

Citizens Property Insurance Corporation

**Financial Statements
and Supplementary Information**

Years Ended December 31, 2019 and 2018

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Independent Auditors' Report

Audit Committee
Citizens Property Insurance Corporation
Tallahassee, Florida

We have audited the accompanying financial statements of Citizens Property Insurance Corporation (Citizens), an enterprise fund of the State of Florida, which comprise of statements of net position as of December 31, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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, 2019, 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 15, 2020 on our consideration of Citizens' internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Citizens' internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

**Charlotte, North Carolina
May 15, 2020**

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 \$6,523,875.
- Citizens' total net position increased by \$461,642 primarily as a result of net investment income.
- The operating loss of \$97,060 represents a decrease of \$183,640 for 2019 as compared to the operating loss reported for 2018. The 2018 operating loss was principally driven by development of net losses and LAE incurred related to Hurricane Irma in addition to losses and LAE attributable to Hurricane Michael. Adverse development on net Hurricane Irma losses and LAE in 2019 contributed most significantly to the 2019 underwriting loss.
- Operating expenses were comparatively unchanged during 2019.
- Nonoperating income of \$558,679 increased \$554,790 during 2019 as compared to nonoperating income of \$3,889 for 2018. The net increase is primarily a result of increases in net investment income of \$542,606. Net investment income increases in 2019 were principally driven by net unrealized gains of \$376,041 and net realized gains of \$19,626 on Citizens' invested assets. Net interest expense decreases in 2019 were the result of schedule maturities of pre-event bonds of \$335,000.

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.

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

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

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

2. Financial Analysis

Cash and invested assets

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

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

Cash and the estimated market value of Citizens' invested assets totaled \$9,050,742 at December 31, 2019, marking a decrease of \$19,778 from December 31, 2018. The overall decrease consisted of reductions in short and long-term investments of \$84,178 partially offset by increases in cash and equivalents of \$64,400. Proceeds from redemptions of short and long-term investments were largely used for debt service obligations on pre-event bonds of \$335,000.

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(Dollars in thousands)

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, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Direct loss and loss adjustment expense reserves, beginning of year	\$ 1,344,719	\$ 1,832,958
Less reinsurance recoverables on reserves	<u>(606,348)</u>	<u>(661,854)</u>
Net loss and loss adjustment expense reserves, beginning of year	<u>738,371</u>	<u>1,171,104</u>
Incurred related to:		
Current accident year	405,139	553,502
Prior accident years	<u>94,822</u>	<u>136,211</u>
Total incurred	<u>499,961</u>	<u>689,713</u>
Paid related to:		
Current accident year	(168,707)	(249,825)
Prior accident years	<u>(369,472)</u>	<u>(872,628)</u>
Total paid	<u>(538,179)</u>	<u>(1,122,453)</u>
Change in retroactive reinsurance reserves ceded	<u>232</u>	<u>7</u>
Net loss and loss adjustment expense reserves, end of year	700,385	738,371
Add reinsurance recoverables on reserves	<u>306,677</u>	<u>606,348</u>
Direct loss and loss adjustment expense reserves, end of year	<u>\$ 1,007,062</u>	<u>\$ 1,344,719</u>

Reserves for unpaid losses, net of amounts ceded under reinsurance contracts, increased \$14,941 and reserves for unpaid LAE reserves, net of amounts ceded under reinsurance contracts, decreased \$52,927. Net unpaid losses and LAE reserves related to catastrophes (2004 and 2005 hurricanes, 2008 Tropical Storm Fay, 2016 Hurricane Matthew, 2017 Hurricane Irma and 2018 Hurricane Michael) decreased \$1,807 largely due to the development of 2017 hurricane claims. Net unpaid losses and LAE reserves not related to hurricanes decreased \$36,411 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.

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Management's Discussion & Analysis
(Dollars in thousands)

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 2019, cash outflows associated with Citizens' Senior Secured Bonds totaled \$335,000 in principal repayments and \$73,269 in interest obligations. Net interest expense of \$51,621 includes net amortization of bond premiums of \$20,259 for the year ended December 31, 2019.

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, 2019 and 2018, funds held in this reserve totaled \$140,806 and \$141,655 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>2019</u>	<u>2018</u>	<u>2017</u>	<u>%Change 2019-2018</u>	<u>%Change 2018-2017</u>
Operating revenue:					
Premiums earned	\$ 616,075	\$ 622,975	\$ 626,446	(1.1) %	(0.5) %
Operating expenses:					
Losses and loss adjustment expenses incurred	499,962	689,713	1,565,096	(27.5) %	(55.9) %
Other underwriting expenses	<u>213,173</u>	<u>213,962</u>	<u>226,317</u>	(0.4) %	(5.5) %
Total expenses	<u>713,135</u>	<u>903,675</u>	<u>1,791,413</u>	(21.1) %	(49.5) %
Operating loss	(97,060)	(280,700)	(1,164,967)	65.4 %	75.9 %
Non-operating income (expense)	<u>558,679</u>	<u>3,889</u>	<u>195,420</u>	14,265.6 %	(98.0) %
Change in net position	<u>\$ 461,619</u>	<u>\$ (276,811)</u>	<u>\$ (969,547)</u>	266.8 %	71.4 %
Policies in-force (as of year-end)	442,196	427,395	440,406	3.5 %	(2.9) %
Policies serviced (as of year-end)	447,433	441,066	463,754	1.4 %	(4.9) %
Underwriting ratios:					
Net loss and LAE ratio (calendar year)	81%	111%	250%	(30)%	(139)%
Expense ratio (calculated on net premiums earned)	<u>35%</u>	<u>34%</u>	<u>36%</u>	1%	(2)%
Combined ratio	<u>116%</u>	<u>145%</u>	<u>286%</u>	(29)%	(141)%

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(Dollars in thousands)

Operating loss

For 2019, Citizens incurred an underwriting loss of \$97,060, a decrease of \$183,640 from the operating loss reported in December 31, 2018. The 2018 underwriting loss was principally driven by development of net losses and LAE incurred related to Hurricane Irma in addition to losses and LAE attributable to Hurricane Michael of \$151,725. Adverse development on net Hurricane Irma losses and LAE of \$62,252 in 2019 contributed most significantly to the 2019 operating loss.

