Information

Years Ended December 31, 2020 and 2019



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Independent Auditors' Report

Audit Committee
Citizens Property Insurance Corporation
Tallahassee, FL

We have audited the accompanying financial statements of Citizens Property Insurance Corporation (Citizens), an enterprise fund of the State of Florida, which comprise the statements of net position as of December 31, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, 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, 2020, 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 19, 2021 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

Tampa, FL
May 19, 2021

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 \$6,983,319.
- Citizens' total net position increased by \$459,287 primarily as a result of net investment income.
- The operating loss of \$98,327 represents a decrease of \$1,267 for 2020 as compared to the operating loss reported for 2019. Continued adverse development on net Hurricane Irma losses and LAE along with 2020 storm activity (Hurricanes Sally and Eta) contributed most significantly to the 2020 operating loss.
- Operating expenses were comparatively unchanged during 2020.
- Nonoperating income of \$557,614 was comparatively unchanged, during 2020 as compared to nonoperating income of \$558,679 for 2019. Net investment income of \$598,864 in 2020 was principally driven by net unrealized gains of \$336,342, interest income of \$226,514, and net realized gains of \$62,317 on Citizens' invested assets. Net interest expense of \$34,193 in 2020 decreased in by \$17,428 as compared to 2019 due to the retirement and schedules maturities of pre-event bonds in 2019 and 2020.

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.

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 five investment policies, three 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 Tax-Exempt Liquidity Fund and all taxable Funds 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 Taxable Claims-Paying Fund. Citizens' investment policy requires securities with long-term ratings in the taxable portfolios to have minimum ratings of BBB-/Baa3 and be rated by at least two of Moody's, S&P and/or Fitch at the time of purchase. 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- at the time of purchase. 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 \$9,277,610 at December 31, 2020, marking an increase of \$226,867 from December 31, 2019. The overall increase consisted of increases in short and long-term investments of \$198,136 and increases in cash and equivalents of \$37,266. Proceeds from redemptions of short and long-term investments were largely used for debt service obligations on pre-event bonds of \$485,000.

**Citizens Property Insurance Corporation
Management's Discussion & Analysis**

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, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Direct loss and loss adjustment expense reserves, beginning of year	\$ 1,007,062	\$ 1,344,719
Less reinsurance recoverables on reserves	<u>(306,677)</u>	<u>(606,348)</u>
Net loss and loss adjustment expense reserves, beginning of year	<u>700,385</u>	<u>738,371</u>
Incurred related to:		
Current accident year	550,878	405,139
Prior accident years	<u>69,182</u>	<u>94,822</u>
Total incurred	<u>620,060</u>	<u>499,961</u>
Paid related to:		
Current accident year	(231,683)	(168,707)
Prior accident years	<u>(321,709)</u>	<u>(369,472)</u>
Total paid	<u>(553,392)</u>	<u>(538,179)</u>
Change in retroactive reinsurance reserves ceded	<u>13</u>	<u>232</u>
Net loss and loss adjustment expense reserves, end of year	767,066	700,385
Add reinsurance recoverables on reserves	<u>182,205</u>	<u>306,677</u>
Direct loss and loss adjustment expense reserves, end of year	<u>\$ 949,271</u>	<u>\$ 1,007,062</u>

Reserves for unpaid losses, net of amounts ceded under reinsurance contracts, increased \$49,013 and reserves for unpaid LAE reserves, net of amounts ceded under reinsurance contracts, increased \$17,669. Net unpaid losses and LAE reserves related to catastrophes decreased \$31,851 largely due to the development of 2017 hurricane claims. Net unpaid losses and LAE reserves not related to hurricanes decreased \$98,531 million due to the settlement of reserve balances from prior years.

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.

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 2020, cash outflows associated with Citizens' Senior Secured Bonds totaled \$485,000 in principal repayments and \$49,991 in interest obligations. Net interest expense of \$34,193 includes net amortization of bond premiums of \$13,794 for the year ended December 31, 2020.

**Citizens Property Insurance Corporation
Management's Discussion & Analysis**

Other liabilities

Effective July 1, 2015, Citizens terminated the 2005 Citizens Emergency Assessment that was activated as a result of unprecedented 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, 2020 and 2019, funds held in this reserve totaled \$140,790 and \$140,806 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>2020</u>	<u>2019</u>	<u>2018</u>	<u>%Change 2020-2019</u>	<u>%Change 2019-2018</u>
Operating revenue:					
Premiums earned	\$ 761,577	\$ 616,075	\$ 622,975	23.6 %	(1.1) %
Operating expenses:					
Losses and loss adjustment expenses incurred	620,060	499,962	689,713	24.0 %	(27.5) %
Other underwriting expenses	<u>239,844</u>	<u>213,173</u>	<u>213,962</u>	12.5 %	(0.4) %
Total expenses	<u>859,904</u>	<u>713,135</u>	<u>903,675</u>	20.5 %	(21.1) %
Operating loss	(98,327)	(97,060)	(280,700)	(1.3) %	65.4 %
Non-operating income (expense)	<u>557,614</u>	<u>558,679</u>	<u>3,889</u>	0.0 %	14,265.6 %
Change in net position	<u>\$ 459,287</u>	<u>\$ 461,619</u>	<u>\$ (276,811)</u>	<u>(0.6) %</u>	<u>266.8 %</u>
Policies in-force (as of year-end)	531,172	442,196	427,395	20.1 %	3.5 %
Policies serviced (as of year-end)	537,068	447,433	441,066	20.0 %	1.4 %
Underwriting ratios:					
Net loss and LAE ratio (calendar year)	81%	81%	111%	0.0 %	(30)%
Expense ratio (calculated on net premiums earned)	<u>31%</u>	<u>35%</u>	<u>34%</u>	<u>(4) %</u>	<u>1%</u>
Combined ratio	<u>112%</u>	<u>116%</u>	<u>145%</u>	<u>(4) %</u>	<u>(29)%</u>

Operating loss

For 2020, Citizens incurred an underwriting loss of \$98,327, an increase of \$1,267 from the operating loss reported in December 31, 2019. The 2020 and 2019 underwriting losses were principally driven by development of net losses and LAE incurred related to Hurricane Irma in addition to losses and LAE attributable to several smaller storms that occurred in late 2020. Adverse development on net Hurricane Irma losses and LAE of \$54,169 in 2020 contributed most significantly to the 2020 operating loss.

