

LOUISIANA CITIZENS
PROPERTY INSURANCE CORPORATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018 AND 2017

LOUISIANA CITIZENS
PROPERTY INSURANCE CORPORATION

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DECEMBER 31, 2018 AND 2017

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June 17, 2019

To the Board of Directors of
Louisiana Citizens Property Insurance Corporation
Metairie, Louisiana

We have audited the accompanying financial statements of the Louisiana Citizens Property Insurance Corporation (the "Company"), a component unit of the State of Louisiana, which comprise the statement of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses and changes in fund net position, and cash flows for the years then ended, and the related notes to 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 net position of the Louisiana Citizens Property Insurance Corporation as of December 31, 2018 and 2017 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As disclosed in Note 19, the Louisiana Citizens Property Insurance Corporation adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The new standard required the Company to record its OPEB liability related to its participation in a single-employer defined benefit OPEB plan based on certain methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. As a result of the adoption of the new accounting standard, the Company's beginning net position decreased by \$1,354,825, and the beginning OPEB liability increased by \$1,354,825. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as listed in the index to the report, 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 operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Louisiana Citizens Property Insurance Corporation's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2019 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

New Orleans, Louisiana

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

The Management's Discussion and Analysis of the Louisiana Citizens Property Insurance Corporation's (the Company) financial performance presents a narrative overview and analysis of the Company's activities for the year ended December 31, 2018. This discussion and analysis focuses on current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the additional information contained in the Company's financial statements.

Financial Highlights:

The financial highlights for the Louisiana Citizens Property Insurance Corporation for the fiscal year ended December 31, 2018 were:

- The Company renewed its reinsurance program in May 2018 with storm coverage of \$600 million and a \$35 million retention that includes a traditional reinsurance program and cat bonds for a savings of approximately \$8.8 million compared to 2017. The 2018 program provides for 1 in 250 year storm coverage compared to the 2017 program which provided 1 in 157 year storm coverage.
- The Company completed its 12th round of depopulation effective December 1, 2018 transferring 32 policies and approximately \$6.9 million of exposure to the private insurance market.
- There were no significant catastrophes that occurred in 2018.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the Louisiana Citizens Property Insurance Corporation's basic financial statements. The Company's financial statements comprise three components: 1) Management's Discussion and Analysis, 2) the Basic Financial Statements (including the notes to the financial statements), and 3) Required Supplementary Information. This report also contains other supplementary information in addition to the basic financial statements themselves.

Basic Financial Statements

The basic financial statements present information for the Company as a whole in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Fund Net Position, and the Statement of Cash Flows.

The Statement of Net Position presents information on all of the Company's assets and deferred outflows of resources and liabilities and deferred inflows of resources with the difference between them presented as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Company is improving or deteriorating.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

The Statement of Revenues, Expenses, and Changes in Fund Net Position presents information showing how the Company's net position changed during the most recent fiscal year. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Statement of Cash Flows presents information showing how the Company's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities as required by GASB 34.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis of the Entity:

The following is a summary of the Statement of Net Position:

Condensed Statements of Net Position
As of December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Current assets	\$ 212,020,946	\$ 216,839,098	\$ (4,818,152)
Capital assets	603,805	889,554	(285,749)
Other non-current assets	<u>70,959,730</u>	<u>79,508,382</u>	<u>(8,548,652)</u>
Total assets	<u>283,584,481</u>	<u>297,237,034</u>	<u>(13,652,553)</u>
Deferred outflows of resources	<u>6,173,270</u>	<u>13,414,970</u>	<u>(7,241,700)</u>
Current liabilities	114,885,587	145,840,367	(30,954,780)
Non-current liabilities	<u>409,548,832</u>	<u>466,902,887</u>	<u>(57,354,055)</u>
Total liabilities	<u>524,434,419</u>	<u>612,743,254</u>	<u>(88,308,835)</u>
Deferred inflows of resources	<u>323,625</u>	<u>82,112</u>	<u>241,513</u>
Net position:			
Net investment in capital assets	603,805	889,554	(285,749)
Restricted for debt service	139,955,302	134,982,954	4,972,348
Unrestricted	<u>(375,559,400)</u>	<u>(438,045,870)</u>	<u>62,486,470</u>
Total Net Position (Deficit)	<u>\$ (235,000,293)</u>	<u>\$ (302,173,362)</u>	<u>\$ 67,173,069</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

Assets

Total assets decreased by \$13.7 million in 2018 compared to 2017 due to the reasons described below.

Current assets, consisting primarily of cash, cash equivalents, investments, and receivables, decreased by \$4.8 million in 2018. The decrease in current assets was primarily due to funding of a class action claim payment.

Other non-current assets, consisting primarily of the restricted cash related to escheatment and noncurrent investments, decreased by \$8.5 million in 2018. Other non-current assets decreased primarily due to the purchase of long-term investments with the proceeds from sales in short-term investments in 2018.

Deferred Outflows of Resources

Total deferred outflows of resources decreased by \$7.2 million in 2018 compared to 2017 primarily due to the continued amortization of the advanced refunding of the Company's Assessment Revenue Bonds, Series 2012R in 2018.

Liabilities

Total liabilities decreased by \$88.3 million in 2018 compared to 2017 primarily due to the reasons described below.

The combined current and noncurrent bonds payable decreased by \$55.4 million in 2018 compared to 2017 primarily due to a \$44.4 million in scheduled bond principal payments made in 2018, and amortization of bond premiums of \$11.0 million in 2018.

Unearned premiums decreased by \$3.0 million in 2018 compared to 2017 primarily as a result of the Company's depopulation program.

Claims reserves decreased by \$21.1 million in 2018 compared to 2017 primarily as a result of settlement payment for the Oubre Class Action lawsuit and typical claims payments made during the course of 2018.

Other liabilities decreased by \$8.1 million in 2018 compared to 2017 primarily as a result of a reduction in take-out premiums payable and other payables resulting from the depopulation program.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

Financial Analysis of the Entity: (Continued)

Net Position

The increase in total net position of \$67.2 million in 2018 compared to 2017 was primarily due to a net operating income of \$14.1 million and a net non-operating income of \$54.4 million.

The following is a summary of the Statement of Revenues, Expenses and Changes in Fund Net Position:

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Operating revenue:			
Net premiums revenue	\$ 43,161,577	\$ 55,434,940	\$ (12,273,363)
Other operating income	792,268	1,003,454	(211,186)
Total operating revenues	<u>43,953,845</u>	<u>56,438,394</u>	<u>(12,484,549)</u>
Operating expenses:			
Claims and underwriting expenses	29,428,662	36,926,401	(7,497,739)
Depreciation	381,352	432,323	(50,971)
Total operating expenses	<u>29,810,014</u>	<u>37,358,724</u>	<u>(7,548,710)</u>
Operating income	<u>14,143,831</u>	<u>19,079,670</u>	<u>(4,935,839)</u>
Non-operating revenues (expenses):			
Interest expense	(17,233,165)	(24,071,200)	6,838,035
Other revenue	<u>71,617,228</u>	<u>67,964,799</u>	<u>3,652,429</u>
Total non-operating revenues (expenses)	54,384,063	43,893,599	10,490,464
Change in net position	68,527,894	62,973,269	5,554,625
Net position (deficit) at beginning of year	(302,173,362)	(365,146,631)	62,973,269
Net effect of change in accounting principle	<u>(1,354,825)</u>	-	<u>(1,354,825)</u>
Net position (deficit) at end of year	<u>\$ (235,000,293)</u>	<u>\$ (302,173,362)</u>	<u>\$ 67,173,069</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

Financial Analysis of the Entity: (Continued)

Change in net position increased \$5.6 million in 2018 compared to 2017 due to the reasons described below.

Net premium revenue was \$12.3 million lower in 2018 compared to 2017. The decrease was a result of a decrease from a multiple year effect of policies taken out from depopulation as well as a decrease in ceded premiums due to reinsurance cost savings in 2018 as compared to 2017.

The claims and underwriting expense was \$7.5 million lower in 2018 compared to 2017. The decrease in claims and underwriting expenses was primarily due to non-catastrophe related claims.

Interest expense decreased by \$6.8 million in 2018 compared to 2017. The decrease in 2018 was primarily attributable to a decrease in interest expense due to a reduction in the amortization of deferral outflows from advanced refunding.

Other revenue increased by \$3.7 million in 2018 compared to 2017. The increase in 2018 was primarily attributable to an increase in Emergency Assessment Income of \$2.6 million as a result of an increase in the Emergency Assessment Rate in 2018 in addition to an increase in investment income.

Cash Flow and Liquidity:

Cash Flow

Sources of cash include cash receipts from customers, principally, premiums collected, emergency assessments and amounts received from restricted investments. Primary uses of cash include cash payments for services provided, cash payments to employees, and principal and interest paid on debt.

The other cash flow from non-capital financing activities is primarily assessment collections less debt service costs on long-term debt obligations from restricted cash.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

Cash Flow and Liquidity: (Continued)

Liquidity

All liquid funds held by the Company are kept in commercial bank accounts that are FDIC insured or 100% collateralized.

In addition to policyholder premiums, the Company has a much broader range of resources available to pay losses and repay debt obligations than does a typical insurer. Presently, the Company can institute a regular assessment up to approximately \$248 million on the state insurance industry derived from 10% of their written premium for deficits each year, and an emergency assessment up to approximately \$255 million derived from 10% of the premium written on property policyholders of the State of Louisiana for each calendar year of a storm to pay debt incurred in previous years. Emergency assessments levied in any calendar year can remain in place each year until any borrowings from that year have been repaid.

In 2017, the Company secured a \$50.0 million line of credit with Regions Bank that matures in June 2019. The line of credit provides additional liquidity to the corporation.

In 2010, the Company instituted lockbox processing to reduce cash flow interruption in the event of a temporary closure of its office for a catastrophic event.

In 2005, the Company did not have sufficient funds to pay 80,000 claims resulting from Hurricanes Katrina and Rita. In 2006, the Company issued \$678.0 million of assessment revenue bonds and \$300.0 million in auction rate securities. After multiple refinancing's, the Company has approximately \$421.7 million of fixed rate assessment revenue bonds outstanding as of December 31, 2018. The debt service of these bonds is paid through emergency assessments on property insurance policies written in the State of Louisiana. The emergency assessments are remitted quarterly to the bond trustee.

Pending Litigation

As of December 31, 2018 there were approximately 82 open litigation matters against the Company. The majority of these lawsuits are first-party suits related to Hurricane Isaac. Claims and claims adjustment expenses accrued related to these claims are included on the Statement of Net Position of approximately \$2.2 million, excluding the Oubre class action suit described below. The balance of the litigated matters are related to first party losses, third-party bodily injury claims, subrogation or claims where the issue of coverage is in dispute.

Oubre v. Louisiana Citizens Property Insurance Corporation. The plaintiffs in this suit allege that the Company failed to timely initiate loss adjustment as required by Louisiana statutory law exposing the Company to penalties up to a mandatory limit of \$5,000. On July 23, 2012, the Company settled the first phase of this class action suit with a payment of \$104.7 million to the plaintiff counsel for distribution to the class members. The Company entered into a settlement on October 30, 2013 with the class for the remaining Oubre claims. The Company has paid \$131.1 million towards the final settlement as of December 31, 2018 and has a reserve of \$13.2 million for the remaining settlement (included in loss reserves and LAE reserves on the Statements of Net Position). The Company will continually review the reserve to ensure that it meets the anticipated settlement costs.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

Cash Flow and Liquidity: (Continued)

Future Plans

The Company had \$600 million in total reinsurance and cat bonds in place for the 2018 storm season which provided 1 in 250 year storm coverage. The cat bonds include two \$100.0 million three year catastrophe bonds. In addition to the reinsurance program and cat bonds, the Company has reinstatement premium protection and second event catastrophe coverage. The amount of reinsurance purchased by the Company is determined by many factors that include losses projected by catastrophe models, insured values of the company, reinsurance market prices, and availability of cash. The reinsurance coverage, excluding cat bonds, described above expires on May 31, 2019. The Company has purchased a similar reinsurance program for the 2019 storm season.