Direct Written Premium

During 2019, consolidated direct written premium increased \$8,142 (1%). By account, increase (decreases) in direct written premium were \$30,707 (6%), (\$2,694) (-18%), and (\$19,871) (-6%) within the PLA, CLA, and Coastal Account, respectively. An analysis of observed trends in direct written premium, by account, follows:

Personal Lines Account

In November of 2019, approximately 20,200 policies were written 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.

At December 31, 2019, the number of policies inforce within the PLA was approximately 323,000 reflecting a 6% increase relative to December 31, 2018. While the number of cancellations and non-renewals in 2019 were relatively unchanged relative to 2018, the number of policies assumed decreased by approximately 50%. Premiums written during 2019 were \$558,477 or \$30,707 (6%) greater than 2018. Premiums ceded through depopulation during 2019 were \$6,035 or \$129 (2%) less than 2018.

Commercial Lines Account

At December 31, 2019, the number of policies inforce within the CLA was approximately 700 reflecting a 20% decrease relative to December 31, 2018. The number of new policies written during 2019 was 23 and approximated the same number of new policies written during 2018. The number of cancellations (66) and non-renewals (155) contributed most significantly to the year-over-year decrease in policies inforce. Citizens' commercial policies remain attractive to insurers both in the private market and E&S market, particularly commercial policies with higher average premiums, leading to decreases in premiums written surpassing decreases in policies inforce. Premiums written during 2019 were \$11,972 or \$2,694 (18%) less than 2018. Premiums ceded through depopulation during 2019 were \$7 or \$44 (87%) less than 2018.

Coastal Account

At December 31, 2019, the number of policies inforce within the Coastal Account was approximately 119,000 reflecting a 3% decrease relative to December 31, 2018. Although policies assumed during 2019 were approximately one-third the amount assumed during 2018, the number of non-renewals and cancellations outpaced the number of new policies written causing year-over-year declines in policies inforce. Premiums written during 2019 were \$306,111 or \$19,871 (6%) less than 2018. Premiums ceded through depopulation during 2019 were \$3,286 or \$8,394 (72%) less than 2018.

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

Losses and LAE incurred

Non-catastrophe loss and LAE ratios were relatively unchanged in 2019 in comparison to 2018, driven by decreasing litigation rates on non-weather water loss claims from accident years 2019 and 2018, partially offset by an increase in average loss and LAE severity on non-weather water loss claims. The PLA continues to represent a larger portion of Citizens' overall business increasing from 61% in 2018 to 64% in 2019.

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(Dollars in thousands)

With this proportional increase, Citizens' consolidated underwriting results will continue to be dominated by underwriting results within the PLA. Consolidated direct losses and LAE incurred related to hurricanes (namely Hurricanes Michael and Irma) increased \$243,196, of which \$181,520 was ceded through Citizens' reinsurance program.

At December 31, 2019, consolidated direct ultimate losses and LAE related to Hurricane Irma were increased by \$244,746. A majority of the development that occurred during 2019 (\$210.8 million of the \$244.5 million) occurred within the PLA and resulted from an increase in claim counts and loss severity (driven by an increase in inflationary trends), particularly in the Southeastern region of the state, despite reductions in actual and projected litigation rates. LAE associated with Hurricane Irma was relatively unchanged in 2019 compared to 2018. Projected claims counts in the PLA and Coastal Account increased approximately 1,200 (2.6%) and 600 (2.0%), respectively, both driven by increases in claim counts in the Southeastern region of the state. Loss severity in the PLA and Coastal Account increased approximately \$4,000 (27.3%) and \$200 (1.0%), respectively, with the largest increases occurring within the Southeastern region of the state. Year-over-year changes in LAE from Hurricane Irma were relatively unchanged.

On a consolidated basis, ultimate direct losses and LAE related to Hurricane Michael were relatively unchanged with year-end loss and LAE reserves of \$149.9 million, reflecting a \$1.8 million (1.1%) reduction from 2018.

No reinsurance recoverables associated with Hurricane Michael were recorded due to the losses and LAE not meeting the attachment levels of reinsurance arrangements.

Litigation of non-weather water claims continues to impact loss and LAE severity, particularly within the PLA, however accident years 2018 and 2019 have shown improvement relative to prior accident years. It is expected that the litigation rate for non-weather water loss claims for accident years 2018 and 2019 will remain under 30%, marking favorable decline from prior accident years where litigation rates approached 50%.

Within the CLA, volatility in older sinkhole claims continues to contribute to material quarterly variances in the reported loss and LAE ratios. While loss and LAE development within the CLA are less significant to the accident years to which they relate, the diminishing size of the overall commercial lines book of business leaves it more susceptible to material swings in the loss and LAE ratio as a result of development in prior accident years when the commercial lines book of business was considerably larger. The reported loss ratio for 2019 was driven by favorable development on outstanding loss reserves for older sinkhole claims while the current accident year loss ratio was driven by a sinkhole claim for a loss that occurred in 2019. Loss and LAE ratios reported in future periods could be significantly affected by the development of this sinkhole claim.