Direct Written Premium

During 2020, consolidated direct written premium increased \$305,567 (35%). By account, increase in direct written premium were \$230,006 (41%), \$1,192 (10%), and \$74,367 (24%) 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, 2020, the number of policies inforce within the PLA was approximately 399,000 reflecting a 24% increase relative to December 31, 2019. The increase in written premium is the result of increases in new policies written in Dade, Broward and Palm Beach counties, along with increases in renewal rates largely due to temporary payment exceptions and deferral of certain underwriting procedures enacted in response to the global COVID-19 pandemic. Premiums written during 2020 were \$788,484 or \$230,007 (41%) greater than 2019. Premiums ceded through depopulation during 2020 were \$4,971 or \$1,063 (18%) less than 2019.

Commercial Lines Account

At December 31, 2020, the number of policies inforce within the CLA was approximately 700 reflecting a 4% decrease relative to December 31, 2019. 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 2020 were \$13,164 or \$1,192 (10%) greater than 2019. There were no premiums ceded through depopulation during 2020, reflecting a decrease of \$7 (-100%) compared to 2019.

Coastal Account

At December 31, 2020, the number of policies inforce within the Coastal Account was approximately 132,000 reflecting an 11% increase relative to December 31, 2019. An increase of 14,000 new business policies and decrease of 8,000 non-renewed policies contributed most significantly to the increase in policies inforce within the Coastal Account .. Premiums written during 2020 were \$380,477 or \$74,368 (24%) greater than 2019. Premiums ceded through depopulation during 2020 were \$7,401 or \$4,115 (125%) greater than 2019.

The 2019 rate filing went into effect in December 2019 (originally September 2019) and the 2020 rate filing is expected to go into effect August 2021.

Losses and LAE incurred

Non-catastrophe loss and LAE ratios were relatively unchanged in 2020 in comparison to 2019 considering the increase in HO-3 policies, driven by decreasing litigation rates on non-weather water loss claims from recent accident years. The PLA continues to represent a larger portion of Citizens' overall business increasing from 64% in 2019 to 67% in 2020. With this proportional increase, Citizens' consolidated underwriting results will continue to be dominated by underwriting results within the PLA.

Citizens Property Insurance Corporation Management's Discussion & Analysis

As of December 31, 2020, consolidated ultimate direct losses and LAE related to Hurricane Irma were \$2,270,341, reflecting a \$110,171 (5%) increase compared to 2019. Of the \$110,171 of adverse development, \$73,235 is in the PLA, with the majority of the development (\$49,659) related to LAE costs. The Coastal account experienced a total of \$34,923 of development, with the majority of this development (\$31,382) on Coastal residential claims and the remaining (\$3,541) on Coastal non-residential claims. The CLA experienced \$2,012 of development. The primary driver of the development for the PLA and Coastal residential claims was an increase in the ultimate litigation rate. The projected ultimate litigation rates (percentage of reported claims that are litigated) increased from 17.7% to 21.8% and 10.2% to 12.0% in the PLA and Coastal account, respectively.

A secondary, less impactful driver of the development in both accounts was an increase in ultimate claims (570 in both accounts combined). Of the \$2,270,341 in ultimate loss and LAE across all accounts, \$935,780 is recoverable under Citizens' reinsurance contracts with both the FHCF (\$546,098 in the PLA and \$263,566 in the Coastal Account) and private reinsurers (\$126,116 in the Coastal Account only).

On a consolidated basis, ultimate direct losses and LAE related to Hurricane Michael were \$149,953 as of December 31, 2020, reflecting minimal change from 2019. No reinsurance recoverables associated with Hurricane Michael were recorded due to the losses and LAE not meeting the attachment levels of reinsurance arrangements.

In the third quarter of 2020 there were a series of smaller storms (Sally, Isias, Laura and Marco) that made landfall in Florida. Consolidated ultimate direct loss and LAE of these storms as of December 31, 2020 is \$51,576, with Sally comprising 97% of the total. In the fourth quarter of 2020, there were two additional storms (Eta and Zeta). Consolidated ultimate direct loss and LAE of these storms is \$38,800, with Eta comprising 99% of the total. In total, these storms contributed 7.4%, 10.8%, and 12.6% to the reported 2020 loss and LAE ratios for the PLA, CLA, and Coastal Account, respectively. No ceded recoverables were recorded due to the losses and LAE not meeting the attachment levels of reinsurance arrangements.

Current accident year losses and LAE unrelated to sinkholes and hurricanes did not experience meaningful variances from the prior quarter as development of prior accident year losses and LAE was as expected.

Although litigated non-weather water claims continue to be a dominant driver of loss and LAE activity within the PLA, the litigation rate trend for accident years 2018, 2019 and 2020 continue to show improvement in comparison to accident years 2014 to 2017.

Within the CLA, losses and LAE related to sinkhole claims were relatively unchanged, however, volatility in these outstanding sinkhole claims have the potential to contribute to material quarterly variances in the reported loss and LAE ratios in future periods. 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.

Administrative expenses reclassified to LAE are assigned to prior accident years based on the number of claims closed for the current and each prior accident year. Accordingly, fluctuations in the number of claims closed and the fraction of claims closed for each accident year can lead to adverse or favorable development of LAE in prior accident years.