Contacting Louisiana Citizens Property Insurance Corporation's Management:

This financial report is designed to provide the citizens and taxpayers of Louisiana, customers, and creditors with a general overview of the Company's finances. If you have questions about this report or need additional financial information, contact Larry L. Hayward at (504) 832-3230 or lhawyard@lacitizens.com.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS:		
Current assets:		
Cash	\$ 44,377,924	\$ 35,413,324
Cash equivalents	79,486,708	98,378,820
Investments	17,317,762	9,670,565
Restricted cash equivalents	47,188,279	44,798,754
Premium receivables and agent's balances, net	7,161,935	9,594,019
Reinsurance recoverables	135,304	385,207
Emergency assessments receivable	14,000,000	15,000,000
Prepaid reinsurance premiums	772,778	1,989,583
Net pension asset	196,498	346,381
Other current assets	1,383,758	1,262,445
Total current assets	<u>212,020,946</u>	<u>216,839,098</u>
Noncurrent assets:		
Restricted cash for escheatment	2,377,327	3,774,211
Investments	68,473,932	75,625,701
Capital assets	603,805	889,554
Other noncurrent assets	108,471	108,470
Total noncurrent assets	<u>71,563,535</u>	<u>80,397,936</u>
Total assets	<u>283,584,481</u>	<u>297,237,034</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows - pensions and OPEB	476,588	202,180
Deferred outflows - advanced refunding	5,696,682	13,212,790
Total deferred outflows of resources	<u>\$ 6,173,270</u>	<u>\$ 13,414,970</u>

See accompanying notes to the financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
STATEMENTS OF NET POSITION (Continued)
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
LIABILITIES AND NET POSITION:		
Current liabilities:		
Claims reserves	\$ 16,000,209	\$ 37,059,763
Claims adjustment expense reserves	1,475,006	1,547,187
Unearned premiums	33,939,508	36,895,696
Bonds payable - current portion	57,300,376	55,373,177
Unearned tax exempt surcharge	985,666	1,288,138
Commissions payable to agents	1,815,225	2,128,846
Taxes, licenses, and fees due	1,578,184	1,518,021
Accrued bond interest	1,647,202	1,832,119
Other liabilities	144,211	8,197,420
Total current liabilities	<u>114,885,587</u>	<u>145,840,367</u>
Noncurrent liabilities:		
Bonds payable, net of unamortized premium (discount)	403,854,790	461,155,166
Escheatment payable	2,377,327	3,774,211
Other postemployment benefits	3,316,715	1,973,510
Total noncurrent liabilities	<u>409,548,832</u>	<u>466,902,887</u>
 Total liabilities	 <u>524,434,419</u>	 <u>612,743,254</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows - pensions and OPEB	<u>323,625</u>	<u>82,112</u>
Total deferred inflows of resources	<u>323,625</u>	<u>82,112</u>
NET POSITION:		
Net investment in capital assets	603,805	889,554
Restricted for debt service	139,955,302	134,982,954
Unrestricted (deficit)	<u>(375,559,400)</u>	<u>(438,045,870)</u>
 Total net position (deficit)	 <u>\$ (235,000,293)</u>	 <u>\$ (302,173,362)</u>

See accompanying notes to the financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES:		
Premiums earned	\$ 69,230,799	\$ 89,282,790
Premiums ceded	(26,069,222)	(33,847,850)
Net premiums revenue	<u>43,161,577</u>	<u>55,434,940</u>
Finance and service charges	720,925	948,831
Other operating income	71,343	54,623
Total operating revenues	<u>43,953,845</u>	<u>56,438,394</u>
OPERATING EXPENSES:		
Claims and claim adjustment expenses	15,465,532	22,711,764
Commissions and brokerage	6,637,547	6,967,672
Salary and related items	3,024,703	3,310,392
Board, bureaus and associations	656,103	637,474
Taxes, licenses and fees	420,441	432,349
Equipment, depreciation, and repairs and maintenance	686,253	641,989
General office	1,257,744	1,144,748
Employee benefits	1,326,930	1,226,486
Other underwriting expenses	334,761	285,850
Total operating expenses	<u>29,810,014</u>	<u>37,358,724</u>
Operating income	<u>14,143,831</u>	<u>19,079,670</u>
NONOPERATING REVENUES (EXPENSES):		
Interest expense	(17,233,165)	(24,071,200)
Investment income	3,323,912	1,510,725
Emergency assessment income	65,959,470	63,336,149
Tax exempt surcharge	2,333,846	3,117,925
Total nonoperating revenues	<u>54,384,063</u>	<u>43,893,599</u>
CHANGE IN NET POSITION	68,527,894	62,973,269
Net position (deficit), beginning of year	(302,173,362)	(365,146,631)
Net effect of change in accounting principle	<u>(1,354,825)</u>	<u>-</u>
NET POSITION (DEFICIT), END OF YEAR	<u>\$ (235,000,293)</u>	<u>\$ (302,173,362)</u>

See accompanying notes to the financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES:		
Premiums collected	\$ 42,637,473	\$ 44,909,883
Finance and service charges collected	720,925	948,751
Other receipts (charges)	(1,325,540)	(719,670)
Claims recovered (paid)	(30,091,052)	7,245,450
Claim adjustments recovered (paid)	(7,237,357)	(7,906,421)
Underwriting expense paid	(20,053,361)	(15,184,355)
Net cash provided (used) by operating activities	<u>(15,348,912)</u>	<u>29,293,638</u>
NONCAPITAL FINANCING ACTIVITIES:		
Emergency assessments received	66,959,470	66,336,149
Tax exempt surcharge received	2,031,374	2,667,395
Amounts remitted to bond trustee, net	(44,380,000)	(43,240,000)
Interest paid on capital debt	(20,895,150)	(23,085,650)
Net cash provided by noncapital financing activities	<u>3,715,694</u>	<u>2,677,894</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(95,604)	(22,776)
Net cash used by capital and related financing activities	<u>(95,604)</u>	<u>(22,776)</u>
INVESTING ACTIVITIES:		
Purchase of investments	(85,854,775)	(85,296,265)
Investment income received	3,352,460	847,000
Sale of investments	85,296,266	122,805,766
Net cash provided by investing activities	<u>2,793,951</u>	<u>38,356,501</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(8,934,871)	70,305,257
Cash and cash equivalents, beginning of year	<u>182,365,109</u>	<u>112,059,852</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 173,430,238</u>	<u>\$ 182,365,109</u>

See accompanying notes to the financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NATURE OF THE BUSINESS:

Louisiana Citizens Property Insurance Corporation (the “Company”) is a component unit of the State of Louisiana. The Company’s principal business activity is to operate insurance plans which provide property insurance for residential and commercial property, solely for applicants who are in good faith entitled, but are unable to procure insurance through the voluntary market. Louisiana Citizens Property Insurance Corporation was created in accordance with provisions of Louisiana Revised Statutes (LRS) 22:2291 - 22:2370 and began operations on January 1, 2004. The Company operates solely in Louisiana. The Company operates residual market insurance programs designated as the Coastal Plan and the Fair Access to Insurance Requirements Plan (FAIR Plan). The Coastal Plan is for property insurance written on locations between the Gulf of Mexico and the Intracoastal Waterway and the FAIR Plan is property insurance above the Intracoastal Waterway.

The Company is governed by a Board of Directors consisting of fifteen members, who serve without compensation. The Board consists of the Commissioner of the Department of Insurance, the State Treasurer, the chairman of the House Committee on Insurance, the chairman of the Senate Committee on insurance or their designees, six representatives appointed by the Governor, two members appointed by the Commissioner of the Louisiana Department of Insurance, and three members appointed by the Governor.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity:

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board’s (GASB) 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 the 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, the Company is a component unit of the State of Louisiana 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 the Company and are not intended to present the financial position of the State of Louisiana or the results of its operations or its cash flow.

Basis of Accounting:

The accounting policies and practices of the Company conform to accounting principles generally accepted in the United States applicable to a proprietary fund of a governmental entity. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Company applies all applicable GASB pronouncements as they become effective.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Basis of Accounting: (Continued)

The financial statements of proprietary funds are prepared using the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. All assets and liabilities associated with the operations of the Company are included in the statement of net position. The statement of cash flows provides information about how the Company finances and meets the cash flow needs of its activities. Proprietary funds also distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this criteria are reported as non-operating revenues and expenses.

GASB Statement No. 34 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: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment 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 as adjusted for deferred inflows and outflows associated with 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 net investment in capital assets. Rather that portion of the debt is included in the same net position component as the unspent proceeds. As of December 31, 2018 and 2017, the Company did not have any outstanding debt that was attributable to capital assets.

Restricted net position - 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.

Unrestricted net position - this component of net position consists of net position that did not meet the definition of "restricted" or "net investment in capital assets".

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

New Accounting Pronouncements:

During the year ended December 31, 2018, the Company adopted the provisions of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 improves accounting and financial reporting for postemployment benefits other than pensions (OPEB).

Cash and Cash Equivalents:

Cash and cash equivalents include all unrestricted, liquid investments with an original maturity of three months or less when purchased. Cash equivalents are stated at amortized cost, which approximates fair value.

Investments:

Debt and equity securities are recorded at amortized cost using the interest method, which approximates fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specified identification method.

Policy Acquisition Costs:

Costs associated with the production of new renewing policies and servicing existing insurance policies, such as net agent commissions, servicing company fees and other taxes and fees are expensed as incurred.

Depopulation:

The Company is required to undertake a depopulation effort annually per Louisiana State Statute LRS 22:2314. The Company accounts for premiums of depopulated policies as a reduction of direct premiums written. Losses and other costs associated with depopulated policies are removed from the financial statements.

Capital Assets:

The Company's capital assets include items such as furniture, office equipment and electronic data processing equipment (EDP). The Company has a capitalization policy whereby thresholds are applied to determine if the asset should be capitalized or expensed. All movable property, not including computer software, over \$5,000 is capitalized based upon a variable useful life depending on the descriptive category for which that property meets. Office furniture and fixtures are capitalized and depreciated over a 10-year life. Computers and peripheral equipment such as hard drives, printer, monitor, keyboards, and such are capitalized and depreciated over a three-year life. Office machinery and equipment other than computers are capitalized and depreciated over a six-year life. All computer software purchased or developed for internal use over \$1,000,000 is capitalized and amortized over three years for operating software, and over five

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Capital Assets: (Continued)

years for non-operating software. The straight-line depreciation method is used for depreciation of capital assets, and the assets are assumed to have no salvage value. A full year of depreciation will be taken in the year the asset is placed into service and a full year of depreciation will be taken in the year of disposal also. All depreciation expense is allocated between loss adjustment expenses and underwriting expenses.

Claims and Claim Adjustment Expense Reserves:

The liabilities for claims and claim adjustment expenses include an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in current earnings.