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 2019 was \$556,867 or \$554,556 more than 2018. Net realized and unrealized gains during 2019 were \$6,825 and \$376,042, respectively, marking an increase of \$30,754 and \$507,959, respectively, compared to 2018. Average invested assets decreased \$504,580 over the same comparable period. The relative and absolute increases in investment income were principally driven by significant increases in realized and unrealized gains, partially offset by \$12,335 in realized losses arising from the disposition of certain legacy securities, and increased yields persisting from investing in a higher interest rate environment. In September 2019, certain legacy securities were impaired resulting in an other-than-temporary impairment loss of \$12,801. With the recent overall increases in bond prices, most securities disposed of through the active management of invested assets have generated realized gains thereby increasing overall investment income. Holdings in tax-exempt securities within bond proceeds accounts have declined as outstanding bond obligations decline. A reduction in these holdings result in proportional increases in securities that generally produce higher yields.

Interest expense incurred on senior secured bonds outstanding were \$51,621 during 2019 in comparison to \$63,571 in 2018. The decrease was driven by reductions in pre-event bonds outstanding during 2019.

4. Subsequent Events

Subsequent events have been considered through May 15, 2020, the date of issuance of these financial statements. 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 million 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 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.

There were no other 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, 2019 and 2018
(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 503,327	\$ 439,080
Short-term investments	230,015	313,643
Restricted cash and cash equivalents	8,534	8,381
Investment income due and accrued	61,455	67,880
Reinsurance recoverable on paid losses and LAE	97,759	5,988
Premiums receivable, net	69,096	66,346
Premiums receivable from assuming companies, net	2,318	1,178
Other current assets	31,241	7,748
	<u>1,003,745</u>	<u>910,244</u>
Noncurrent assets:		
Long-term investments	8,308,866	8,309,416
Capital assets	3,854	5,922
	<u>8,312,720</u>	<u>8,315,338</u>
Total assets	<u>\$ 9,316,465</u>	<u>\$ 9,225,582</u>
LIABILITIES		
Current liabilities:		
Loss reserves, net	\$ 392,468	\$ 377,527
Loss adjustment expense reserves, net	307,917	360,844
Unearned premiums, net	446,486	423,572
Reinsurance premiums payable	43,564	45,738
Advance premiums and suspended cash	18,433	19,272
Return premiums payable	4,486	2,335
Interest payable	5,411	6,801
Current portion of long-term debt	485,000	355,259
Other current liabilities	83,016	80,344
	<u>1,786,781</u>	<u>1,671,692</u>
Noncurrent liabilities:		
Long-term debt	865,003	1,350,002
Reserve for future assessments	140,806	141,655
	<u>1,005,809</u>	<u>1,491,657</u>
Total liabilities	<u>\$ 2,792,590</u>	<u>\$ 3,163,349</u>
Net position:		
Invested in capital assets	\$ 3,854	\$ 5,922
Restricted	8,534	8,381
Unrestricted	6,511,487	6,047,930
	<u>6,523,875</u>	<u>6,062,233</u>
Total net position	<u>\$ 6,523,875</u>	<u>\$ 6,062,233</u>

See accompanying notes.

Citizens Property Insurance Corporation
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018
(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
Operating revenue:		
Net premiums earned	<u>\$ 616,075</u>	<u>\$ 622,975</u>
Operating expenses:		
Net losses incurred	331,849	466,995
Net loss adjustment expenses incurred	168,113	222,718
Service company fees	2,187	1,759
Agent commissions	65,155	65,113
Taxes and fees	11,267	11,181
Other underwriting expenses	<u>134,564</u>	<u>135,909</u>
Total operating expenses	<u>713,135</u>	<u>903,675</u>
Operating loss	<u>(97,060)</u>	<u>(280,700)</u>
Nonoperating revenues (expenses):		
Net investment income	608,488	65,882
Net interest expense	(51,621)	(63,571)
Assessment income	(1)	(9)
Other income	<u>1,813</u>	<u>1,587</u>
Total nonoperating income	<u>558,679</u>	<u>3,889</u>
Change in net position	461,619	(276,811)
Net position, beginning of year	6,062,233	6,338,871
Other changes in net position	<u>23</u>	<u>173</u>
Net position, end of year	<u>\$ 6,523,875</u>	<u>\$ 6,062,233</u>

See accompanying notes.

Citizens Property Insurance Corporation
Statements of Cash Flows
Years Ended December 31, 2019 and 2018
(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Premiums collected, net of reinsurance	\$ 631,648	\$ 615,131
Net losses and loss adjustment expenses paid	(631,613)	(1,125,106)
Payments to employees for services	(92,735)	(90,909)
Payments for underwriting expenses	(113,946)	(115,935)
Net cash used in operating activities	<u>(206,646)</u>	<u>(716,819)</u>
Cash flows from noncapital financing activities:		
Debt redemption	(335,000)	(255,000)
Interest paid	(73,269)	(87,939)
Other non-operating receipts	2,545	2,536
Assessment income paid	-	(151)
Net cash used in noncapital financing activities	<u>(405,724)</u>	<u>(340,554)</u>
Cash flows from capital and related financing activities:		
Capital assets acquired	(470)	(2,318)
Net cash used in capital and related financing activities	<u>(470)</u>	<u>(2,318)</u>
Cash flows from investing activities:		
Proceeds from investments sold, matured or repaid	3,265,257	3,051,039
Investment acquisition	(2,825,881)	(2,783,950)
Interest income received	237,864	274,246
Net cash provided by investing activities	<u>677,240</u>	<u>541,335</u>
Net change in cash and cash equivalents	64,400	(518,356)
Cash and cash equivalents, beginning of year	<u>447,461</u>	<u>965,817</u>
Cash and cash equivalents, end of year	<u><u>\$ 511,861</u></u>	<u><u>\$ 447,461</u></u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 503,327	\$ 439,080
Restricted cash and cash equivalents	8,534	8,381
	<u><u>\$ 511,861</u></u>	<u><u>\$ 447,461</u></u>

See accompanying notes.