3. Net investment income and interest expense

Net investment income consists of interest earned on Citizens' invested assets, net realized and unrealized gains on sales of invested assets, and interest expense incurred on senior secured bonds outstanding. Total investment income for 2020 was \$564,671 or \$7,804 more than 2019. Net realized and unrealized gains during 2020 were \$63,836 and \$336,342, respectively, marking an increase of \$57,011 and a decrease of \$39,699, respectively, compared to 2019. Average invested assets increased \$58,522 (1%) over the same comparable period. The increase in total investment income was principally driven by an increase in net realized gains as portfolio managers sold securities that were held in positive mark-to-market positions through the active management of invested assets to align portfolios to take advantage of market conditions, partially offset by significant reductions in interest rates during 2020 as well as reductions in tax-exempt holdings resulting from the scheduled maturities of certain outstanding bond obligations. Additionally, in January 2020, \$150,000 of the 2015A-1 series bonds were redeemed at par, prior to their scheduled maturity date, resulting in a \$1,519 gain that was included in net realized gains. Interest expense incurred on senior secured bonds outstanding were \$34,193 during 2020 in comparison to \$51,621 in 2019. The decrease was driven by reductions in pre-event bonds outstanding during 2020.

4. Subsequent Events

Subsequent events have been considered through May 19, 2021, the date of issuance of these financial statements.

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, 2020 and 2019
(Dollars in thousands)

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 540,593	\$ 503,327
Short-term investments	109,047	230,015
Restricted cash and cash equivalents	-	8,534
Investment income due and accrued	56,344	61,455
Reinsurance recoverable on paid losses and LAE	70,460	97,759
Premiums receivable, net	102,811	69,096
Premiums receivable from assuming companies, net	317	2,318
Other current assets	7,876	31,241
Total current assets	<u>887,448</u>	<u>1,003,745</u>
Noncurrent assets:		
Long-term investments	8,627,970	8,308,866
Capital assets	1,987	3,854
Total noncurrent assets	<u>8,629,957</u>	<u>8,312,720</u>
Total assets	<u>\$ 9,517,405</u>	<u>\$ 9,316,465</u>
LIABILITIES		
Current liabilities:		
Loss reserves, net	\$ 441,480	\$ 392,468
Loss adjustment expense reserves, net	325,586	307,917
Unearned premiums, net	627,953	446,486
Reinsurance premiums payable	44,041	43,564
Advance premiums and suspended cash	20,434	18,433
Return premiums payable	4,557	4,486
Interest payable	3,407	5,411
Current portion of long-term debt	160,000	485,000
Other current liabilities	76,148	83,016
Total current liabilities	<u>1,703,606</u>	<u>1,786,781</u>
Noncurrent liabilities:		
Long-term debt	689,690	865,003
Reserve for future assessments	140,790	140,806
Total noncurrent liabilities	<u>830,480</u>	<u>1,005,809</u>
Total liabilities	<u>\$ 2,534,086</u>	<u>\$ 2,792,590</u>
Net position:		
Invested in capital assets	\$ 1,987	\$ 3,854
Restricted	-	8,534
Unrestricted	6,981,332	6,511,487
Total net position	<u>\$ 6,983,319</u>	<u>\$ 6,523,875</u>

See accompanying notes.

Citizens Property Insurance Corporation
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2020 and 2019
(Dollars in thousands)

	<u>2020</u>	<u>2019</u>
Operating revenue:		
Net premiums earned	<u>\$ 761,577</u>	<u>\$ 616,075</u>
Operating expenses:		
Net losses incurred	371,457	331,849
Net loss adjustment expenses incurred	248,603	168,113
Service company fees	2,398	2,187
Agent commissions	87,858	65,155
Taxes and fees	15,547	11,267
Other underwriting expenses	<u>134,041</u>	<u>134,564</u>
Total operating expenses	<u>859,904</u>	<u>713,135</u>
Operating loss	<u>(98,327)</u>	<u>(97,060)</u>
Nonoperating revenues (expenses):		
Net investment income	598,864	608,488
Net interest expense	(34,193)	(51,621)
Assessment income	-	(1)
Other income	<u>(7,057)</u>	<u>1,813</u>
Total nonoperating income	<u>557,614</u>	<u>558,679</u>
Change in net position	459,287	461,619
Net position, beginning of year	6,523,875	6,062,233
Other changes in net position	<u>157</u>	<u>23</u>
Net position, end of year	<u>\$ 6,983,319</u>	<u>\$ 6,523,875</u>

Citizens Property Insurance Corporation
Statements of Cash Flows
Years Ended December 31, 2020 and 2019
(Dollars in thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Premiums collected, net of reinsurance	\$ 905,701	\$ 631,648
Net losses and loss adjustment expenses paid	(532,614)	(631,613)
Payments to employees for services	(95,896)	(92,735)
Payments for underwriting expenses	(143,787)	(113,946)
	<u>133,404</u>	<u>(206,646)</u>
Net cash provided by (used in) operating activities		
Cash flows from noncapital financing activities:		
Debt redemption	(485,000)	(335,000)
Interest paid	(49,991)	(73,269)
Other non-operating receipts	3,514	2,545
Assessment income paid	-	-
	<u>(531,477)</u>	<u>(405,724)</u>
Net cash used in noncapital financing activities		
Cash flows from capital and related financing activities:		
Capital assets acquired	(241)	(470)
	<u>(241)</u>	<u>(470)</u>
Net cash used in capital and related financing activities		
Cash flows from investing activities:		
Proceeds from investments sold, matured or repaid	3,355,953	3,265,257
Investment acquisition	(3,186,267)	(2,825,881)
Interest income received	257,360	237,864
	<u>427,046</u>	<u>677,240</u>
Net cash provided by investing activities		
Net change in cash and cash equivalents	28,732	64,400
Cash and cash equivalents, beginning of year	511,861	447,461
Cash and cash equivalents, end of year	<u>\$ 540,593</u>	<u>\$ 511,861</u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 540,593	\$ 503,327
Restricted cash and cash equivalents	-	8,534
	<u>\$ 540,593</u>	<u>\$ 511,861</u>

See accompanying notes.