Deferred Outflows/Inflows of Resources:

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until then. The Company records deferred outflows of resources related to pensions and amounts deferred on advanced refundings of debt.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Company records deferred inflows of resources related to pensions.

Premiums:

Premiums are recorded as earned on a daily pro rata basis over the policy period. The portion of premiums not earned at the end of the period is recorded as unearned premiums.

Premiums receivable includes amounts due from policyholders for billed premiums. Billings are calculated using the estimated annual premiums for each policy and are paid either through an installment plan offered by the Company or in their entirety at the inception of the policy.

Assessments:

In the event that the Governing Board of the Company determines that a deficit exists in either the Coastal Plan or the FAIR Plan, the Company may levy a regular assessment for each affected Plan in order to remedy any deficit. All insurers who become authorized and then engage

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Assessments: (Continued)

in writing property insurance within Louisiana shall participate in regular assessment of the Coastal and FAIR Plans in the proportion that the net direct premium of such participant written in the state during the preceding calendar year bears to the aggregate net direct premiums written in the state by all insurers during the preceding calendar year as certified to the Governing Board by the Louisiana Insurance Rating Commission.

When the deficit incurred in a particular calendar year is not greater than ten percent of the aggregate state wide direct written premium for the subject lines of business for the prior calendar year, the entire deficit will be recovered through regular assessments. When the deficit incurred exceeds ten percent, the regular assessment may not exceed the greater of ten percent of the calendar year deficit, or ten percent of the aggregate statewide direct written premium for the subject lines of business for the prior calendar year. Any remaining deficit shall be recovered through an emergency assessment.

All persons who procure a policy of insurance of one or more subject lines of business from an insurer who becomes authorized and then engages in writing property insurance with Louisiana from the FAIR or Coastal plans are subject to emergency assessment by the Company.

Upon determination by the Governing Board of the Company that a deficit exceeds the amount allowed to be recovered through regular assessment, the Governing Board shall levy an emergency assessment for as many years as necessary to cover all deficits. The amount of emergency assessment levied in a particular year shall be a uniform percentage of that year's direct written premium for the subject lines of business. The total amount of emergency assessment levied in any calendar year will not exceed the greater of: (a) ten percent of the amount needed to cover the original deficit plus interest, fees, commissions, required reserves, and other costs associated with the financing of the original deficit, or (b) ten percent of the aggregate state wide direct written premium for the subject lines of business and for all plan accounts of the Company for the prior year, plus interest, fees, commissions, required reserves, and other costs associated with the financing of the original deficit. To the extent the aggregate amount of the emergency assessment will not exceed the greater of (a) or (b), the Governing Board shall impose an emergency assessment in the amount required by any applicable loan agreement, trust indenture, or other financing agreement.

Reinsurance:

Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums. Reinsurance recoverables on paid or unpaid losses are recorded as receivables. All catastrophe reinsurance payments are recorded as premiums ceded and are amortized over the life of the contract period for which the payments apply. Premiums ceded included catastrophe reinsurances purchases.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Bond Issuance Costs:

Bond issuance costs are incurred in connection with acquiring bonds payable and are expensed as incurred.

Income Taxes:

The Company constitutes an integral part of the State of Louisiana and its income is exempt from federal income tax pursuant to Private Letter Ruling 160165-03 from the Internal Revenue Service. Obligations issued by the Company constitute obligations of the State of Louisiana within the meaning of Section 103(c)(1) of the Internal Revenue Code.

Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the net position, and changes in net position of the defined benefit pension plan in which the Company participates has been determined on the same basis as it was reported by the respective defined benefit pension plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates:

The preparation of financial statements in accordance with generally accepted accounting principles 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.

Market Risk:

The Company underwrites residential and commercial property insurance policies in the State of Louisiana through Coastal Plan and FAIR Plan. Therefore, adverse economic changes or certain changes in the insurance laws of the State of Louisiana could have a significant impact on the Company's future financial position and results of operations.

The Coastal Plan is for property insurance written on locations between the Gulf of Mexico and the Intracoastal Waterway. The FAIR Plan is property insurance above the Intra-coastal Waterway. Therefore, severe storm activity in any of these areas or throughout the State of Louisiana could have a significant impact on the Company's future financial position and results of operations.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Market Risk: (Continued)

Unlike private insurers that are subject to liquidation in the event of insolvency, the Company is able (and statutorily required) to levy assessments in the event of a deficit in any or all of its accounts.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS:

Cash:

Cash is stated at cost, which approximates market value. State statute authorizes the Company to invest in U.S. bonds, treasury notes, or certificates. The Company may also invest in direct repurchase agreements of any federal bank. The collateral for the agreement can only include securities as described above.

The Company's cash, including cash restricted for escheatment, consisted of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>December 31, 2018</u>		
Demand Deposits	\$ 46,755,251	\$ 47,339,284
	\$ 46,755,251	\$ 47,339,284
<u>December 31, 2017</u>		
Demand Deposits	\$ 39,187,535	\$ 40,196,185
	\$ 39,187,535	\$ 40,196,185

Included in cash at December 31, 2018 and 2017 is unclaimed property, consisting of outstanding checks totaling \$2,377,327 and \$3,774,211, respectively, which is restricted for escheatment to the appropriate states.

Custodial Credit Risk - Deposits:

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Company will not be able to recover deposits or collateral securities that are in possession of an outside party. The Company does not have a formal policy for custodial credit risk. Under state law, deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS: (Continued)

Custodial Credit Risk - Deposits: (Continued)

As of December 31, 2018, none of the Company's cash was exposed to custodial credit risk. These deposits were either secured by the pledge of securities owned by the fiscal agent bank or covered by the FDIC Insurance.

As of December 31, 2017, \$86,758 of the Company's cash was exposed to custodial credit risk. The remaining deposits were either secured by the pledge of securities owned by the fiscal agent bank or covered by the FDIC Insurance.

Investments and Cash Equivalents:

The Company's investment objectives and guidelines are created to enable the Company to invest funds prudently for the benefit of the Company to provide reasonable risk characteristics while emphasizing safety of principal first, liquidity second and yield third. The consideration of sufficient short-term funds in order to continue operations is paramount and during certain times sufficient liquidity should be maintained in order to meet peak demands which may be adjusted due to reinsurance coverage and other circumstances.

The Company is authorized to invest retained funds pursuant to the limitations set forth in Title 22 for insurers. As of December 31, 2018 and 2017, the Company had investments and cash equivalents totaling \$212,466,681 and \$228,473,839, respectively.

The Company categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Fair value measurements are categorized as follows:

Level 1 – investments that have readily available quoted prices in active markets where significant transparency exists in the executed/quoted price.

Level 2 – investments that have quoted prices with data inputs which are observable either directly or indirectly, but do not represent quoted prices from an active market.

Level 3 – investments for which prices are based on significant unobservable inputs.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS: (Continued)

Investments and Cash Equivalents: (Continued)

The Company has the following recurring fair value measurement as of December 31, 2018 and 2017:

	December 31, 2018	Fair Value Measurement Using:		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Unrestricted investments and cash equivalents:				
Bond investments	\$ 85,791,694	\$ -	\$ 85,791,694	\$ -
Cash equivalents - money market funds	79,486,708	79,486,708	-	-
Total Unrestricted	<u>\$ 165,278,402</u>	<u>\$ 79,486,708</u>	<u>\$ 85,791,694</u>	<u>\$ -</u>
Restricted cash equivalents:				
Money market funds	\$ 47,188,279	\$ 47,188,279	\$ -	\$ -
Total investments and cash equivalents	<u>\$ 212,466,681</u>	<u>\$ 126,674,987</u>	<u>\$ 85,791,694</u>	<u>\$ -</u>

	December 31, 2017	Fair Value Measurement Using:		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Unrestricted investments and cash equivalents:				
Bond investments	\$ 85,748,210	\$ -	\$ 85,748,210	\$ -
Cash equivalents - money market funds	97,926,875	97,926,875	-	-
Total Unrestricted	<u>\$ 183,675,085</u>	<u>\$ 97,926,875</u>	<u>\$ 85,748,210</u>	<u>\$ -</u>
Restricted cash equivalents:				
Money market funds	\$ 44,798,754	\$ 44,798,754	\$ -	\$ -
Total investments and cash equivalents	<u>\$ 228,473,839</u>	<u>\$ 142,725,629</u>	<u>\$ 85,748,210</u>	<u>\$ -</u>

The following methods and assumptions were used to estimate fair value of each class of financial instruments:

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS: (Continued)

Investments and Cash Equivalents: (Continued)

Bond investments consist of investments in short-term state and local government bonds. Bond investments were measured using observable inputs; however, the market for these bond investments was not active.

Money market mutual funds consist of investments in both traditional and government money market funds. Money market mutual fund investments were measured based on quoted prices for identical assets in active markets.

Custodial Credit Risk - Investments:

Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Company does not presently have a formal policy for custodial credit risk. Investments are exposed to custodial risk if the securities are uninsured and unregistered with securities held by a financial institution or agent, and in the Company's name. Investments were not exposed to custodial credit risk as of December 31, 2018 and 2017.

Interest Rate Risk:

Interest rate risk is defined as the risk a government may face should interest rate variances adversely affect the fair value of investments. The fair value of fixed-maturity investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments and other general market conditions. The Company does not presently have a formal policy that addresses interest rate risk.

The fair values of securities at December 31, 2018 and 2017, 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>2018</u>	<u>Total</u>	<u>Investment Maturities</u>			
		<u>Less than 1 year</u>	<u>1-5 years</u>	<u>5-10 years</u>	<u>Greater than 10 years</u>
Unrestricted investments and cash equivalents:					
Bond investments	\$ 85,791,694	\$ 17,317,762	\$ 68,473,932	\$ -	\$ -
Cash equivalents - money market funds	79,486,708	79,486,708	-	-	-
Total	<u>\$ 165,278,402</u>	<u>\$ 96,804,470</u>	<u>\$ 68,473,932</u>	<u>\$ -</u>	<u>\$ -</u>
Restricted cash equivalents:					
Money market funds	<u>\$ 47,188,279</u>	<u>\$ 47,188,279</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS: (Continued)

Interest Rate Risk: (Continued)

	<u>Total</u>	<u>Investment Maturities</u>			
		<u>Less than 1 year</u>	<u>1-5 years</u>	<u>5-10 years</u>	<u>Greater than 10 years</u>
<u>2017</u>					
Unrestricted investments and cash equivalents:					
Bond investments	\$ 85,748,210	\$ 9,670,565	\$ 63,989,616	\$ 1,554,563	\$ 10,533,466
Cash equivalents - money market funds	98,378,820	98,378,820	-	-	-
Total	<u>\$ 184,127,030</u>	<u>\$ 108,049,385</u>	<u>\$ 63,989,616</u>	<u>\$ 1,554,563</u>	<u>\$ 10,533,466</u>
Restricted cash equivalents:					
Money market funds	<u>\$ 44,798,754</u>	<u>\$ 44,798,754</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Cash equivalents in the amount of \$47,188,279 and \$44,798,754 as of December 31, 2018 and 2017, respectively, were held by a bond trustee for the repayment of the Company's emergency assessment revenue bonds issued to cover the 2005 Plan Year Deficit resulting from Hurricanes Rita and Katrina.

Credit Risk:

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The Company may be invested in direct United States Treasury Obligations, United States Government Agency Obligations, direct security repurchase and reverse repurchase agreements, time certificates of deposit, investment grade commercial paper, investment grade corporate notes and bonds, investment grade municipal bonds and money market funds consisting solely of securities otherwise eligible for investment.

