

LOUISIANA CITIZENS  
PROPERTY INSURANCE CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

LOUISIANA CITIZENS  
PROPERTY INSURANCE CORPORATION

REPORT INDEX

DECEMBER 31, 2017 AND 2016

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT.....	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	4 - 10
FINANCIAL STATEMENTS:	
Statements of Net Position.....	11 - 12
Statements of Revenues, Expenses, and Changes in Net Position.....	13
Statements of Cash Flows.....	14 - 15
Notes to Financial Statements.....	16 - 53
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedules of Changes in Net Pension Asset and Related Ratios .....	54
Schedules of Funding Progress for OPEB .....	55
Notes to Required Supplementary Information .....	56
SUPPLEMENTARY INFORMATION:	
Schedule of Council Compensation .....	57
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	58 - 59
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	60
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS .....	61



Duplantier  
Hrapmann  
Hogan &  
Maher, LLP

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

Heather M. Jovanovich, CPA  
Terri L. Kitto, CPA

Michael J. O'Rourke, CPA  
David A. Burgard, CPA  
Clifford J. Giffin, Jr., CPA

A.J. Duplantier, Jr., CPA  
(1919-1985)  
Felix J. Hrapmann, Jr., CPA  
(1919-1990)  
William R. Hogan, Jr., CPA  
(1920-1996)  
James Maher, Jr., CPA  
(1921-1999)

**New Orleans**  
1615 Poydras Street,  
Suite 2100  
New Orleans, LA 70112  
Phone: (504) 586-8866  
Fax: (504) 525-5888

**Northshore**  
1290 Seventh Street  
Slidell, LA 70458  
Phone: (985) 641-1272  
Fax: (985) 781-6497

**Houma**  
247 Corporate Drive  
Houma, LA 70360  
Phone: (985) 868-2630  
Fax: (985) 872-3833

**Napoleonville**  
5047 Highway 1  
P.O. Box 830  
Napoleonville, LA 70390  
Phone: (985) 369-6003  
Fax: (985) 369-9941

INDEPENDENT AUDITOR'S REPORT

June 20, 2018

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, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

**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.

[www.dhhmcpa.com](http://www.dhhmcpa.com)

Members  
American Institute of  
Certified Public Accountants  
Society of LA CPAs

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, 2017 and 2016 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.

## **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 20, 2018 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.

***Duplantier, Hrapmann, Hogan & Maher, LLP***

New Orleans, Louisiana

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017. 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, 2017 were:

- The Company renewed its reinsurance program in May 2017 for the same storm coverage of \$650 million with a \$35 million retention that includes a traditional reinsurance program and cat bonds for a savings of \$7.6 million compared to 2016.
- The Company completed its 11<sup>th</sup> round of depopulation effective December 1, 2017 transferring 8,724 policies and approximately \$1.8 billion of exposure to the private insurance market.
- There were no significant catastrophes that occurred in 2017.

**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 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.

The Statement of Revenues, Expenses, and Changes in 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.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Current assets	\$ 210,857,388	\$ 289,227,068	\$ (78,369,680)
Capital assets	889,554	1,299,101	(409,547)
Other non-current assets	85,490,092	5,640,985	79,849,107
	<hr/>	<hr/>	<hr/>
Total assets	297,237,034	296,167,154	1,069,880
	<hr/>	<hr/>	<hr/>
Deferred outflows of resources	13,414,970	26,938,348	(13,523,378)
	<hr/>	<hr/>	<hr/>
Current liabilities	145,840,367	165,327,588	(19,487,221)
Non-current liabilities	466,902,887	522,923,418	(56,020,531)
	<hr/>	<hr/>	<hr/>
Total liabilities	612,743,254	688,251,006	(75,507,752)
	<hr/>	<hr/>	<hr/>
Deferred inflows of resources	82,112	1,128	80,984
	<hr/>	<hr/>	<hr/>
Net position:			
Net investment in capital assets	889,554	1,299,101	(409,547)
Restricted for debt service	134,951,975	138,927,026	(3,975,051)
Unrestricted	(438,014,891)	(505,372,758)	67,357,867
	<hr/>	<hr/>	<hr/>
Total Net Position	\$ (302,173,362)	\$ (365,146,631)	\$ 62,973,269
	<hr/>	<hr/>	<hr/>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

*Assets*

Total assets increased by \$1.1 million in 2017 compared to 2016 due to the reasons described below.

Current assets, consisting primarily of cash, unrestricted and restricted investments, and receivables, decreased by \$78.4 million in 2017. The decrease in current assets was primarily due to the sale of short-term investments in 2017 of which proceeds were principally used to purchase long-term investments.

Other non-current assets, consisting primarily of the restricted cash related to escheatment and noncurrent investments, increased by \$79.8 million in 2017. Other non-current assets increased primarily due to the purchase of long-term investments with the proceeds from sales in short-term investments in 2017.

*Deferred Outflows of Resources*

Total deferred outflows of resources decreased by \$13.5 million in 2017 compared to 2016 primarily due to the continued amortization of the advanced refunding of the Company's Assessment Revenue Bonds, Series 2006C1-C3 and 2012R in 2017.