Citizens Property Insurance Corporation
Statements of Cash Flows
Years Ended December 31, 2019 and 2018
(Dollars in thousands)

(Continued)

	<u>2019</u>	<u>2018</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (97,060)	\$ (280,700)
Adjustments to reconcile net cash used in operating activities:		
Depreciation expense	2,788	3,908
(Increase) decrease in operating assets:		
Reinsurance recoverable on paid losses and LAE	(91,771)	(5,101)
Premiums receivable	(2,750)	5,707
Premiums receivable from assuming companies	(1,140)	-
Other assets	4,936	(3,292)
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	(37,986)	(432,733)
Unearned premiums, net	22,914	(7,014)
Reinsurance premiums payable	(2,174)	(5,286)
Advance premiums and suspended cash	(839)	119
Other current liabilities	(3,564)	7,573
Net cash used in operating activities	<u>\$ (206,646)</u>	<u>\$ (716,819)</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.

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, 2019.

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, 2019 and 2018, 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 \$83,525 and \$79,671 at December 31, 2019, and \$88,705 and \$82,783 at December 31, 2018, respectively. Depreciation and amortization expense was \$2,792 and \$3,908 for the years ended December 31, 2019 and 2018, respectively and is included in other underwriting expenses on the accompanying statements of revenues, expenses and changes in net position.

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

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, 2019 and 2018, 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 \$1,203 and \$451 at December 31, 2019 and 2018, 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, loss adjustment expenses, policy acquisition costs and necessary costs incurred to provide and administer residential and commercial property insurance coverage and to carry out programs for the reduction of new and renewal writings.

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

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 2019 or 2018.

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.

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Citizens' exposure to concentrations of credit risk consists primarily of its cash, investments, and reinsurance balances. Citizens minimizes this risk by maintaining cash at highly rated financial institutions, adhering to an investment strategy that emphasizes preservation of principal and contracting with reinsurance companies that meet certain rating criteria and other qualifications. Financial instruments that potentially subject Citizens to concentrations of credit risk consist principally of cash and cash equivalents, and investments. Citizens' cash management and investment policies restrict investments by type, credit and issuer, and Citizens performs periodic evaluations of the credit standing of the financial institutions with which it deals. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250 per depositor. Bank deposits at times may exceed federally insured limits. An increased risk of loss occurs as more investments are acquired from one issuer or a group of issuers within one industry which results in a concentration of credit risk. Excluding securities issued by U.S. Government & Agencies, Citizens does not hold any securities from any single issuer that exceeded 5% of the investment portfolio. Citizens' investment strategy focuses primarily on higher quality, fixed income securities. Citizens reviews the credit strength of all entities in which it invests, limits its exposure in any one investment, and monitors portfolio quality, taking into account credit ratings assigned by recognized credit rating organizations. Citizens enters into reinsurance treaties with highly rated reinsurers and obtains a letter of credit from any unauthorized reinsurer and certain certified reinsurers. As of December 31, 2019, 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 are effective for reporting periods beginning after December 15, 2019, and shall be adopted on a prospective basis. Citizens is currently evaluating the impact to this statement to the financial statements.

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.

Citizens Property Insurance Corporation
Notes to Financial Statements
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3. Fair Value Measurements

Citizens' estimates of fair value for financial assets and financial liabilities are based on the framework established in the fair value measurements and disclosures accounting guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect Citizens' significant market assumptions. The three levels of the hierarchy are as follows:

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

At December 31, 2019 and 2018, 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, 2019 and 2018, 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.

	2019			
	Estimated Fair Value	Level 1	Level 2	Level 3
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>

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

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

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

Long-term and Short-Term Investments

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

When quoted prices in active markets are not available, the determination of estimated fair value is based on market standard valuation methodologies, giving priority to observable inputs.

The significant inputs to the market standard valuation methodologies for certain types of securities with reasonable levels of price transparency are inputs that are observable in the market or which can be derived principally from or corroborated by observable market data. Generally, these investments are classified as Level 2.

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

Cash and Cash Equivalents

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

Investment Income Due and Accrued and Interest Payable

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

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

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, 2019 and 2018.

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.

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 did not recognize any other-than-temporary impairments for the year ended December 31, 2018. 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.

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, 2019 and 2018, respectively. All investments were held by Citizens or its agent in Citizens' name.

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

Citizens Property Insurance Corporation
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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, 2019 and 2018, respectively. All investments are settled in U.S. dollars.

Credit Risk Disclosure - Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. All long-term and short-term securities held in the investment portfolio are rated by two of the three nationally recognized rating agencies. The following table presents the fair value by rating classification as reported by Moody's at December 31, 2019.

Rating	<u>Estimated Fair Value</u>
A1	\$ 685,527
A2	898,224
A3	792,678
A3e	2,340
Aa1	437,629
Aa2	558,916
Aa3	421,601
Aaa	2,562,675
Aaae	9,186
Ba1	975,790
Baa2	448,305
Baa3	35,620
MIG1	10,728
WR	14,060
NR	<u>685,601</u>
	<u>\$ 8,538,881</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, 2019 and 2018.