As of December 31, 2018, the Company had the following exposure to credit risk:

	<u>Total</u>	<u>Money Market Funds</u>	<u>Trust Cash Sweep Money Market Funds</u>	<u>Bond Investments</u>
AAA	\$ 126,875,183	\$ 79,486,708	\$ 47,188,279	\$ 200,196
AA+	312,311	-	-	312,311
AA	11,984,050	-	-	11,984,050
AA-	34,275,667	-	-	34,275,667
A+	5,957,381	-	-	5,957,381
A	12,880,995	-	-	12,880,995
A-	3,416,500	-	-	3,416,500
BBB-	107,747	-	-	107,747
N/R	16,656,847	-	-	16,656,847
Total	<u>\$ 212,466,681</u>	<u>\$ 79,486,708</u>	<u>\$ 47,188,279</u>	<u>\$ 85,791,694</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS: (Continued)

Credit Risk: (Continued)

As of December 31, 2017, the Company had the following exposure to credit risk:

	<u>Total</u>	<u>Money Market Funds</u>	<u>Trust Cash Sweep Money Market Funds</u>	<u>Bond Investments</u>
AAAm	\$ 142,725,629	\$ 97,926,875	\$ 44,798,754	\$ -
AA	60,257,408	-	-	60,257,408
A	11,147,270	-	-	11,147,270
BBB	206,292	-	-	206,292
N/R	14,137,240	-	-	14,137,240
Total	<u>\$ 228,473,839</u>	<u>\$ 97,926,875</u>	<u>\$ 44,798,754</u>	<u>\$ 85,748,210</u>

Concentration of Credit Risk:

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Company, shall not, except in the case of investments in or loans upon the security of general obligations of the government of the United States or of any state or territory of the United States, or the District of Columbia, have a single security that compromises more than 5 percent of the fair value of the Company's portfolio.

The Company had the following cash equivalents, that are obligations of the Federal government which are excluded from the 5% restriction as of December 31, 2018 and 2017:

<u>Issuer</u>	<u>2018</u>	<u>2017</u>
FIMM Government Portfolio Class I	\$ 79,486,708	\$ 97,926,875
FIMM Treasury Portfolio Class III	47,188,279	44,798,754

Foreign Currency Risk:

Foreign currency risk is defined as the risk that changes in exchange rates will adversely affect the fair value of an investment. The Company does not presently have a formal policy that addresses foreign currency risk. The Company's exposure to foreign currency risk is limited to investments in global or pooled non-U.S. equity mutual funds. The Company had no investments in global or pooled non-U.S. equity mutual funds at December 31, 2018 and 2017.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

3. ASSESSMENTS RECEIVABLE:

Louisiana Revised Statute 22:2299-2300 provides that any insurer who engages in writing property insurance with the State shall become as assessable insurer in the Coastal Plan and FAIR Plan. In the event that the governing board of the Company determines that a deficit exists in either the Coastal Plan or the FAIR Plan, the Company may levy regular assessments against assessable insurers for each affected plan to help offset such deficit. Furthermore, assessable insurers are permitted to recoup all regular assessments from their policyholders by applying a surcharge to all policies. Any amounts recouped by the insurers in excess of amounts assessed are required to be forwarded to the Company. The Company did not execute a regular assessment in 2018 and 2017.

Upon a determination by the governing board that a deficit in a plan exceeds the amount that will be recovered through regular assessments, the governing board is authorized to levy, after verification by the Department of Insurance, emergency assessments for as many years as necessary to cover the deficit. The board determined that the 2005 plan year deficit exceeded the amounts levied under the 2005 regular assessment and has levied an emergency assessment beginning in 2007. Assessment rates for the years ended December 31, 2018 and 2017 were 2.57% and 2.52% of written premiums, respectively. The assessments are collected by the insurers and remitted to the Company's bond trustee quarterly. The total of emergency assessments levied for the years ended December 31, 2018 and 2017 amounted to \$65,959,470 and \$63,336,149, respectively, of which approximately \$14,000,000 and \$15,000,000 remained outstanding as of December 31, 2018 and 2017, respectively.

4. CAPITAL ASSETS:

Depreciation expense for capital assets for the years ended December 31, 2018 and 2017 was \$381,352 and \$432,323, respectively, and was allocated to loss adjustment expenses and underwriting expenses.

A summary of changes in capital assets and accumulated depreciation follows:

<u>2018</u>	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u>
Depreciable capital assets				
Electronic data processing equipment	\$ 18,109,087	\$ 87,803	\$ -	\$ 18,196,890
Office equipment	1,159,451	7,800	-	1,167,251
Total depreciable assets	19,268,538	95,603	-	19,364,141
Less accumulated depreciation				
Electronic data processing equipment	(17,518,971)	(318,824)	-	(17,837,795)
Office equipment	(860,013)	(62,528)	-	(922,541)
Total accumulated depreciation	(18,378,984)	(381,352)	-	(18,760,336)
Capital assets, net	<u>\$ 889,554</u>	<u>\$ (285,749)</u>	<u>\$ -</u>	<u>\$ 603,805</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

4. CAPITAL ASSETS: (Continued)

<u>2017</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Depreciable capital assets:				
Electronic data processing equipment	\$ 18,101,777	\$ 8,793	\$ (1,483)	\$ 18,109,087
Office equipment	1,145,468	13,983	-	1,159,451
Total depreciable assets	<u>19,247,245</u>	<u>22,776</u>	<u>(1,483)</u>	<u>19,268,538</u>
Less accumulated depreciation:				
Electronic data processing equipment	(17,149,099)	(371,355)	1,483	(17,518,971)
Office equipment	(799,045)	(60,968)	-	(860,013)
Total accumulated depreciation	<u>(17,948,144)</u>	<u>(432,323)</u>	<u>1,483</u>	<u>(18,378,984)</u>
Capital assets, net	<u>\$ 1,299,101</u>	<u>\$ (409,547)</u>	<u>\$ -</u>	<u>\$ 889,554</u>

5. LINE OF CREDIT:

The Company maintains a line of credit providing for a maximum borrowing of \$50,000,000 at December 31, 2018 and 2017, respectively. Interest on this line is payable monthly at a variable rate based on the 30-day London Interbank Offered Rate (LIBOR) plus 2.0% for the first 90 days following the date drawn and 30-day LIBOR plus 2.35% commencing on the 91st day. LIBOR at December 31, 2018 and 2017 was 2.52% and 1.56%, respectively. The line of credit is secured by all premiums and accounts receivable and revenue from all sources, exclusive of emergency assessment levied pursuant to LA R.S. 22:2307E. There was no balance outstanding on the line of credit at December 31, 2018 and 2017.

6. RESTRICTED ASSETS:

Restricted assets in the Company at December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Cash for escheatment	\$ 2,377,327	\$ 3,774,211
Cash equivalents with bond trustee	47,188,279	44,798,754
Total	<u>\$ 49,565,606</u>	<u>\$ 48,572,965</u>

The cash for escheatment is held by the Company until escheated. Cash equivalents with bond trustee includes money market funds held by a bond trustee for the repayment of the Company's emergency assessment revenue bond issued to cover the 2005 plan year deficit resulting from Hurricanes Katrina and Rita.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
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7. LIABILITIES FOR CLAIMS RESERVES AND CLAIM ADJUSTMENT EXPENSES:

Activity in the liabilities for claims and claim adjustment expenses, net of reinsurance recoverables on unpaid claims, for the year ended December 31, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Balance at January 1,	\$ 43,770,060	\$ 48,453,092
Less: reinsurance recoverables	3,283,234	8,031,395
Net balance at January 1,	<u>40,486,826</u>	<u>40,421,697</u>
Incurred related to:		
Current year	12,411,648	21,490,908
Prior years	2,662,945	1,374,963
Total incurred	<u>15,074,593</u>	<u>22,865,871</u>
Paid related to:		
Current year	10,153,506	18,812,030
Prior years	26,426,017	3,988,712
Total paid	<u>36,579,523</u>	<u>22,800,742</u>
Net balance at December 31	<u>18,981,896</u>	<u>40,486,826</u>
Plus reinsurance recoverables on unpaid claims	<u>2,679,742</u>	<u>3,283,234</u>
Balance at December 31,	<u>\$ 21,661,638</u>	<u>\$ 43,770,060</u>

Included in the net balances above were liabilities of \$1,506,681 and \$1,879,874 which were included in other line items on the Statements of Net Position.

Unpaid claims and claim adjustment expenses are stated as the Company's estimate of the ultimate cost, excluding reinsurance, of settling all incurred but unpaid claims. Unpaid claims and claim adjustment expenses are not discounted and no estimate for salvage and subrogation is applied as a reduction to the unpaid losses. The estimate for unpaid claims and claim adjustment expenses is closely monitored and adjusted for changes in economic, social, judicial and legislative conditions, as well as historical trends. The Company uses various development modeling techniques to assist in the evaluation of its reserves under the direction of its chief actuary.

Management believes that the loss reserves are adequate, but establishing reserves is a judgmental and inherently uncertain process. It is, therefore, possible that as conditions and experience develops, reserve adjustments may be required in the future.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

7. LIABILITIES FOR CLAIMS AND CLAIM ADJUSTMENT EXPENSES: (Continued)

For both catastrophic and non-catastrophic claims, the loss adjusting function is performed by Company employees and contracted independent adjusting firms. The Company compensates the independent adjusting firms, depending upon the type or nature of the claims, either on per-day rate or on a graduated fee schedule based on the gross claim amount, consistent with industry standard methods of compensation.

The Company is involved in a number of class action lawsuits and other legal proceedings arising out of various aspects of its business which have been reserved for above. See Note 15 for a description of these class action claims.

8. BONDS PAYABLE:

Series 2015R:

During July 2015, the Company issued \$333,295,000 of assessment revenue refunding bonds in order to advance refund \$415,290,000 of the Assessment Revenue Bonds Series 2006B, issued in the original aggregate principal amount of \$678,205,000, and to pay the cost of issuance of the Series 2015R bonds. The bonds were issued in denominations of \$5,000 or any integral multiple thereof. The 2015R bonds bear interest of 5.00% per annum, payable semiannually on June 1 and December 1 of each year, commencing December 1, 2015. The bond maturity dates range from June 1, 2016 to June 1, 2022. Bond principal payments of \$44,380,000 and \$43,240,000 were made during the years ended December 31, 2018 and 2017, respectively. The outstanding balance due on this bond as of December 31, 2018 and 2017 was \$204,175,000 and \$248,555,000, respectively.

Series 2016AB:

During July 2016, the Company issued \$217,510,000 of assessment revenue refunding bonds in order to advance refund \$213,195,000 of the Assessment Revenue Bonds Series 2006C1 through 2006C3, issued in the original aggregate principal amount of \$225,000,000, and \$49,785,000 principal amount of the Assessment Revenue Bond Series 2012R, issued in the original aggregate principal amount of \$53,620,000, and to pay the cost of issuance of the Series 2016AB bonds. The bonds were issued in denominations of \$5,000 or any integral multiple thereof. The 2016A bonds bear interest of 5.00% per annum, payable semiannually on June 1 and December 1 of each year, commencing December 1, 2016. The bond maturity dates range from June 1, 2023 to June 1, 2026. The 2016B bonds bear interest of 2.64% and 2.74% per annum, payable semiannually on June 1 and December 1 of each year, commencing December 1, 2016. The bond maturity dates range from June 1, 2024 to June 1, 2025. Bond principal payments of \$0 were made during the years ended December 31, 2018 and 2017. The outstanding balance due on this bond as of December 31, 2018 and 2017 was \$217,510,000.