Citizens Property Insurance Corporation
 Statements of Cash Flows
 Years Ended December 31, 2020 and 2019
 (Dollars in thousands)

(Continued)

	<u>2020</u>	<u>2019</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (98,327)	\$ (97,060)
Adjustments to reconcile net cash used in operating activities:		
Depreciation expense	2,114	2,788
(Increase) decrease in operating assets:		
Reinsurance recoverable on paid losses and LAE	27,299	(91,771)
Premiums receivable	(33,715)	(2,750)
Premiums receivable from assuming companies	2,001	(1,140)
Other current assets	(11,423)	4,936
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	66,681	(37,986)
Unearned premiums, net	181,467	22,914
Reinsurance premiums payable	477	(2,174)
Advance premiums and suspended cash	2,001	(839)
Other current liabilities	(5,171)	(3,564)
Net cash provided by (used in) operating activities	<u>\$ 133,404</u>	<u>\$ (206,646)</u>

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.

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.

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

- *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.

To provide relief to policyholders affected by Covid-19, a moratorium on cancellation or non-renewals of insurance policies was established and effected in March 2020. Citizens continued its normal billing for premium but did not send cancellation and non-renewal notices, resulting in continued coverage for policyholders who could not pay on time. Effective February 1, 2021, this moratorium was lifted and payment exceptions were curtailed, resulting in the cancellation of policies due to non-payment of premium. At December 31, 2020, premiums receivable were reduced by \$28,178 for policies with a balance due at December 31, 2020 that subsequently cancelled on or after February 16, 2021 due to non-payment of premium, of which \$21,725 and \$6,453 were charged against direct written and to bad debt expense, respectively.

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 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. No such funding has taken place from FMAP inception through December 31, 2020.

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, 2020 and 2019, 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.

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.

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

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

The cost and accumulated depreciation for capital assets was \$81,695 and \$79,708 at December 31, 2020, and \$83,525 and \$79,671 at December 31, 2019, respectively. Depreciation and amortization expense was \$2,130 and \$2,792 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, 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 \$7,225 and \$1,203 at December 31, 2020 and 2019, 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.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from premiums charged to policyholders. Operating expenses include incurred losses, LAE, 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 2020 or 2019.

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

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, 2020, 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

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 were prepared to become 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.

In January 2020, the GASB issued Statement No. 92 - *Omnibus 2020*. The guidance provides, among other topics unrelated to Citizens' financial statements, clarification on recoveries from reinsurers. Reporting entities will have the option of presenting recoveries from reinsurers as reductions of expenses. Citizens is currently evaluating the impact to this statement to the financial statements.

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. This guidance is provided in response to the planned cessation of the Interbank Offered Rate (IBOR), most notably the London Interbank Offered Rate (LIBOR), in 2021. Historically, the LIBOR rate has served as a widely-used benchmark interest rate on floating rate debt and other variable rate interest-bearing securities. New, acceptable benchmarks may include the U.S. Treasury rate, the Effective Federal Funds Rate (EFFR), or the Secured Overnight Financing Rate (SOFR). This statement is effective for periods ending after June 15, 2020 and shall be applied retroactively to all periods presented. Citizens is currently evaluating the impact to this statement to the financial statements.

In response to the global Covid-19 pandemic, in May of 2020 GASB issued Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*, which extended the implementation dates of the above pronouncements for periods ranging from 12 to 18 months from the original effective date.

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

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, 2020 and 2019, 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, 2020 and 2019, 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.

	2020			
	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:				
Long-term investments	\$ 8,627,970	\$ 1,516,587	\$ 7,111,383	\$ -
Short-term investments	109,047	74,478	34,569	-
Cash and cash equivalents	540,593	525,324	15,269	-
Investment income due and accrued	<u>56,344</u>	<u>-</u>	<u>56,344</u>	<u>-</u>
Total financial assets	<u>\$ 9,333,954</u>	<u>\$ 2,116,389</u>	<u>\$ 7,217,565</u>	<u>\$ -</u>
Financial liabilities:				
Long-term debt	\$ 891,629	\$ -	\$ 891,629	\$ -
Interest payable	<u>3,407</u>	<u>-</u>	<u>3,407</u>	<u>-</u>
Total financial liabilities	<u>\$ 895,036</u>	<u>\$ -</u>	<u>\$ 895,036</u>	<u>\$ -</u>

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	2019			
	<u>Estimated Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets:				
Long-term investments	\$ 8,308,866	\$ 1,629,039	\$ 6,679,827	\$ -
Short-term investments	230,015	209,617	20,398	-
Cash and cash equivalents	511,861	503,810	8,051	-
Investment income due and accrued	<u>61,455</u>	<u>-</u>	<u>61,455</u>	<u>-</u>
Total financial assets	<u>\$ 9,112,197</u>	<u>\$ 2,342,466</u>	<u>\$ 6,769,731</u>	<u>\$ -</u>
Financial liabilities:				
Long-term debt	\$ 1,396,843	\$ -	\$ 1,396,843	\$ -
Interest payable	<u>5,411</u>	<u>-</u>	<u>5,411</u>	<u>-</u>
Total financial liabilities	<u>\$ 1,402,254</u>	<u>\$ -</u>	<u>\$ 1,402,254</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.

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, 2020 and 2019.

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.

Citizens did not recognize any other-than-temporary impairments during the year ended December 31, 2020. During the year ended December 31, 2019, Citizens recognized \$12,801 of other-than-temporary impairments on the basis of Citizens' intent to sell the securities. These securities were subsequently sold prior to the year ended December 31, 2019 and are recorded as realized capital losses, a component of net investment income. Citizens evaluates external indicators, such as issuer credit ratings along with the extent and duration of the declines, and internal indicators such as ability and intent with respect to retention of impaired securities in determining whether declines in market value are temporary or other-than-temporary.