	2019			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
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>

	2018			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Non-asset backed securities:				
U.S. treasury and U.S. government	\$ 1,658,101	\$ 4,268	\$ (28,493)	\$ 1,633,876
All other government	12,559	-	(260)	12,299
State, territories & possessions	230,215	128	(2,123)	228,220
Political subdivisions	326,973	683	(2,332)	325,324
Special revenue	1,762,921	2,167	(21,858)	1,743,230
Industrial and miscellaneous	4,490,258	16,127	(142,793)	4,363,592
Asset-backed securities:				
Residential and commercial mortgage backed	319,735	164	(6,547)	313,352
Industrial and miscellaneous	<u>3,170</u>	<u>-</u>	<u>(4)</u>	<u>3,166</u>
	<u>\$ 8,803,932</u>	<u>\$ 23,537</u>	<u>\$ (204,410)</u>	<u>\$ 8,623,059</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, 2019 and 2018.

	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>

	2018					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury and U.S. government	\$ 234,901	\$ (1,027)	\$ 1,120,406	\$ (27,466)	\$ 1,355,307	\$ (28,493)
All other government States, territories and possessions	-	-	12,299	(260)	12,299	(260)
Political subdivisions	30,585	(233)	145,683	(1,890)	176,268	(2,123)
Special revenue	32,443	(69)	207,149	(2,263)	239,592	(2,332)
Industrial and miscellaneous	124,186	(1,010)	1,193,767	(20,848)	1,317,953	(21,858)
Asset-backed securities	1,668,808	(42,941)	2,326,769	(99,852)	3,995,577	(142,793)
	<u>136,303</u>	<u>(2,208)</u>	<u>158,531</u>	<u>(4,343)</u>	<u>294,834</u>	<u>(6,551)</u>
Total	<u>\$ 2,227,226</u>	<u>\$ (47,488)</u>	<u>\$ 5,164,604</u>	<u>\$ (156,922)</u>	<u>\$ 7,391,830</u>	<u>\$ (204,410)</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, 2019 and 2018.

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The estimated fair value and amortized cost of securities at December 31, 2019, 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 2020	\$ 988,706	\$ 987,383
2021 - 2024	3,509,328	3,465,671
2025 - 2029	3,086,047	2,960,921
After 2029	652,170	634,121
Asset-backed securities	<u>302,630</u>	<u>295,682</u>
Total	<u>\$ 8,538,881</u>	<u>\$ 8,343,778</u>

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

	<u>2019</u>	<u>2018</u>
Gross interest income:		
Bonds	\$ 209,780	\$ 205,125
Cash, cash equivalents, and short-term investments	<u>20,322</u>	<u>21,091</u>
Total gross interest income	<u>230,102</u>	<u>226,216</u>
Net realized gain (loss) on sales of invested assets:		
Bonds	13,202	(26,216)
Cash, cash equivalents, and short-term investments	<u>(6,377)</u>	<u>2,287</u>
Net realized capital gains (losses)	<u>6,825</u>	<u>(23,929)</u>
Net increase (decrease) in the fair value of investments	<u>376,041</u>	<u>(131,917)</u>
Investment expenses	<u>(4,480)</u>	<u>(4,488)</u>
Net investment income	<u>\$ 608,488</u>	<u>\$ 65,882</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, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Direct loss and LAE expense reserves, beginning of year	\$ 1,344,719	\$ 1,832,958
Less reinsurance recoverables on reserves	<u>(606,348)</u>	<u>(661,854)</u>
Net loss and loss adjustment expense reserves, beginning of year	<u>738,371</u>	1,171,104
Incurred related to:		
Current accident year	405,140	553,502
Prior accident years	<u>94,822</u>	<u>136,211</u>
Total incurred	<u>499,962</u>	<u>689,713</u>
Paid related to:		
Current accident year	(168,707)	(249,825)
Prior accident years	<u>(369,473)</u>	<u>(872,628)</u>
Total paid	<u>(538,180)</u>	<u>(1,122,453)</u>
Change in retroactive reinsurance reserves ceded	<u>232</u>	<u>7</u>
Net loss and LAE reserves, end of year	700,385	738,371
Add reinsurance recoverables on reserves	<u>306,677</u>	<u>606,348</u>
Direct loss and loss adjustment expense reserves, end of year	<u>\$ 1,007,062</u>	<u>\$ 1,344,719</u>

As a result of changes in estimates of insured events in prior years, the provision for loss and LAE reserves increased by \$94,822 and \$136,211, net of reinsurance, in 2019 and 2018, 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 \$94,822 during 2019. 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 2019 and 2018, net recoveries with respect to reinsurance recoverable on paid losses and LAE was \$390,150 and \$86,620, respectively.

For the years ended December 31, 2019 and 2018, ultimate losses and LAE attributable to Hurricane Irma were \$2,160,170 and \$1,915,425, respectively, excluding recorded anticipated reinsurance recoveries of \$879,778 and \$697,284, respectively. For the years ended December 31, 2019 and 2018, ultimate losses and LAE attributable to Hurricane Michael were \$149,861 and \$151,726, 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.

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6. Reinsurance Agreements

Citizens has entered into various contracts with reinsurers for the purpose of reducing its net exposure to qualifying losses should such losses occur. These contracts provide for the recovery of amounts above specified retention levels, subject to contractual limits, under per occurrence and aggregate catastrophe excess of loss arrangements. Reinsurance coverage is purchased separately for the Coastal Account and combined for the PLA and CLA. As required by statute, Citizens participates in the FHCF. Coverage provided by and premium ceded to the FHCF as respects the Coastal Account is measured and recognized as though the Coastal Account is a separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. Likewise, the PLA and CLA are considered together as a single, separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. Reinsurance coverage purchased through the FHCF was \$1,033,202 and \$979,560 in the Coastal Account and PLA and CLA, respectively, for 2019, and \$1,121,535 and \$1,078,781 in the Coastal Account and PLA and CLA, respectively, for 2018. Reinsurance coverage purchased in the Coastal Account and PLA through traditional and capital markets totaled \$1,272,855 and \$175,500 for 2019, respectively, and \$1,422,960 and \$0 for 2018, respectively. At December 31, 2019, Citizens was party to two outstanding insurance-linked securities (ILS) contracts as a ceding insurer that provide aggregate maximum proceeds of \$550,000 for directly-written insurance risks by Citizens at an attachment level of \$1,395,000.