A schedule of debt service requirements, including bond premiums and discounts, is as follows:

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8. BONDS PAYABLE: (Continued)

<u>Maturity</u>	<u>Principal</u>	<u>Premium/(Discount)</u>	<u>Total</u>
2019	\$ 47,620,000	\$ 9,680,376	\$ 57,300,376
2020	50,000,000	8,289,882	58,289,882
2021	51,480,000	6,846,757	58,326,757
2022	55,075,000	5,326,635	60,401,635
2023	50,980,000	3,948,155	54,928,155
2024-2026	166,530,000	5,378,361	171,908,361
	<u>\$ 421,685,000</u>	<u>\$ 39,470,166</u>	<u>\$ 461,155,166</u>

Net unamortized premium at December 31, 2018 and 2017 was \$39,470,166 and \$50,463,343, respectively.

The total interest expense on the fixed rate bonds for the years ended December 31, 2018 and 2017 was \$17,233,165 and \$24,071,200, respectively, including annual amortized net premium of \$10,993,177 and \$12,238,876, and is included in "Interest Expense" in the accompanying Statements of Revenues, Expenses and Changes in Fund Net Position.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>December 31, 2018</u>				
Bonds payable - face	\$ 466,065,000	\$ -	\$ (44,380,000)	\$ 421,685,000
Bond (premium)/discount	50,463,343	-	(10,993,177)	39,470,166
Bonds Payable	<u>\$ 516,528,343</u>	<u>\$ -</u>	<u>\$ (55,373,177)</u>	<u>\$ 461,155,166</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>December 31, 2017</u>				
Bonds payable - face	\$ 509,305,000	\$ -	\$ (43,240,000)	\$ 466,065,000
Bond (premium)/discount	62,702,219	-	(12,238,876)	50,463,343
Bonds Payable	<u>\$ 572,007,219</u>	<u>\$ -</u>	<u>\$ (55,478,876)</u>	<u>\$ 516,528,343</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
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9. AGENT COMMISSIONS:

The Company policies are written by various insurance agents licensed in the State of Louisiana. These agreements provide for commissions to be paid to the agents at rates established by the Board and calculated as a percentage of direct written premiums, net of certain surcharges and assessments. Agent commissions included in other underwriting expenses incurred were \$6,637,547 and \$6,967,671 during the years ended December 31, 2018 and 2017, respectively. Agent commissions payable were \$1,815,225 and \$2,128,846 for the years ended December 31, 2018 and 2017, respectively.

10. REINSURANCE:

The Company purchases private reinsurance through Guy Carpenter & Company, LLC, as licensed reinsurance intermediaries. The participating reinsurance companies will reimburse the Company, through the intermediary, a specified percentage of losses incurred if a prescribed retention is reached.

The Company purchases reinsurance based on levels of loss. The Company is liable for the first amount of ultimate net loss, shown in the table below as "Company Retention," arising out of each loss occurrence. The reinsurer is then liable, as respects each excess layer, for the amount by which such ultimate net loss exceeds the Company's applicable retention for that layer. However, the liability of the reinsurer under any excess layer of reinsurance coverage provided does not exceed either of the following: (1) the amount shown below as "Reinsurer Per Occurrence Limit" for that excess layer as respects loss or losses arising out of any one loss occurrence, or (2) the amount shown as "Reinsurer's Term Limit" for that excess layer. Each excess layer of reinsurance coverage provided is as follows:

Reinsurance in place for the year ended December 31, 2018 was as follows:

	<u>January 1, 2018 to May 31, 2018</u>		
	First Excess	Second Excess	Third Excess
Company's retention	\$ 35,000,000	\$ 75,000,000	\$ 200,000,000
Reinsurer's per occurrence limit	\$ 40,000,000	\$ 125,000,000	\$ 150,000,000
Reinsurer's term limit	Unlimited	\$ 250,000,000	\$ 300,000,000
Annual minimum premium	\$ 5,600,000	\$ 9,570,117	\$ 7,500,000

	<u>June 1, 2018 to December 31, 2018</u>		
	First Excess	Second Excess	Third Excess
Company's retention	\$ 35,000,000	\$ 75,000,000	\$ 200,000,000
Reinsurer's per occurrence limit	\$ 40,000,000	\$ 125,000,000	\$ 100,000,000
Reinsurer's term limit	Unlimited	\$ 250,000,000	\$ 200,000,000
Annual minimum premium	\$ 4,600,000	\$ 7,812,500	\$ 4,000,000

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

10. REINSURANCE: (Continued)

Reinsurance in place for the year ended December 31, 2017 was as follows:

	<u>January 1, 2017 to May 31, 2017</u>		
	First Excess	Second Excess	Third Excess
Company's retention	\$ 35,000,000	\$ 75,000,000	\$ 140,000,000
Reinsurer's per occurrence limit	\$ 40,000,000	\$ 65,000,000	\$ 162,000,000
Reinsurer's term limit	Unlimited	\$ 130,000,000	\$ 324,000,000
Annual minimum premium	\$ 6,780,000	\$ 7,150,000	\$ 8,100,000

	<u>June 1, 2017 to December 31, 2017</u>		
	First Excess	Second Excess	Third Excess
Company's retention	\$ 35,000,000	\$ 75,000,000	\$ 200,000,000
Reinsurer's per occurrence limit	\$ 40,000,000	\$ 125,000,000	\$ 150,000,000
Reinsurer's term limit	Unlimited	\$ 250,000,000	\$ 300,000,000
Annual minimum premium	\$ 5,600,000	\$ 9,570,117	\$ 7,500,000

The Premium can also potentially be adjusted if the total insurable value is greater than 10% or less than 5% of the estimated total insurable value used to calculate the contract premium.

In the event that all or any portion of the reinsurance under the excess layer above is exhausted by loss, the amount exhausted will be reinstated immediately upon payment of a reinsurance premium. The Company has entered into a Reinsurance Premium Protection (RPP) contract which guarantees payment of the reinstatement premium.

As of December 31, 2018, the Company had additional coverage through two catastrophe bonds. In 2013, the Company purchased coverage through a \$140 million, four-year catastrophe bond providing coverage for 93.3% of up to \$539 million in losses in excess of \$389 million covered by retention, traditional reinsurance and the 2012 catastrophe bond. In 2015, the Company purchased additional coverage through a \$100 million, three-year catastrophe bond that provides coverage for 69.4% of up to \$319 million in losses in excess of \$175 million covered by retention and traditional reinsurance. In 2017, the Company purchased coverage through a \$100 million, three-year catastrophe bond that provide coverage for 100% of up to \$450 million in losses in excess of \$350 million covered by retention and traditional reinsurance. In 2018, the Company purchased coverage through a \$100 million, three-year catastrophe bond that provide coverage for 100% of up to \$400 million in losses in excess of \$300 million covered by retention and traditional reinsurance. The 2013 catastrophe bonds were retired during the year ended December 31, 2017. The 2015 catastrophe bonds were retired during the year ended December 31, 2018.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
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10. REINSURANCE: (Continued)

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

Year-ended December 31, 2018		
	<u>Premiums</u>	
	<u>Written</u>	<u>Earned</u>
Direct	\$ 66,878,830	\$ 69,230,799
Ceded	<u>(26,069,222)</u>	<u>(26,069,222)</u>
Net premiums	<u>\$ 40,809,608</u>	<u>\$ 43,161,577</u>
Year-ended December 31, 2017		
	<u>Premiums</u>	
	<u>Written</u>	<u>Earned</u>
Direct	\$ 75,918,644	\$ 89,282,790
Ceded	<u>(33,847,850)</u>	<u>(33,847,850)</u>
Net premiums	<u>\$ 42,070,794</u>	<u>\$ 55,434,940</u>

Amounts recoverable from reinsurers on unpaid losses and loss adjustment expenses are estimated based on the allocation of estimated unpaid losses and loss adjustment expenses among coverage lines. Actual amount recoverable will depend on the ultimate settlement of losses and loss adjustment expenses. Reinsurance contracts do not relieve the Company from its obligation to policyholders. The Company 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.

At December 31, 2018 and 2017, the Company had reinsurance receivables on unpaid claims of \$2,679,742 and \$3,283,234 and reinsurance recoverables on paid losses of \$135,304 and \$385,207, respectively.

11. RETIREMENT PLANS:

Prior to September 1, 2008, the Company sponsored a non-contributory agent multiple-employer defined benefit pension plan covering all employees that were hired prior to April 1, 2008, through a services agreement with Property Insurance Association of Louisiana (PIAL) to participate in the Pension Plan for Insurance Organization (PPIO).

Benefits Provided:

PPIO provides retirement and survivor's benefits to all qualified employees of the Company. The following is a brief description of the plan and its benefits. Participants should refer to the detailed plan description for more complete information.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

11. RETIREMENT PLANS: (Continued)

Benefits Provided: (Continued)

Normal Retirement Benefit:

Normal retirement benefit is the annual benefit that is payable as a life annuity beginning on individual's normal retirement date. Normal retirement benefit is equal to the following:

- 1.15% of average annual compensation up to covered compensation multiplied by years of credited service (maximum 35 years); plus
- 1.55% of average annual compensation in excess of covered compensation multiplied by years of credited service (maximum 35 years); plus
- 0.5% of average annual compensation multiplied by years of credited service from 35 to 45 years.

Under a life annuity, participant will receive monthly payments for the rest of his/her life. No benefits will be paid after the death.

Minimum Retirement Benefit

Normal retirement benefit cannot be less than the benefit the participant would have received on any earlier retirement date or the benefit accrued as of December 31, 1988. Also, if the participant has completed at least 15 years of vesting service, normal retirement benefit will not be less than \$1,200 per year. If the participant has completed less than 15 years of vesting service, the \$1,200 will be reduced by \$80 for each year of vesting service that is less than 15 years.

Adjustment of Pension Benefit Payment Before or After Normal Retirement Date

Following the termination of employment, the participant may decide when to begin pension benefit payments. The amount of the pension benefit that a member may receive as a life annuity may vary if he/she receives pension benefit payments on a date other than normal retirement date. Generally, the following rules apply:

- If participant has completed at least 15 years of vesting service, the life annuity he/she could begin to receive on normal retirement date will be unreduced if individual begins to receive pension benefit payments as of the first day of any month between the first day of the month after attaining age 62 and before normal retirement date.
- If participant has completed at least 15 years of vesting service, the life annuity he/she could begin to receive on normal retirement date will be reduced, but by less than a full actuarial reduction, if individual begins to receive pension benefit payments as of the first day of any month between the first day of the month after attaining age 55 and before the first day of the month after attaining age 62.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

11. RETIREMENT PLANS: (Continued)

Benefits Provided: (Continued)

- If participant has completed at least 5 years of vesting service but less than 15 years of vesting service, the life annuity he/she could begin to receive on normal retirement date will be actuarially reduced if individual begins to receive pension benefit payments as of the first day of any month between the first day of the month after attaining age 55 and before normal retirement date.
- If participant begins pension benefit payments after the normal retirement date, the life annuity, he/she could begin to receive on normal retirement date (or upon termination of employment if later) will be actuarially increased until the benefit commencement date.

Early Retirement Benefit

If participant terminates employment and begins to receive a pension benefit as a life annuity before normal retirement date, the life annuity may be reduced because it commences early. The reduction for early commencement is described below.