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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, 2020 and 2019, 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 3% of the taxable investment portfolios and 5% of the tax-exempt investment portfolios.

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, 2020 and 2019, 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 generally 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, 2020.

Rating	Estimated Fair Value
A1	\$ 620,757
A2	970,436
A3	872,678
A3e	2,394
Aa1	305,504
Aa2	482,477
Aa3	428,721
Aaa	2,417,933
Ba2	4,265
Baa1	1,043,289
Baa2	742,925
Baa3	116,636
MIG1	26,479
WR	8,477
NR	694,046
	<u>\$ 8,737,017</u>

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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, 2020 and 2019.

	2020			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Non-asset backed securities:				
U.S. treasury and U.S. government	\$ 1,521,556	\$ 70,693	\$ (1,184)	\$ 1,591,065
All other government	2,235	222	-	2,457
State, territories & possessions	189,436	9,487	(34)	198,889
Political subdivisions	267,668	9,754	(5)	277,417
Special revenue	1,187,865	53,459	(855)	1,240,469
Industrial and miscellaneous	4,633,405	369,044	(738)	5,001,711
Asset-backed securities:				
Residential and commercial mortgage backed	<u>402,993</u>	<u>22,110</u>	<u>(94)</u>	<u>425,009</u>
	<u>\$ 8,205,158</u>	<u>\$ 534,769</u>	<u>\$ (2,910)</u>	<u>\$ 8,737,017</u>
	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Non-asset backed securities:				
U.S. treasury and U.S. government	\$ 1,815,922	\$ 23,855	\$ (3,015)	\$ 1,836,762
All other government	11,093	58	(12)	11,139
State, territories & possessions	202,212	2,706	(383)	204,535
Political subdivisions	266,098	4,309	(821)	269,586
Special revenue	1,444,437	19,453	(3,110)	1,460,780
Industrial and miscellaneous	4,308,334	145,938	(823)	4,453,449
Asset-backed securities:				
Residential and commercial mortgage backed	<u>295,682</u>	<u>7,489</u>	<u>(541)</u>	<u>302,630</u>
	<u>\$ 8,343,778</u>	<u>\$ 203,808</u>	<u>\$ (8,705)</u>	<u>\$ 8,538,881</u>

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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, 2020 and 2019.

	2020					
	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 States, territories and possessions	\$ 116,912	\$ (1,183)	\$ 2,373	\$ (1)	\$ 119,285	\$ (1,184)
Political subdivisions	18,237	(34)	-	-	18,237	(34)
Special revenue	2,282	(5)	-	-	2,282	(5)
Industrial and miscellaneous	37,976	(316)	8,639	(539)	46,615	(855)
Asset-backed securities	90,902	(738)	1,000	-	91,902	(738)
	<u>22,241</u>	<u>(94)</u>	<u>-</u>	<u>-</u>	<u>22,241</u>	<u>(94)</u>
Total	<u>\$ 288,550</u>	<u>\$ (2,370)</u>	<u>\$ 12,012</u>	<u>\$ (540)</u>	<u>\$ 300,562</u>	<u>\$ (2,910)</u>

	2019					
	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	\$ 212,921	\$ (1,501)	\$ 338,597	\$ (1,514)	\$ 551,518	\$ (3,015)
All other government States, territories and possessions	-	-	3,002	(12)	3,002	(12)
Political subdivisions	35,627	(361)	6,277	(22)	41,904	(383)
Special revenue	26,725	(763)	40,927	(58)	67,652	(821)
Industrial and miscellaneous	122,158	(1,506)	250,722	(1,604)	372,880	(3,110)
Asset-backed securities	125,900	(533)	162,840	(290)	288,740	(823)
	<u>34,107</u>	<u>(508)</u>	<u>10,763</u>	<u>(33)</u>	<u>44,870</u>	<u>(541)</u>
Total	<u>\$ 557,438</u>	<u>\$ (5,172)</u>	<u>\$ 813,128</u>	<u>\$ (3,533)</u>	<u>\$ 1,370,566</u>	<u>\$ (8,705)</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, 2020 and 2019.

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The estimated fair value and amortized cost of securities at December 31, 2020, 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.

	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
Maturity:		
In 2021	\$ 889,636	\$ 884,105
2022 - 2025	3,039,723	2,924,793
2026 - 2030	3,634,805	3,299,359
After 2030	747,844	693,908
Asset-backed securities	<u>425,009</u>	<u>402,993</u>
Total	<u>\$ 8,737,017</u>	<u>\$ 8,205,158</u>

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

	<u>2020</u>	<u>2019</u>
Gross interest income:		
Bonds	\$ 197,084	\$ 209,780
Cash, cash equivalents, and short-term investments	<u>5,630</u>	<u>20,322</u>
Total gross interest income	<u>202,714</u>	<u>230,102</u>
Net realized gains (losses):		
Net realized capital gains (losses) on sales		
Bonds	62,262	13,202
Cash, cash equivalents, and short-term investments	<u>55</u>	<u>(6,377)</u>
Total net realized capital gains (losses) on sales	62,317	6,825
Gain on optional debt redemption	<u>1,519</u>	-
Net realized gains (losses)	<u>63,836</u>	<u>6,825</u>
Net increase (decrease) in the fair value of investments	<u>336,342</u>	<u>376,041</u>
Investment expenses	<u>(4,028)</u>	<u>(4,480)</u>
Net investment income	<u>\$ 598,864</u>	<u>\$ 608,488</u>

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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, 2020 and 2019, were as follows:

	<u>2020</u>	<u>2019</u>
Direct loss and loss adjustment expense reserves, beginning of year	\$ 1,007,062	\$ 1,344,719
Less reinsurance recoverables on reserves	<u>(306,677)</u>	<u>(606,348)</u>
Net loss and loss adjustment expense reserves, beginning of year	<u>700,385</u>	<u>738,371</u>
Incurred related to:		
Current accident year	550,878	405,139
Prior accident years	<u>69,182</u>	<u>94,822</u>
Total incurred	<u>620,060</u>	<u>499,961</u>
Paid related to:		
Current accident year	(231,683)	(168,707)
Prior accident years	<u>(321,709)</u>	<u>(369,472)</u>
Total paid	<u>(553,392)</u>	<u>(538,179)</u>
Change in retroactive reinsurance reserves ceded	<u>13</u>	<u>232</u>
Net loss and loss adjustment expense reserves, end of year	767,066	700,385
Add reinsurance recoverables on reserves	<u>182,205</u>	<u>306,677</u>
Direct loss and loss adjustment expense reserves, end of year	<u>\$ 949,271</u>	<u>\$ 1,007,062</u>

As a result of changes in estimates of insured events in prior years, the provision for loss and LAE reserves increased by \$69,182 and \$94,822, net of reinsurance, in 2020 and 2019, 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 \$69,182 during 2020. 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 2020 and 2019, net recoveries with respect to reinsurance recoverable on paid losses and LAE was \$207,773 and \$390,150, respectively.

For the years ended December 31, 2020 and 2019, ultimate losses and LAE attributable to Hurricane Irma were \$2,270,341 and \$2,160,170, respectively, excluding recorded anticipated reinsurance recoveries of \$935,780 and \$879,778, respectively. For the years ended December 31, 2020 and 2019, ultimate losses and LAE attributable to Hurricane Michael were \$149,953 and \$149,861, respectively, 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.

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 \$1,009,377 and \$1,140,744 in the Coastal Account and PLA and CLA, respectively, for 2020 and \$1,033,202 and \$979,560 in the Coastal Account and PLA and CLA, respectively, for 2019. Reinsurance coverage purchased in the Coastal Account and PLA through traditional and capital markets totaled \$803,000 and \$218,000 for 2020, respectively, and \$1,272,855 and \$175,500 for 2019, respectively. At December 31, 2020, Citizens was party to two outstanding insurance-linked securities (ILS) contracts as a ceding insurer that provide aggregate maximum proceeds of \$250,000 for directly-written insurance risks by Citizens at an attachment level of \$1,446,000 in the Coastal Account and aggregate maximum proceeds of \$110,000 for directly-written insurance risks by Citizens at an attachment level of \$1,641,000 in the PLA.

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

	2020		2019	
	Written	Earned	Written	Earned
Direct premiums	\$ 1,182,125	\$ 996,996	\$ 876,558	\$ 860,795
FHCF ceded premiums	(142,720)	(142,720)	(133,602)	(133,602)
Private ceded premiums	(83,989)	(83,989)	(94,639)	(94,639)
Depopulation ceded premiums	(12,372)	(8,710)	(9,328)	(16,479)
Net premiums	<u>\$ 943,044</u>	<u>\$ 761,577</u>	<u>\$ 638,989</u>	<u>\$ 616,075</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 \$56,002 and \$182,250 during 2020 and 2019, respectively. For the years ended December 31, 2020 and 2019, ceded unearned premiums on depopulation contracts of \$7,710 and \$4,048, 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, 2020 and 2019.

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, 2020, Citizens reported a net recoverable due from FHCF in the amount of \$195,938 or approximately 2.8% of total net position. As of December 31, 2019, Citizens reported a net recoverable due from FHCF in the amount of \$353,809, or approximately 5.4% of total net position. FHCF net recoverable amounts at December 31, 2020 and 2019 are comprised of ceded loss and LAE reserves for claims arising from Hurricane Irma.

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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:

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	\$ -	\$ -	3.000% - 5.000%	\$ 175,000	\$ 4,300
Series 2012A-1 Senior Secured Bonds (Pre-event PLA/CLA)	Jun 21, 2012	320,000	323,508	3.000% - 5.000%	160,000	19,934
Series 2015A-1 Senior Secured Bonds (Pre-event Coastal)	Jun 2, 2015	500,000	526,182	3.000% - 5.000%	150,000	25,757
Total		<u>\$ 820,000</u>	<u>\$ 849,690</u>		<u>\$ 485,000</u>	<u>\$ 49,991</u>

Interest expense includes the amortization and accretion of premiums and discounts of \$13,794 and \$20,258 for the years ended December 31, 2020 and 2019, respectively. Net unamortized premium at December 31, 2020 and 2019 was \$29,690 and \$45,003 respectively.

A schedule of bond maturities is as follows:

Years ended December 31,	2012A-1 Bonds	2015A-1 Bonds	Total
2021	\$ 160,000	\$ -	\$ 160,000
2022	160,000	225,000	385,000
2023	-	-	-
2024	-	-	-
2025	-	275,000	275,000
	<u>\$ 320,000</u>	<u>\$ 500,000</u>	<u>\$ 820,000</u>

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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>
2021	160,000	36,217	196,217
2022	385,000	21,722	406,722
2023	-	13,750	13,750
2024	-	13,750	13,750
2025	<u>275,000</u>	<u>5,729</u>	<u>280,729</u>
	<u>\$ 820,000</u>	<u>\$ 91,168</u>	<u>\$ 911,168</u>

On January 10, 2020, Citizens exercised an optional redemption of Series 2015A-1 Senior Secured pre-event fixed-rate bonds at par value for \$150,000 with an original maturity of June 1, 2020. Citizens recognized a gain of \$1,519 as a result of the redemption due to the carrying value of the bonds exceeding the optional redemption price at execution. In June 2020, the Series 2011A-1 Senior Secured pre-event fixed-rate bonds reached their contractual maturity and were paid in-full.

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 \$6,044 and \$5,684 for the years ended December 31, 2020 and 2019, 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 \$87,858 and \$65,155 during 2020 and 2019, 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 servicing 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 \$7.25 to \$67.32 (dollars), depending on the complexity and volume of each transaction. Service company fees incurred were \$2,398 and \$2,187, during 2020 and 2019, respectively. There were no premiums written by service providers which individually are more than 5% of policyholders' surplus.