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

	2019		2018	
	Written	Earned	Written	Earned
Direct premiums	\$ 876,558	\$ 860,795	\$ 868,417	\$ 884,755
FHCF ceded premiums	(133,602)	(133,602)	(146,151)	(146,151)
Private ceded premiums	(94,639)	(94,639)	(88,409)	(88,409)
Depopulation ceded premiums	<u>(9,328)</u>	<u>(16,479)</u>	<u>(17,896)</u>	<u>(27,220)</u>
Net premiums	<u>\$ 638,989</u>	<u>\$ 616,075</u>	<u>\$ 615,961</u>	<u>\$ 622,975</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 \$182,250 and \$36,215 during 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, ceded unearned premiums on depopulation contracts of \$4,048 and \$11.199, 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, 2019 and 2018.

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, 2019, Citizens reported a net recoverable due from FHCF in the amount of \$353,809, or approximately 5.6% of accumulated surplus. As of December 31, 2018, Citizens reported a net recoverable due from FHCF in the amount of \$481,656, or approximately 7.7% of accumulated surplus. FHCF net recoverable amounts at December 31, 2019 and 2018 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	\$ 175,000	\$ 175,137	3.000% - 5.000%	\$ 175,000	\$ 12,938
Series 2012A-1 Senior Secured Bonds (Pre-event PLA/CLA)	Jun 21, 2012	480,000	488,434	3.000% - 5.000%	160,000	27,931
Series 2015A-1 Senior Secured Bonds (Pre-event Coastal)	Jun 2, 2015	<u>650,000</u>	<u>686,432</u>	3.000% - 5.000%	-	<u>32,400</u>
Total		<u>\$ 1,305,000</u>	<u>\$ 1,350,003</u>		<u>\$ 335,000</u>	<u>\$ 73,269</u>

Interest expense includes the amortization and accretion of premiums and discounts of \$20,258 and \$23,313 for the years ended December 31, 2019 and 2018, respectively. Net unamortized premium at December 31, 2019 and 2018 was \$45,003 and \$65,261 respectively.

A schedule of bond maturities is as follows:

Years ended December 31,	2011 Bonds	2012 Bonds	2015 Bonds	Total
2020	\$ 175,000	\$ 160,000	\$ 150,000	\$ 485,000
2021	-	160,000	-	160,000
2022	-	160,000	225,000	385,000
2023	-	-	-	-
2024	-	-	-	-
After	-	-	<u>275,000</u>	<u>275,000</u>
	<u>\$ 175,000</u>	<u>\$ 480,000</u>	<u>\$ 650,000</u>	<u>\$ 1,305,000</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>
2020	\$ 485,000	\$ 50,904	\$ 535,904
2021	160,000	36,217	196,217
2022	385,000	21,722	406,722
2023	-	13,750	13,750
2024	-	13,750	13,750
After	<u>275,000</u>	<u>5,729</u>	<u>280,729</u>
	<u>\$ 1,305,000</u>	<u>\$ 142,072</u>	<u>\$ 1,447,072</u>

8. Retirement Plan

Citizens sponsors a 457(b)/401(a) defined contribution employee savings plan for qualified employees (the Savings Plan). The Savings Plan qualifies as a deferred salary arrangement under Section 401(a) of the Internal Revenue Code. Under the Savings Plan, participating eligible employees may defer a portion of their pretax earnings, up to the Internal Revenue Service annual contribution limit. Citizens matches 100% of each employee's contributions, up to a maximum of 8% of the employee's pretax earnings. Citizens' matching contributions to the Savings Plan were \$5,684 and \$5,731 for the years ended December 31, 2019 and 2018, respectively.

9. Agent Commissions and Servicing Company Fees

Citizens has contracted with various insurance agents licensed in the State of Florida. These agreements provide for commissions to be paid to the agents at rates established by the Board and calculated as a percentage of direct written premiums, net of certain surcharges and assessments. Agent commissions were \$65,155 and \$65,113 during 2019 and 2018, respectively.

Additionally, Citizens is a party to an agreement with a servicing company to provide underwriting and policy management services. The agreement provides for monthly compensation to the company based on a "Per Transaction Fee" applied to the number of transactions processed in a monthly cycle. These services are for both Citizens' Commercial Lines and Personal Lines business. The amount per transaction ranges from \$7.25 to \$66.00 (dollars), depending on the complexity and volume of each transaction. Service company fees incurred were \$2,187 and \$1,759, during 2019 and 2018, 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 2019 and 2018, Citizens recognized ceded written premiums of \$9,328 and \$17,896, respectively as a result of depopulation.

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Citizens provides policy administration services with respect to the assumed policies. All agreements provide for the Takeout Company to adjust losses. While Citizens is not liable to cover claims after the assumption Citizens continues to service policies for items such as policyholder endorsements or cancellation refunds. Should Citizens process and provide a refund to policyholders, such amount is subsequently collected from the Takeout Company. At December 31, 2019 and 2018, assumed premiums recoverable in the amount of \$2,318 and \$1,178, 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 \$147 and \$7,304 at December 31, 2019 and 2018, respectively, are included in reinsurance premiums payable on the accompanying statements of net position.