Age 55 with at Least 5, but Less Than 15 Years of Vesting Service

Individual may begin receiving pension benefit before normal retirement date if he/she is age 55 or older and has completed at least 5, but less than 15, years of vesting service. Pension benefit will be actuarially reduced based on member's age when commenced benefit to reflect the longer period over which pension benefit will be paid.

The following factors are used to determine the amount of benefit participant would receive as a life annuity on an earlier retirement date. Normal retirement benefit would be multiplied by the factors below (which are adjusted for partial years) to determine reduced pension amount payable as a life annuity:

Age at early retirement:	Early retirement reduction factor for normal retirement benefit
64	0.909
63	0.828
62	0.756
61	0.693
60	0.636
59	0.586
58	0.540
57	0.499
56	0.462
55	0.428

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS
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11. RETIREMENT PLANS: (Continued)

Benefits Provided: (Continued)

Age 55 with at Least 15 Years of Vesting Service

The participant may begin receiving pension benefit before normal retirement date if he/she is age 55 or older and has completed at least 15 years of vesting service. Pension benefit will have less of an early retirement reduction than if the participant had completed fewer than 15 years of vesting service.

If the participant terminates employment with at least 15 years of vesting service and elects to commence pension benefit on or after reaching age 62 but before reaching age 65, pension benefit payable as a life annuity will be equal to the amount payable as a life annuity beginning on normal retirement date.

If the participant terminates employment with at least 15 years of vesting service and elects to commence pension benefit on or after reaching age 55 but prior to age 62, pension benefit payable as a life annuity will be equal to the amount of a normal retirement benefit, but reduced to take into account younger age and the longer period over which benefit payments will be received.

The following factors are used to determine the amount of benefit participant would receive as a life annuity beginning on an earlier retirement date. Normal retirement benefit would be multiplied by the factors below (which are adjusted for partial years) to determine reduced pension amount payable as a life annuity:

Age at early retirement:	Early retirement reduction factor for normal retirement benefit
61	0.97
60	0.94
59	0.89
58	0.84
57	0.79
56	0.74
55	0.69

Special Social Security Supplement

In addition to the pension benefits described above, if the participant begins receiving benefits before age 62, completed at least 15 years of vesting service, and elects to receive retirement benefits as a life annuity, the individual will receive, from benefit commencement date to the first day of the month on or after 62nd birthday (or date of death if earlier), the amount described as follows, reduced by the applicable early retirement reduction factor above:

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

11. RETIREMENT PLANS: (Continued)

Benefits Provided: (Continued)

0.4% of average annual compensation up to covered compensation multiplied by years of credited service, up to a maximum of 35 years. This amount is then adjusted by the early retirement reduction factor of 0.89. The participant would receive an additional amount equal to \$575 per month until age 62.

If the member elects to receive a pension benefit in a form of payment other than a life annuity, the special social security supplement will be adjusted to reflect that other form of payment.

Once the member has attained age 62, the special social security supplement will cease. If the participant elects to receive pension benefits as a life annuity, the special social security supplement will cease at date of death if he/she would die before reaching age 62. The special social security supplement is intended to provide bridge payments until the participant is eligible to begin receiving social security retirement benefits. This supplement will cease at age 62, regardless of whether or not the member has applied for social security benefits.

Small Benefit and Younger Than Age 55

If the participant terminates employment after becoming vested and the value of pension benefits when he/she terminates employment exceeds \$5,000, the participant may begin to receive pension benefits as of the first day of any month following termination of employment provided that the value of pension benefits does not exceed \$20,000 as of that time. Individual may elect to receive pension benefits in a lump sum or in another form of payment. If the participant elects to receive pension benefits beginning before age 55, pension benefits will be actuarially reduced based on age when a member commences benefit to reflect the longer period over which pension benefits will be paid.

Pension Guarantees

Pension benefits under this plan are insured by the PBGC, a Federal insurance agency. If the plan terminates (ends) without enough money to pay all benefits, the PBGC will step in to pay pension benefits. Most people receive all of the pension benefits they would have received under their plan, but some people may lose certain benefits. The PBGC guarantee generally covers:

- Normal and early retirement benefits;
- Disability benefits if a participant becomes disabled before the plan terminates;
- Certain benefits for survivors.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

11. RETIREMENT PLANS: (Continued)

Benefits Provided: (Continued)

Employees Covered by the Benefit Terms

As of December 31, 2018 and 2017, the following employees were covered by the Plan:

	<u>2018</u>	<u>2017</u>
Active employees	28	30
Inactive employees or beneficiaries currently receiving benefits	11	11
Inactive employees entitled to but not yet receiving benefits	<u>7</u>	<u>5</u>
Total	<u><u>46</u></u>	<u><u>46</u></u>

Contributions:

Contributions to pay for plan benefits are paid by the participating employers to a trust administered by the Principal Trust Company (the Trust), or its successors or assigns. When participants retire, the necessary amount will be allocated from the available funds under the Trust to provide pension benefits. Both the participant and employer contribute toward social security taxes throughout the participant's career; however, the cost of the plan is paid entirely by participating employers. Participants are not required to contribute to the plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

As of December 31, 2018 and 2017, the Company reported an asset of \$196,498 and \$346,381, respectively for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2018 and 2017, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that dates.

For the years ended December 31, 2018 and 2017, the Company recognized pension (benefit) expense of \$149,883 and \$(194,729), respectively. As of December 31, 2018 and 2017, the Company reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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DECEMBER 31, 2018 AND 2017

11. RETIREMENT PLANS: (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources
and Deferred Inflows of Resources Related to Pensions: (Continued)

<u>2018</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 67,135	\$ 51,571
Change of assumptions	77,452	10,196
Net Difference between projected and actual earnings on pension plan investments	147,982	-
Total	<u>\$ 292,569</u>	<u>\$ 61,767</u>
<u>2017</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 96,355	\$ 13,053
Change of assumptions	105,825	8,507
Net Difference between projected and actual earnings on pension plan investments	-	60,552
Total	<u>\$ 202,180</u>	<u>\$ 82,112</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending:	Amount
2019	\$ 97,592
2020	56,834
2021	29,204
2022	47,966
2023	(794)
Thereafter	-
Total	<u>\$ 230,802</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

11. RETIREMENT PLANS: (Continued)

Actuarial Assumptions:

The total pension liability in the December 31, 2018 and 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2018</u>	<u>2017</u>
Discount Rate	5.50%	5.50%
Investment Rate of Return	5.50%	5.50%
Inflation	3.00%	3.00%
Salary Increase	N/A	N/A
Mortality Rates	RP-2014 mortality tables with the MP-2018 mortality improvement scale applied on a generational basis	RP-2014 mortality tables with the MP-2017 mortality improvement scale applied on a generational basis

Discount Rate:

The discount rate used to measure the total pension liability for the years ended December 31, 2018 and 2017 was 5.50%. The long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Plan's Net Pension Asset:

Changes in the Plan's net pension asset for the year ended December 31, 2018 and 2017 were as follows:

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

11. RETIREMENT PLANS: (Continued)

Changes in Plan's Net Pension Asset: (Continued)

	Increase (Decrease)		
	Total Pension <u>Liability</u>	Plan Fiduciary <u>Net Position</u>	Net Position <u>Asset</u>
Balance, December 31, 2017	\$ 1,806,421	\$ 2,152,802	\$ 346,381
Change for the year:			
Service cost	-	-	-
Interest cost	97,458	-	(97,458)
Difference between expected and actual experience	(52,455)	-	52,455
Changes of assumptions	(4,249)	-	4,249
Net investment income	-	(129,494)	(129,494)
Contributions - employer	-	29,923	29,923
Benefit payments	(68,903)	(68,903)	-
Administrative expenses	-	(9,558)	(9,558)
Net changes	<u>(28,149)</u>	<u>(178,032)</u>	<u>(149,883)</u>
Balance, December 31, 2018	<u>\$ 1,778,272</u>	<u>\$ 1,974,770</u>	<u>\$ 196,498</u>

	Increase (Decrease)		
	Total Pension <u>Liability</u>	Plan Fiduciary <u>Net Position</u>	Net Position <u>Asset</u>
Balance, December 31, 2016	\$ 1,796,934	\$ 1,948,586	\$ 151,652
Change for the year:			
Service cost	-	-	-
Interest cost	97,099	-	(97,099)
Difference between expected and actual experience	(14,459)	-	14,459
Changes of assumptions	(10,143)	-	10,143
Net investment income	-	267,353	267,353
Contributions - employer	-	10,821	10,821
Benefit payments	(63,010)	(63,010)	-
Administrative expenses	-	(10,948)	(10,948)
Net changes	<u>9,487</u>	<u>204,216</u>	<u>194,729</u>
Balance, December 31, 2017	<u>\$ 1,806,421</u>	<u>\$ 2,152,802</u>	<u>\$ 346,381</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

11. RETIREMENT PLANS: (Continued)

Sensitivity of the Company's Proportionate Share of the Net Pension Asset to Changes in the Discount Rate:

The following presents the Company's proportionate share of the net pension liability or net pension asset using the discount rate for the years ended December 31, 2018 and 2017 of 5.50%, as well as what the employer's proportionate share of the net pension liability or net pension asset would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate at the years ended December 31, 2018 and 2017:

	1.0% Decrease <u>4.50%</u>	Current Discount <u>Rate 5.50%</u>	1.0% Increase <u>6.50%</u>
<u>2018</u>			
Company's proportionate share of the net pension asset (liability)	<u>\$ (39,152)</u>	<u>\$ 196,498</u>	<u>\$ 390,484</u>
	1.0% Decrease <u>4.50%</u>	Current Discount <u>Rate 5.50%</u>	1.0% Increase <u>6.50%</u>
<u>2017</u>			
Company's proportionate share of the net pension asset (liability)	<u>\$ 99,406</u>	<u>\$ 346,381</u>	<u>\$ 548,474</u>

Defined Contribution Plans:

As of September 1, 2008, the Company froze its defined benefit pension plan and in its place established a defined contribution plan. The Company contributes 11% of each employee's wages to the defined contribution plan. Contributions are expensed each month, and the Company carried no assets or liabilities for the defined contribution plan on its statement of net position. The Company's contribution to the plan was approximately \$565,475 and \$657,124 during the years ended December 31, 2018 and 2017, respectively.

In addition, the Company sponsors a contributory 401k savings plan covering eligible employees for which the Company matches 75% of employee contributions up to a maximum of 6% of eligible compensation. The Company's matching contributions to the plan totaled approximately \$170,210 and \$198,246 for the years ended December 31, 2018 and 2017, respectively. Both defined contribution plans are ICSO 401k Saving Plan's and are administered by Prudential Financial, Inc.

12. COMPENSATED ABSENCES:

Employees earn and accrue vacation and sick leave at various rates, depending on their years of service. The maximum amount of sick leave that may be accrued by each employee at any given time is 20 days. The maximum vacation carry-over at the end of the year is five days.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

12. COMPENSATED ABSENCES: (Continued)

Upon termination, employees are compensated for any unused vacation leave at the employee's hourly rate of pay at the time of termination. The liability of unused vacation leave at December 31, 2018 and 2017 was approximately \$79,008 and \$102,475, respectively.

13. LEASES:

The Company leases office space under certain non-cancelable operating leases which will expire in September 2023. The future minimum lease payments as of December 31, 2018 are as follows:

Year ending:	<u>Amount</u>
2019	\$ 489,190
2020	494,436
2021	499,681
2022	504,928
2023	381,647
Total	<u>\$ 2,369,882</u>

Lease expense for the years ended December 31, 2018 and 2017 was \$524,763 and \$516,461, respectively.