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 2020 and 2019, Citizens recognized ceded written premiums of \$12,372 and \$9,328, respectively as a result of depopulation.

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, 2020 and 2019, assumed premiums recoverable in the amount of \$317 and \$2,318, 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 \$6,049 and \$147 at December 31, 2020 and 2019, 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 \$6,355 and \$7,168 for the years ended December 31, 2020 and 2019, 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:

2021	5,294
2022	5,423
2023	5,554
2024	5,620
2025	5,601
After	<u>3,082</u>
Total	<u>\$ 30,574</u>

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 2020, 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.

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, 2020 and 2019, 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 minimal changes in insurance coverage, terms or conditions from the previous year.

Emergency Order – COVID-19 Pandemic

In December 2019, a coronavirus (COVID-19) was reported in China and in March 2020 the World Health Organization declared it a pandemic. This contagious disease outbreak has continued to spread across the globe and is impacting worldwide economic activity and financial markets. On March 9, 2020, the Governor of Florida declared a state of emergency in order to receive federal funding for the state as did many other states. As a result, there is a risk and uncertainty surrounding the impact this pandemic might have on the Company.

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

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 income (loss) and accumulated surplus for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Change in net position – U.S. GAAP basis	\$ 459,287	\$ 461,619
Adjustments:		
Change in allowance for doubtful accounts	6,022	752
Change in FIGA assessment income	-	1
Change in other expense	-	(1)
Change in net unrealized (gain) loss on investments	<u>(336,342)</u>	<u>(376,042)</u>
Net income (loss) - statutory basis	<u>\$ 128,967</u>	<u>\$ 86,329</u>
	<u>2020</u>	<u>2019</u>
Net position – U.S. GAAP basis	\$ 6,983,319	\$ 6,523,875
Adjustments:		
Nonadmitted assets, net of allowance	(9,635)	(10,764)
Provision for reinsurance	(20)	(75)
Net unrealized (gain) loss on investments	<u>(531,858)</u>	<u>(195,103)</u>
Accumulated surplus - statutory basis	<u>\$ 6,441,806</u>	<u>\$ 6,317,933</u>

14. Assessments and Other Regulatory Matters

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.

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.

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

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 \$0 and \$1 and during 2020 and 2019, respectively.

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, 2020 and 2019, collections in excess of the Emergency Assessment were \$140,790 and \$140,806, 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.

In November of 2019, approximately 20,200 policies were written within the PLA to accommodate the placement of policies and provide coverage to policyholders as a result of a private market carrier discontinuing operations. As of December 31, 2019, approximately 18,000 of these policies remained inforce.

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. Pursuant to Consent Order 256458-19, in June of 2020, \$8,534 held as restricted surplus was released and transferred to unrestricted surplus.

16. Subsequent Events

Subsequent events have been considered through May 19, 2021, the date of issuance of these financial statements.

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, 2020
(Dollars in thousands)

	<u>Combined</u>	<u>Personal Lines Account</u>	<u>Commercial Lines Account</u>	<u>Coastal Account</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 540,593	\$ 264,874	\$ 109,703	\$ 166,016
Short-term investments	109,047	51,674	23,524	33,849
Restricted cash and cash equivalents	-	-	-	-
Investment income due and accrued	56,344	17,424	12,482	26,438
Reinsurance recoverable on paid losses and LAE	70,460	24,218	-	46,242
Premiums receivable, net	102,811	69,155	750	32,906
Premiums receivable from assuming companies, net	317	84	-	233
Other current assets	7,876	7,002	122	752
Inter-account receivable (payable)	-	(4,590)	438	4,152
Total current assets	<u>887,448</u>	<u>429,841</u>	<u>147,019</u>	<u>310,588</u>
Noncurrent assets:				
Long-term investments	8,627,970	2,838,397	1,952,041	3,837,532
Capital assets	1,987	1,987	-	-
Total noncurrent assets	<u>8,629,957</u>	<u>2,840,384</u>	<u>1,952,041</u>	<u>3,837,532</u>
Total assets	<u>\$ 9,517,405</u>	<u>\$ 3,270,225</u>	<u>\$ 2,099,060</u>	<u>\$ 4,148,120</u>
LIABILITIES				
Current liabilities:				
Loss reserves, net	\$ 441,480	\$ 313,230	\$ 34,595	\$ 93,655
Loss adjustment expense reserves, net	325,586	256,115	8,428	61,043
Unearned premiums	627,953	427,229	6,320	194,404
Reinsurance premiums payable	44,041	14,573	-	29,468
Advance premiums and suspended cash	20,434	13,255	332	6,847
Return premiums payable	4,557	2,839	44	1,674
Interest payable	3,407	1,147	181	2,079
Current portion of long-term debt	160,000	138,176	21,824	-
Other current liabilities	76,148	62,726	2,770	10,652
Total current liabilities	<u>1,703,606</u>	<u>1,229,290</u>	<u>74,494</u>	<u>399,822</u>
Noncurrent liabilities:				
Long-term debt	689,690	141,205	22,303	526,182
Reserve for future assessments	140,790	-	-	140,790
Total noncurrent liabilities	<u>830,480</u>	<u>141,205</u>	<u>22,303</u>	<u>666,972</u>
Total liabilities	<u>2,534,086</u>	<u>1,370,495</u>	<u>96,797</u>	<u>1,066,794</u>
Net position:				
Invested in capital assets	1,987	1,987	-	-
Unrestricted	6,981,332	1,897,743	2,002,263	3,081,326
Total net position	<u>\$ 6,983,319</u>	<u>\$ 1,899,730</u>	<u>\$ 2,002,263</u>	<u>\$ 3,081,326</u>

See independent auditors' report on the supplementary information.