11. Operating Leases

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to \$7,168 and \$7,836 for the years ended December 31, 2019 and 2018, 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:

2020	\$	5,206
2021		5,294
2022		5,423
2023		5,554
2024		5,620
After		<u>8,684</u>
Total	\$	<u>35,781</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.

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Risk Management Programs

In addition to claims under the insurance policies it issues, Citizens is potentially exposed to various risks of loss, including those related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. As a state government entity, Citizens has immunity from certain claims. For the years ending December 31, 2019 and 2018, Citizens had insurance protection in place from various commercial insurance carriers covering various exposures, including workers' compensation, property loss, employee liability, general liability, data-breach liability, and directors' and officers' liability. Management continuously reviews the limits of coverage and believes that current coverage is adequate. There were no significant reductions in insurance coverage from the previous year.

13. Reconciliation of U.S. GAAP to SAP

A reconciliation of Citizens' U.S. GAAP basis (as determined by the Governmental Accounting Standards Board) change in net position and net position to statutory-basis net income (loss) and accumulated surplus for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Change in net position – U.S. GAAP basis	\$ 461,619	\$ (276,811)
Adjustments:		
Change in allowance for doubtful accounts	752	(6,457)
Change in FIGA assessment income	1	9
Change in other expense	(1)	(8)
Change in net unrealized (gain) loss on investments	<u>(376,042)</u>	<u>131,917</u>
Net income (loss) - statutory basis	<u>\$ 86,329</u>	<u>\$ (151,350)</u>
	<u>2019</u>	<u>2018</u>
Net position – U.S. GAAP basis	\$ 6,523,875	\$ 6,062,233
Adjustments:		
Nonadmitted assets, net of allowance	(10,764)	(11,204)
Provision for reinsurance	(75)	(1,173)
Net unrealized (gain) loss on investments	<u>(195,103)</u>	<u>180,873</u>
Accumulated surplus - statutory basis	<u>\$ 6,317,933</u>	<u>\$ 6,230,729</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.

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

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

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

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

In November 2012, Citizens received notice of an assessment from FIGA totaling \$27,759. Amounts recouped from policyholders relating to this assessment were \$1 and \$154 during 2019 and 2018, respectively. As of December 31, 2017 Citizens reported an over-collection in the amount of \$152 reported within other current liabilities on the statements of net position. Citizens discontinued collections effective March 1, 2018 and settled the net over-collection in May 2018 with FIGA pursuant to Section 631.57(3)(f), Florida Statutes, and filed a final reconciliation with the Office.

Effective March 5, 2015, the 2005 Emergency Assessment was terminated for all policies with effective dates on or after July 1, 2015. The 2005 Emergency Assessment was anticipated to be collected over a ten year period commencing July 1, 2007. As of December 31, 2019 and 2018, collections in excess of the Emergency Assessment were \$140,806 and \$141,655, 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. For the years ended December 31, 2019 and 2018 restricted cash and restricted surplus of \$8,534 and \$8,381, respectively, are included within the statements of net position.

16. Subsequent Events

Subsequent events have been considered through May 15, 2020, the date of issuance of these financial statements. 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 million 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 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. There were no other 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, 2019
(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	\$ 503,327	\$ 143,537	\$ 191,963	\$ 167,827
Short-term investments	230,015	97,721	12,655	119,639
Restricted cash and cash equivalents	8,534	-	-	8,534
Investment income due and accrued	61,455	19,787	13,544	28,124
Reinsurance recoverable on paid losses and LAE	97,759	49,608	-	48,151
Premiums receivable, net	69,096	44,330	723	24,043
Premiums receivable from assuming companies, net	2,318	1,686	2	630
Other current assets	31,241	17,790	3,948	9,503
Inter-account receivable (payable)	-	(5,262)	1,090	4,172
Total current assets	1,003,745	369,197	223,925	410,623
Noncurrent assets:				
Long-term investments	8,308,866	2,752,276	1,756,225	3,800,365
Capital assets	3,854	3,854	-	-
Total noncurrent assets	8,312,720	2,756,130	1,756,225	3,800,365
Total assets	\$ 9,316,465	\$ 3,125,327	\$ 1,980,150	\$ 4,210,988
LIABILITIES				
Current liabilities:				
Loss reserves, net	\$ 392,468	\$ 261,954	\$ 42,816	\$ 87,698
Loss adjustment expense reserves, net	307,917	242,434	10,709	54,774
Unearned premiums	446,486	287,841	5,801	152,844
Reinsurance premiums payable	43,564	8,936	-	34,628
Advance premiums and suspended cash	18,433	10,729	333	7,371
Return premiums payable	4,486	3,107	21	1,358
Interest payable	5,411	1,722	272	3,417
Current portion of long-term debt	485,000	151,540	23,935	309,525
Other current liabilities	83,016	67,487	1,594	13,935
Total current liabilities	1,786,781	1,035,750	85,481	665,550
Noncurrent liabilities:				
Long-term debt	865,003	270,273	42,688	552,042
Reserve for future assessments	140,806	-	-	140,806
Total noncurrent liabilities	1,005,809	270,273	42,688	692,848
Total liabilities	2,792,590	1,306,023	128,169	1,358,398
Net position:				
Invested in capital assets	3,854	3,854	-	-
Restricted	8,534	-	-	8,534
Unrestricted	6,511,487	1,815,450	1,851,981	2,844,056
Total net position	\$ 6,523,875	\$ 1,819,304	\$ 1,851,981	\$ 2,852,590