14. UNAUDITED RECONCILIATION BETWEEN GAAP AND STATUTORY NET INCOME:

Accounting principles generally accepted in the United States of America (GAAP basis) differ in certain respects from the accounting practices prescribed or permitted by insurance regulatory authorities (statutory basis). A reconciliation between the change in net position and the deficiency in net position as reported under GAAP basis and statutory basis for the years ended December 31, 2018 and 2017 follows:

	<u>2018</u>	<u>2017</u>
Change in net position - GAAP basis	\$ 68,527,894	\$ 62,973,269
Adjustments to:		
Pension plan expense	205,981	(361,775)
Other	54,752	(130,783)
Interest expense	7,516,108	13,404,593
Investment income	204	-
Excess emergency assessments	(56,868,456)	(52,853,461)
Tax exempt surcharge	(2,333,846)	(3,117,925)
Net income - statutory basis	<u>\$ 17,102,637</u>	<u>\$ 19,913,918</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

14. UNAUDITED RECONCILIATION BETWEEN GAAP AND STATUTORY NET INCOME:
(Continued)

	<u>2018</u>	<u>2017</u>
Total deficiency in net assets - GAAP basis	\$ (235,000,293)	\$ (302,173,362)
Adjustments to:		
Non-admitted assets	(2,500,766)	(3,838,503)
Net pension asset	(349,461)	(466,449)
Deferred loss on advanced refunding	(5,696,682)	(13,212,790)
Other accrued liabilities	(118,984)	(1,562,802)
Excess emergency assessments	(34,434,099)	(32,511,987)
Allowance for doubtful accounts	806,664	751,912
Emergency assessments receivable	451,844,226	506,790,570
Provision for reinsurance receivable	(191,198)	(276,658)
Accumulated surplus - statutory basis	\$ 174,359,407	\$ 153,499,931

15. COMMITMENTS AND CONTINGENCIES:

The Company 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 Company's financial condition or results of operations.

The Company is also involved in other potentially significant litigation described below; any of which could have a material adverse effect on the financial condition or results of operations. These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including the underlying facts of each matter; novel legal issues; variations between jurisdictions in which matters are being litigated, heard, or investigated; differences in applicable laws and judicial interpretations; the length of time before many of these matters might be resolved by settlement through litigation or otherwise; and the current legal environment faced by large corporations and insurance companies.

The outcome of these matters may be affected by decisions, verdicts, settlements and the timing of such other individual and class action lawsuits that involve the Company, other insurers, or other entities and by other legal, governmental, and regulatory actions that involve the Company, other insurers, or other entities. The outcome may also be affected by future state legislation, the timing or substance of which cannot be predicted.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

15. COMMITMENTS AND CONTINGENCIES: (Continued)

In lawsuits, plaintiffs seek a variety of remedies. In some cases, the monetary damages sought to include punitive or treble damages. Often specific information about the relief sought, such as the amount of damages is not available. When specific monetary demands are made, they are often set just below a state court jurisdictional limit in order to seek the maximum amount available regardless of the specifics of the case.

For the reasons previously specified, it is often not possible to make meaningful estimates of the amount or range of loss that could result from the known and unknown matters described. The Company reviews these matters on an ongoing basis and follows appropriate accounting guidance when making accrual and disclosure decisions. When assessing “reasonably possible” and “probable” outcomes, the Company bases its decisions on its assessment of the ultimate outcome following all appeals. Additionally, in instances where a judgment, assessment or fine has been rendered against the Company, there is a presumption that criteria in reaching a “reasonably possible” and “probable” outcome have been met. In such instances, the amount of liability recorded by the Company will include the anticipated settlement amount, legal costs, insurance recoveries and other related amounts and take into account factors such as the nature of the litigation, progress of the case, opinions of legal counsel, and management’s intended response to the litigation, claim or assessment.

Due to the complexity and scope of the matters disclosed below and the many uncertainties that exist, the ultimate outcome of these matters cannot be reasonably predicted. In the event of an unfavorable outcome in any one or more of these matters, the ultimate liability may be in excess of the amounts currently reserved.

A summary of potentially significant litigation follows:

Oubre v. Louisiana Citizens Property Insurance Corporation. The plaintiffs in this suit allege that the Company failed to timely initiate loss adjustment as required by Louisiana statutory law exposing the Company to penalties up to a mandatory limit of \$5,000 per claim. On July 23, 2012, the Company settled the majority of this class action suit with a payment of \$104.7 million to the plaintiff counsel for distribution to the current class members. The Company entered into a settlement with the class for the remaining Oubre claims. On May 11, 2018 the Company paid another \$21.1 million to settle a portion of the claims outstanding on the Oubre Class Action lawsuit. At December 31, 2018 and 2017, the Company had a reserve of \$13.2 and \$33.7 million, respectively, for this case for resolution of the remaining claims which the Company believes is adequate. The reserve is included in claims and claims adjustment reserves on the accompanying statement of net position.

Various other lawsuits against the Company have arisen in the course of the Company’s business, including approximately 82 first-party suits, of which a majority are related to Hurricane Isaac. The Company believes it has established appropriate reserves for all lawsuits, in addition to class action claims described above. The Company has no assets that it considers to be impaired.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

15. COMMITMENTS AND CONTINGENCIES: (Continued)

In addition to claims under the insurance policies it issues, the Company is potentially exposed to various risks of loss, including those related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. As of the years ended December 31, 2018 and 2017, the Company had insurance protection in place from various commercial insurance carriers covering various exposures, including workers' compensation, property loss, employee liability, general liability, directors' and officers' liability, and business auto and cyber insurance. Management continuously revisits the limits of coverage and believes that current coverage is adequate. There were no significant reductions in insurance coverage from the previous year.

16. DEPOPULATION:

The Louisiana State Legislature created the Company to operate insurance plans as a residual market for residential and commercial property. The legislature further intended that the Company work toward the ultimate depopulation of these residual market plans also known as the Coastal Plan and FAIR Plan. To encourage the ultimate depopulation to these residual market plans, the Louisiana Citizens Property Insurance Corporation Policy Take-Out Program was created.

Under the take-out plan guidelines, not less than once per calendar year, the Company, with the approval of the governing board of the corporation, may offer some or all its in-force policies for removal to the voluntary market. The Company shall include in any offers for depopulation policies that, based on geographic and risk characteristics, serve to reduce the exposure of the corporation. Each insurer admitted to write homeowners insurance or insurance, insuring one- or two-family owner occupied premises for fire and allied lines or insurance which covers commercial structures in the State of Louisiana may apply to the Company to become a take-out company. Insurers will be approved to participate in the depopulation of the Company based on statutory guidelines set forth in accordance with LRS 22:2314(C).

Policies may be removed from the Company at policy renewal or as part of a bulk assumption. In an assumption, the take-out company is responsible for losses occurring from the assumption date through the expiration of the Company's policy period.

Unearned premiums remitted to take-out companies pursuant to assumption agreements is reflected as a reduction in "premium earned" in the Statements of Revenues, Expenses, and Changes in Fund Net Position and totaled \$8,505,930 and \$12,205,293 for the years ended December 31, 2018 and 2017, respectively.

The Company provides administration services with respect to the assumed policies. All agreements provide for the take-out company to adjust losses. The take-out company pays a ceding commission to the Company to compensate the Company for policy acquisition costs,

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

16. DEPOPULATION: (Continued)

which includes servicing company fees and agent commissions. While the Company is not liable to cover claims after the assumption, the Company continues to service policies for items such as policyholder endorsements or cancellation refunds. Should the Company process and provide a refund to policyholders, such amount is subsequently collected from the take-out company. At December 31, 2018 and 2017, there were no assumed premiums due from certain take-out companies.

17. RESTRICTED NET POSITION:

The Statement of Net Position includes \$139,955,302 and \$134,982,954 of funds restricted by enabling legislation for the repayment of Special Assessment Revenue Bonds as of December 31, 2018 and 2017, respectively. The amounts equal the excess of unspent emergency assessment collected to satisfy the debt service requirements for the year.

18. DEFICIENCY NET POSITION:

The Company reported a deficiency in net position of \$(235,000,293) and \$(302,173,362) at December 31, 2018 and 2017, respectively, resulting primarily from losses on insured property caused by Hurricanes Katrina and Rita during 2005. The Company plans to eliminate the deficit through emergency assessments on affected insurance companies and policy holders.

19. OTHER POSTEMPLOYMENT BENEFITS (OPEB):

The Company implemented GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This guideline is for all governmental employers who provide postemployment benefits other than pension for which the employer pays all or a part of the cost of the benefits, such as the postemployment health care benefits discussed below. The Louisiana Citizens Property Insurance's OPEB Plan (the OPEB Plan) is a single-employer defined benefit OPEB Plan administered by the Company. The authority to establish and/or amend the obligation of the employer, employees and retirees' rests with the Company. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 75.

Plan Description:

The Company provides postemployment medical and life insurance for qualified employees hired prior to January 1, 2010. Employees may qualify for participation in the plan by: a) attaining age 55 and completing 14 years and one hour of service or b) attaining age 60; completing at least 5 years of service, two of which occur after October 28, 2010, be employed with the Company at the time of retirement and retire in good status.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

19. OTHER POSTEMPLOYMENT BENEFITS (OPEB): (Continued)

Contribution Rates:

Plan members contribute 25% of medical premiums, including Medicare supplement, dental and vision coverage, and 100% of supplemental life insurance. Plan members are not required to contribute for basic life insurance. During the year ended December 31, 2018, the Company paid \$135,115 for retiree insurance premiums.

Employees Covered by Benefit Terms:

At December 31, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits payments	14
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>34</u>
Total	<u>48</u>

Actuarial Methods and Assumptions:

The total OPEB liability in December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Entry Age
Discount rate	4.50%
Salary increase rate	3.00%
Healthcare cost trend rate	6.50%
Year of ultimate trend rate	2024
Mortality assumption	RP2014/MP2018

Actuarial valuations involve estimates of the value of the reported amounts and assumptions about the probability of events far into the future. The actuarial valuation for postemployment benefits includes estimates and assumptions regarding (1) turnover rate; (2) retirement rate; (3) health care cost trend; (4) mortality rate; (5) discount rate (investment return assumption); and (6) the period to which the costs apply (past, current, or future years if service by employees). Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the Company and its employee plan members) at the time of the valuation and on the pattern of sharing costs between the Company and its plan

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

19. OTHER POSTEMPLOYMENT BENEFITS (OPEB): (Continued)

Actuarial Methods and Assumptions: (Continued)

members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between Board and plan members in the future. Consistent with the long-term perspective of actuarial calculations, the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets.

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at December 31, 2017	\$ 3,328,335
Changes for the year:	
Service cost	90,909
Interest cost	125,688
Differences between expected and actual experience	220,101
Changes of assumptions	(313,203)
Benefit payments	(135,115)
Net changes	(11,620)
Balance at December 31, 2018	\$ 3,316,715

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate:

The following presents the Company's total OPEB liability, as well as what the Company's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.50%) or 1-percentage-point higher (5.50%) than the current discount rate:

	1.00% Decrease <u>(3.50%)</u>	Current Discount Rate <u>(4.50%)</u>	1.00% Increase <u>(5.50%)</u>
Total OPEB Liability	\$3,885,909	\$3,316,715	\$2,862,255

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

19. OTHER POSTEMPLOYMENT BENEFITS (OPEB): (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates:

The following presents the total OPEB liability of the Company, as well as what the Company's OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current healthcare trend rates:

	1.00% Decrease <u>(5.50%)</u>	Healthcare Cost <u>Trend Rate</u> <u>(6.50%)</u>	1.00% Increase <u>(7.50%)</u>
Total OPEB Liability	<u>\$2,852,124</u>	<u>\$3,316,715</u>	<u>\$3,904,104</u>

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:

The Company's total OPEB liability of \$3,316,715 was measured as of December 31, 2018, and was determined by an actuarial valuation of that date.