Citizens Property Insurance Corporation
Supplemental Combining Statements of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2020
(Dollars in thousands)

	<u>Combined</u>	<u>Personal Lines Account</u>	<u>Commercial Lines Account</u>	<u>Coastal Account</u>
Operating revenue:				
Net premiums earned	\$ 761,577	\$ 547,177	\$ 9,788	\$ 204,612
Operating expenses:				
Net losses incurred	371,457	294,984	866	75,607
Net loss adjustment expenses incurred	248,603	197,266	883	50,454
Service company fees	2,398	1,544	24	830
Agent commissions	87,858	56,121	1,467	30,270
Taxes and fees	15,547	10,682	186	4,679
Other underwriting expenses	134,041	88,851	1,442	43,748
Total operating expenses	<u>859,904</u>	<u>649,448</u>	<u>4,868</u>	<u>205,588</u>
Operating loss	<u>(98,327)</u>	<u>(102,271)</u>	<u>4,920</u>	<u>(976)</u>
Nonoperating revenues (expenses):				
Net investment income	598,864	199,184	147,280	252,400
Net interest expense	(34,193)	(12,385)	(1,956)	(19,852)
Other income	(7,057)	(4,103)	39	(2,993)
Total nonoperating income	<u>557,614</u>	<u>182,696</u>	<u>145,363</u>	<u>229,555</u>
Change in net position	459,287	80,425	150,283	228,579
Net position, beginning of year	6,523,875	1,819,305	1,851,980	2,852,590
Other changes in net position	157	-	-	157
Net position, end of year	<u>\$ 6,983,319</u>	<u>\$ 1,899,730</u>	<u>\$ 2,002,263</u>	<u>\$ 3,081,326</u>

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Gross earned premiums and investment revenue	\$ 3,054,678	\$ 3,408,112	\$ 3,066,913	\$ 2,530,077	\$ 1,770,837	\$ 1,208,796	\$ 1,207,544	\$ 950,637	\$ 1,469,282	\$ 1,595,860
Ceded earned premiums	<u>601,934</u>	<u>881,571</u>	<u>1,073,819</u>	<u>996,252</u>	<u>899,532</u>	<u>479,845</u>	<u>297,406</u>	<u>261,780</u>	<u>244,719</u>	<u>235,419</u>
Net earned premiums and investment revenue	\$ 2,452,744	\$ 2,526,541	\$ 1,993,094	\$ 1,533,825	\$ 871,305	\$ 728,951	\$ 910,138	\$ 688,857	\$ 1,224,563	\$ 1,360,441
Unallocated expenses	\$ 366,109	\$ 507,579	\$ 495,680	\$ 366,261	\$ 278,787	\$ 241,460	\$ 226,317	\$ 213,962	\$ 213,173	\$ 239,844
Gross incurred claims and claims expenses, as originally reported	\$ 1,236,012	\$ 1,049,652	\$ 686,676	\$ 525,725	\$ 356,735	\$ 426,236	\$ 2,187,505	\$ 533,501	\$ 405,139	\$ 550,877
Incurred claims and expenses ceded, as originally reported	\$ -	\$ 5	\$ 2,127	\$ -	\$ -	\$ -	\$ 661,072	\$ -	\$ -	\$ -
Net incurred claims and claims expenses, as originally reported	\$ 1,236,012	\$ 1,049,647	\$ 684,549	\$ 525,725	\$ 356,735	\$ 426,236	\$ 1,526,417	\$ 533,501	\$ 405,139	\$ 550,877

See independent auditors' report on the supplementary information.

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

(Continued)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Paid (cumulative) as of:										
End of policy year	\$ 501,310	\$ 516,059	\$ 352,354	\$ 272,398	\$ 189,275	\$ 157,912	\$ 796,179	\$ 249,825	\$ 168,707	\$ 231,632
One year later	799,332	785,930	520,164	431,384	309,997	287,506	1,425,245	401,374	264,684	
Two years later	965,456	900,022	593,799	477,993	380,930	370,297	1,521,913	468,725		
Three years later	1,120,696	980,299	621,673	499,597	425,403	414,047	1,625,528			
Four years later	1,265,008	1,017,004	635,403	517,732	447,561	433,976				
Five years later	1,327,294	1,039,769	652,548	526,819	458,488					
Six years later	1,352,225	1,054,857	662,233	531,567						
Seven years later	1,385,031	1,062,095	666,377							
Eight years later	1,391,298	1,065,385								
Nine years later	1,395,522									
Re-estimated incurred claims and claims expenses ceded										
	\$ -	\$ -	\$ 20	\$ 2,050	\$ -	\$ -	\$ -	\$ 936,067	\$ -	
Re-estimated net incurred claims and expense:										
End of policy year	\$ 1,236,012	\$ 1,049,647	\$ 684,549	\$ 525,725	\$ 356,735	\$ 426,236	\$ 1,526,417	\$ 533,501	\$ 405,139	\$ 550,877
One year later	1,237,713	1,068,384	648,934	548,044	447,773	426,974	1,616,623	547,224	395,702	
Two years later	1,259,076	1,045,511	664,324	544,336	462,153	454,204	1,696,123	549,460		
Three years later	1,342,169	1,069,951	664,381	545,888	469,551	458,339	1,756,624			
Four years later	1,384,234	1,066,689	668,832	537,857	471,998	461,822				
Five years later	1,393,538	1,070,375	667,898	537,427	473,428					
Six years later	1,396,260	1,070,683	670,811	537,965						
Seven years later	1,406,454	1,070,052	671,843							
Eight years later	1,404,239	1,073,070								
Nine years later	1,407,643									
Increase (decrease) in estimated incurred claims and expense from end of policy year										
	\$ 171,631	\$ 23,423	\$ (12,706)	\$ 12,240	\$ 116,693	\$ 35,586	\$ 230,207	\$ 15,959	\$ (9,437)	\$ -

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

Audit Committee
Citizens Property Insurance Corporation
Tallahassee, FL

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, 2020, 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 19, 2021.

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

Tampa, FL
May 19, 2021