Citizens Property Insurance Corporation
Supplemental Combining Statements of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2019
(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	\$ 616,075	\$ 443,643	\$ 10,477	\$ 161,955
Operating expenses:				
Net losses incurred	331,849	236,326	7,601	87,922
Net loss adjustment expenses incurred	168,113	150,582	3,722	13,809
Service company fees	2,187	1,405	30	752
Agent commissions	65,155	39,482	1,302	24,371
Taxes and fees	11,267	7,435	165	3,667
Other underwriting expenses	134,564	85,716	1,840	47,008
Total operating expenses	<u>713,135</u>	<u>520,946</u>	<u>14,660</u>	<u>177,529</u>
Operating loss	<u>(97,060)</u>	<u>(77,303)</u>	<u>(4,183)</u>	<u>(15,574)</u>
Nonoperating revenues (expenses):				
Net investment income	608,488	208,622	154,790	245,076
Net interest expense	(51,621)	(17,133)	(2,706)	(31,782)
Assessment income	(1)	(1)	1	(1)
Other income	1,813	1,306	53	454
Total nonoperating income	<u>558,679</u>	<u>192,794</u>	<u>152,138</u>	<u>213,747</u>
Change in net position	461,619	115,491	147,955	198,173
Net position, beginning of year	6,062,233	1,703,813	1,704,026	2,654,394
Other changes in net position	<u>23</u>	<u>-</u>	<u>-</u>	<u>23</u>
Net position, end of year	<u>\$ 6,523,875</u>	<u>\$ 1,819,304</u>	<u>\$ 1,851,981</u>	<u>\$ 2,852,590</u>
	-	-	-	-

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

	<u>2010</u>	<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>
Gross earned premiums and investment revenue	\$ 2,509,794	\$ 3,054,678	\$ 3,408,112	\$ 3,066,913	\$ 2,530,077	\$ 1,770,837	\$ 1,208,796	\$ 1,207,544	\$ 950,637	\$ 1,469,282
Ceded earned premiums	<u>421,501</u>	<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>
Net earned premiums and investment revenue	\$ 2,088,293	\$ 2,452,744	\$ 2,526,541	\$ 1,993,094	\$ 1,533,825	\$ 871,305	\$ 728,951	\$ 910,138	\$ 688,857	\$ 1,224,563
Unallocated expenses	\$ 293,047	\$ 366,109	\$ 507,579	\$ 495,680	\$ 366,261	\$ 278,787	\$ 241,460	\$ 226,317	\$ 213,962	\$ 213,173
Gross incurred claims and claims expenses, as originally reported	\$ 786,223	\$ 1,236,012	\$ 1,049,652	\$ 686,676	\$ 525,725	\$ 356,735	\$ 426,236	\$ 2,187,505	\$ 533,501	\$ 405,139
Incurred claims and expenses ceded, as originally reported	\$ -	\$ -	\$ 5	\$ 2,127	\$ -	\$ -	\$ -	\$ 661,072	\$ -	\$ -
Net incurred claims and claims expenses, as originally reported	\$ 786,223	\$ 1,236,012	\$ 1,049,647	\$ 684,549	\$ 525,725	\$ 356,735	\$ 426,236	\$ 1,526,417	\$ 533,501	\$ 405,139

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>2010</u>	<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>
Paid (cumulative) as of:										
End of policy year	\$ 330,603	\$ 501,310	\$ 516,059	\$ 352,354	\$ 272,398	\$ 189,275	\$ 157,912	\$ 796,179	\$ 249,825	\$ 168,707
One year later	553,965	799,332	785,930	520,164	431,384	309,997	287,506	1,425,245	401,374	
Two years later	643,424	965,456	900,022	593,799	477,993	380,930	370,297	1,521,913		
Three years later	702,357	1,120,696	980,299	621,673	499,597	425,403	414,047			
Four years later	798,270	1,265,008	1,017,004	635,403	517,732	447,561				
Five years later	890,356	1,327,294	1,039,769	652,548	526,819					
Six years later	927,379	1,352,225	1,054,857	662,233						
Seven years later	937,161	1,385,031	1,062,095							
Eight years later	946,248	1,391,298								
Nine years later	951,502									
Re-estimated incurred claims and claims expenses ceded	\$ -	\$ -	\$ 20	\$ 2,050	\$ -	\$ -	\$ -	\$ 880,104	\$ -	
Re-estimated net incurred claims and expense:										
End of policy year	\$ 786,223	\$ 1,236,012	\$ 1,049,647	\$ 684,549	\$ 525,725	\$ 356,735	\$ 426,236	\$ 1,526,417	\$ 533,501	\$ 405,139
One year later	876,415	1,237,713	1,068,384	648,934	548,044	447,773	426,974	1,616,623	547,224	
Two years later	886,308	1,259,076	1,045,511	664,324	544,336	462,153	454,204	1,696,123		
Three years later	893,876	1,342,169	1,069,951	664,381	545,888	469,551	458,339			
Four years later	962,361	1,384,234	1,066,689	668,832	537,857	471,998				
Five years later	976,708	1,393,538	1,070,375	667,898	537,427					
Six years later	966,779	1,396,260	1,070,683	670,811						
Seven years later	962,569	1,406,454	1,070,052							
Eight years later	961,063	1,404,239								
Nine years later	960,092									
Increase (decrease) in estimated incurred claims and expense from end of policy year	\$ 173,869	\$ 168,227	\$ 20,405	\$ (13,738)	\$ 11,702	\$ 115,263	\$ 32,103	\$ 169,706	\$ 13,723	\$ -

See independent auditors' report on the supplementary information.



Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

May 15, 2020

Audit Committee
Citizens Property Insurance Corporation
Tallahassee, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Citizens Property Insurance Corporation (Citizens), which comprise the statements of net position as of December 31, 2019, 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 15, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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



Purpose of this Report

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

Dixon Hughes Goodman LLP

**Charlotte, North Carolina
May 15, 2020**