For the year ended December 31, 2018, the Company recognized OPEB expense of \$201,334. As of December 31, 2018, the Company reported deferred outflows of resources and deferred inflows of resources to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 184,019	\$ -
Changes of assumptions	<u>-</u>	<u>261,858</u>
Total	<u>\$ 184,019</u>	<u>\$ 261,858</u>

Amounts reported as deferred outflows of resources and deferred (inflows) of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended	
2019	\$ (15,263)
2020	(15,263)
2021	(15,263)
2022	(15,263)
2023	(15,263)
Thereafter	<u>(1,524)</u>
Total	<u>\$ (77,839)</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

19. OTHER POSTEMPLOYMENT BENEFITS (OPEB): (Continued)

Payables to the OPEB Plan:

As of December 31, 2018, the Company had no outstanding payables to the OPEB plan.

20. DISAGGREGATION OF RECEIVABLE BALANCES:

Receivable balances (net of allowance for doubtful accounts) at December 31, 2018 and 2017 were as follows:

<u>Description</u>	<u>2018</u>	<u>2017</u>
Premiums receivable	\$ 1,199,880	\$ 1,492,135
Premiums deferred	6,768,719	8,853,796
Allowance for doubtful accounts	(806,664)	(751,912)
Total premium receivables, net	<u>\$ 7,161,935</u>	<u>\$ 9,594,019</u>
Emergency assessment receivable	<u>\$ 14,000,000</u>	<u>\$ 15,000,000</u>
Reinsurance recoverables on paid losses	<u>\$ 135,304</u>	<u>\$ 385,207</u>

21. RECLASSIFICATIONS:

Certain amounts in the 2017 financial statements were reclassified to conform to the 2018 presentation. These reclassifications had no effect on the reported results of operations.

REQUIRED SUPPLEMENTARY INFORMATION

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIOS
FOR THE FIVE YEARS ENDED DECEMBER 31, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:					
Service cost	\$ -	\$ -	\$ -	\$ 39,518	\$ 40,198
Interest	97,458	97,099	98,542	88,164	79,982
Difference between expected and actual experience	(52,455)	(14,459)	(1,330)	155,128	33,868
Change of assumptions	(4,249)	(10,143)	89,909	19,877	79,179
Benefit payments, including refunds	(68,903)	(63,010)	(65,094)	(76,800)	(47,450)
Net change in total pension liability	(28,149)	9,487	122,027	225,887	185,777
Total pension liability - beginning	<u>1,806,421</u>	<u>1,796,934</u>	<u>1,674,907</u>	<u>1,449,020</u>	<u>1,263,243</u>
Total pension liability - ending	<u>\$ 1,778,272</u>	<u>\$ 1,806,421</u>	<u>\$ 1,796,934</u>	<u>\$ 1,674,907</u>	<u>\$ 1,449,020</u>
Plan fiduciary net position:					
Net investment income (loss)	\$ (129,494)	\$ 267,353	\$ 134,212	\$ (52,967)	\$ 172,670
Contributions - employer	29,923	10,821	-	-	-
Benefit payments, including refunds	(68,903)	(63,010)	(65,094)	(76,800)	(47,450)
Administrative expense	(9,558)	(10,948)	(12,277)	(9,638)	(11,113)
Net change in plan fiduciary net position	(178,032)	204,216	56,841	(139,405)	114,107
Plan fiduciary net position - beginning	<u>2,152,802</u>	<u>1,948,586</u>	<u>1,891,745</u>	<u>2,031,150</u>	<u>1,917,043</u>
Plan fiduciary net position - ending	<u>\$ 1,974,770</u>	<u>\$ 2,152,802</u>	<u>\$ 1,948,586</u>	<u>\$ 1,891,745</u>	<u>\$ 2,031,150</u>
Net pension asset - ending	<u>\$ 196,498</u>	<u>\$ 346,381</u>	<u>\$ 151,652</u>	<u>\$ 216,838</u>	<u>\$ 582,130</u>
Plan fiduciary net position as a % of total pension liability	111.05%	119.17%	108.44%	112.95%	140.17%
Covered employee payroll	-	-	-	-	-
Net pension asset as % of covered-employee payroll	N/A	N/A	N/A	N/A	N/A

This schedule is intended to show information for 10 years. Additional years will be presented as they become available.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN THE
 OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2018

Total OPEB liability:	
Service cost	\$ 90,909
Interest cost	125,688
Differences between expected and actual experience	220,101
Changes of assumptions	(313,203)
Benefit payments	<u>(135,115)</u>
Net change in total OPEB liability	(11,620)
Total OPEB liability - beginning:	<u>3,328,335</u>
Total OPEB liability - ending:	<u>\$ 3,316,715</u>
Covered-employee payroll	\$ 2,890,594
Total OPEB liability as a percentage of covered-employee payroll	114.74%

This schedule is intended to show information for 10 years. Additional years will be presented as they become available.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018

1. PENSION:

Changes in Benefit Terms:

There were no changes of benefit terms for any of the years presented in the Schedule of Changes in Net Pension Asset and Related Ratios.

Changes in Assumptions:

Amounts reported for 2018 reflect a change to the use of the RP-2014 mortality tables with the MP-2018 mortality improvement scale applied on a generational basis.

Amounts reported for 2017 reflect a change to the use of the RP-2014 mortality tables with the MP-2017 mortality improvement scale applied on a generational basis.

Amounts reported for 2016 reflect a change to the use of the RP-2014 mortality tables with the MP-2016 mortality improvement scale applied on a generational basis. Also, in 2016, the discount rate used to measure the total pension liability was reduced from 6.00% to 5.50%.

Amounts reported for 2015 reflect a change to the use of the RP-2014 mortality tables with MP-2015 mortality improvement scale applied on a generational basis. Also, in 2015, the discount rate used to measure the total pension liability was reduced from 6.25% to 6.00%.

2. OTHER POSTEMPLOYMENT BENEFITS (OPEB):

The actuarial methods and assumptions used to calculate the total OPEB liability are described in Note 19 to the financial statements.

There were no changes in benefit terms or assumptions for the year presented.

No assets are accumulated in a trust that meets the criteria in GASB Statement No. 75, paragraph 4.

Changes in Assumptions:

The discount rate changed from 3.75% as of December 31, 2017 to 4.50% as of December 31, 2018.

SUPPLEMENTARY INFORMATION

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF BOARD MEMBER COMPENSATION
DECEMBER 31, 2018

<u>Board Members</u>	<u>Per Diem</u>	<u>Expense Reimbursement</u>	<u>Total Compensation</u>
Jeff Albright	\$ -	\$ -	\$ -
Eric Berger	-	-	-
Brian E. Chambley	-	-	-
Thomas Enright	-	-	-
Gene Galligan	-	1,223	1,223
Denise Gardner	-	-	-
Thomas C. Glasson	-	-	-
Craig C. LeBouef	-	135	135
Nick Lorusso	-	-	-
A. Eugene Montgomery, III	-	-	-
Kevin Reinke	-	-	-
John Smith	-	-	-
J. William Starr	-	153	153
Kirk Talbot	-	-	-
Brian D. Van Dreumel	-	-	-
	<u>\$ -</u>	<u>\$ 1,511</u>	<u>\$ 1,511</u>



Duplantier
Hrapmann
Hogan &
Maher, LLP

Lindsay J. Calub, CPA, LLC
Guy L. Duplantier, CPA
Michelle H. Cunningham, CPA
Dennis W. Dillon, CPA
Grady C. Lloyd, III CPA

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

June 17, 2019

To the Board of Directors of
Louisiana Citizens Property Insurance Corporation
Metairie, Louisiana

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 Louisiana Citizens Property Insurance Corporation (the "Company"), a component unit of the State of Louisiana, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, and have issued our report thereon dated June 17, 2019.

Internal Control Over Financial Reporting

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

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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 over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain matters that were reported to management of the Company in a separate letter dated June 17, 2019.

Louisiana Citizens Property Insurance Corporation's Response to Findings

The Company's responses to the findings identified in our audit are described in the accompanying summary schedule of findings. The Company's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

New Orleans, Louisiana

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
SUMMARY OF SCHEDULE OF FINDINGS
DECEMBER 31, 2018

SUMMARY OF AUDITOR’S RESULTS:

1. The opinion issued on the financial statements of Louisiana Citizens Property Insurance Corporation for the year ended December 31, 2018 was unmodified.
2. There were no significant deficiencies or material weaknesses required to be disclosed by Government Auditing Standards.
3. There were no instances of noncompliance considered material to the financial statements, as defined by Government Auditing Standards.

FINDINGS – FINANCIAL STATEMENT AUDIT:

NONE

MANAGEMENT COMMENTS:

18-01 Outdated IOS

During our audit, we discovered that several routers and switches are using outdated IOS and firmware versions that appear to have security vulnerabilities. We recommend the Company to check each of their security appliances and network switches for updated IOS and firmware versions that address critical or high-level security vulnerabilities.

Management’s Response:

As of December 31, 2018, we replaced all of our warranty switches and routers. In 2018, we implemented a process to apply security patches to all servers. In 2019, we will expand that process to include routers and switches.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
DECEMBER 31, 2018

STATUS OF PRIOR YEAR AUDIT FINDINGS:

17-01 Microsoft Windows Server 2003

During our audit, we noted that several servers, including the main server, were still operating using Microsoft Windows Server 2003. As of July 14, 2015, Microsoft was no longer supporting this operating system. As a result, the operating system is no longer receiving updates leaving the system vulnerable to potential security threats. While the Company is in the process of migrating the servers to a new operating system, we recommend getting this upgrade completed as soon as possible. The Company should plan and execute a migration strategy prior to the date Microsoft or any software vendor stops providing security updates to an operating system.

As of December 31, 2018, only one server was still in place. This server has been removed from the outside access, and is accessed only by a limited number of internal users.



Duplantier Hrapmann Hogan & Maher, LLP

June 17, 2019

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Audit Committee and Members of Management
Louisiana Citizens Property Insurance Corporation
1 Galleria Blvd, Suite 720
Metairie, Louisiana 70001

In planning and performing our audit of the financial statements of Louisiana Citizens Property Insurance Corporation (the Company) as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

During the course of our audit, we noted an immaterial matter of internal control over financial reporting and compliance or other matter that we believe represents an opportunity for strengthening internal controls and operating efficiency. This letter summarizes our comment and recommendation regarding this matter.

Outdated IOS

During our audit, we discovered that several routers and switches are using outdated IOS and firmware versions that appear to have security vulnerabilities. We recommend the Company to check each of their security appliances and network switches for updated IOS and firmware versions that address critical or high-level security vulnerabilities.

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June 17, 2019

This communication is intended solely for the information and use of management, the Audit Committee, and others within the Company, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

DUPLANTIER, HRAPMANN, HOGAN & MAHER, LLP



Michelle H. Cunningham, CPA
Partner

MHC/ct