*Liabilities*

Total liabilities decreased by \$75.5 million in 2017 compared to 2016 primarily due to the reasons described below.

The combined current and noncurrent bonds payable decreased by \$55.5 million in 2017 compared to 2016 primarily due to a \$43.2 million in scheduled bond principal payments made in 2017, and amortization of bond premiums of \$12.2 million in 2017.

Unearned premiums decreased by \$13.7 million in 2017 compared to 2016 primarily as a result of the Company's depopulation program.

Claims reserves decreased by \$1.8 million in 2017 compared to 2016 primarily as a result of typical claims payments made during the course of 2017.

Other liabilities decreased by \$3.3 million in 2017 compared to 2016 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, 2017

**Financial Analysis of the Entity: (Continued)**

*Net Position*

The increase in total net position of \$63.0 million in 2017 compared to 2016 was primarily due to a net operating income of \$19.1 million and a net non-operating income of \$43.9 million.

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

Condensed Statements of Revenues, Expenses and Changes in Fund Net Position  
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Operating revenue:			
Net premium revenue	\$ 55,434,940	\$ 79,050,184	\$ (23,615,244)
Other operating revenues	1,003,454	2,014,661	(1,011,207)
Total operating revenues	<u>56,438,394</u>	<u>81,064,845</u>	<u>(24,626,451)</u>
Operating expenses:			
Claims and underwriting expenses	36,926,401	(3,399,581)	40,325,982
Depreciation	432,323	453,702	(21,379)
Total operating expenses	<u>37,358,724</u>	<u>(2,945,879)</u>	<u>40,304,603</u>
Operating income	<u>19,079,670</u>	<u>84,010,724</u>	<u>(64,931,054)</u>
Non-operating revenues (expenses):			
Other expense	(24,071,200)	(30,981,005)	6,909,805
Other revenue	67,964,799	81,946,292	(13,981,493)
Total non-operating revenues (expenses)	<u>43,893,599</u>	<u>50,965,287</u>	<u>(7,071,688)</u>
Change in net position	62,973,269	134,976,011	(72,002,742)
Net position at beginning of year	<u>(365,146,631)</u>	<u>(500,122,642)</u>	<u>134,976,011</u>
Net position at end of year	<u>\$ (302,173,362)</u>	<u>\$ (365,146,631)</u>	<u>\$ 62,973,269</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

**Financial Analysis of the Entity:** (Continued)

Change in net position increased \$72.0 million in 2017 compared to 2016 due to the reasons described below.

Net premium revenue was \$23.6 million lower in 2017 compared to 2016. The decrease in net premium revenue in 2017 was primarily due to the Company's depopulation efforts.

The claims and underwriting expense was \$40.3 million higher in 2017 compared to 2016. The increase in claims and underwriting expenses was primarily due to reinsurance recoveries recorded in 2016 and a refund received in 2016 on a previous class action suit that offset the 2016 expenses.

Other expense decreased by \$6.9 million in 2017 compared to 2016. The decrease in 2017 was primarily attributable to a decrease in interest expense of \$5.1 million primarily due to a reduction in the amortization of deferral outflows from advanced refunding and a decrease in debt issuance costs of \$1.8 million as there was no debt issuances in 2017.

Other revenue decreased by \$14.0 million in 2017 compared to 2016. The decrease in 2017 was primarily attributable to a decrease in Emergency Assessment Income of \$14.2 million as a result of a decrease in premiums written and a decrease in the Emergency Assessment Rate in 2017.

**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, principal and interest paid on debt, and amounts paid for unrestricted investments.

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.

The proceeds from sale of investment securities under cash flows from investing activities relate to the interest received and proceeds of securities sold of restricted investments held by the Trustee for the repayment of the Katrina bonds. Interest and dividends earned on investment securities relate to interest received from unrestricted investments.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

**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 \$259 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 \$466.1 million of fixed rate assessment revenue bonds outstanding on December 31, 2017. 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, 2017 there were approximately 107 open litigation matters against the Company. The majority of these lawsuits are first-party suits related to Hurricane Isaac. Loss and loss adjustment expenses accrued related to these claims are included on the Statement of Net Position of approximately \$2.5 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 \$109.8 million towards the final settlement as of December 31, 2017 and has a reserve of \$33.7 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, 2017

**Cash Flow and Liquidity:** (Continued)

***Future Plans***

The Company had \$650 million in total reinsurance and cat bonds in place for the 2017 storm season. 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, 2018. The Company has purchased a similar reinsurance program for the 2018 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@lacityzens.com](mailto:lhawyard@lacityzens.com).

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 133,792,144	\$ 63,062,325
Investments	3,688,855	121,821,756
Restricted cash and cash equivalents	44,798,754	44,449,023
Premium receivables and agent's balances, net	9,594,019	12,727,077
Reinsurance recoverables	385,207	22,366,034
Emergency assessments receivable	15,000,000	18,000,000
Prepaid reinsurance premiums	1,989,583	5,876,202
Net pension asset	346,381	151,652
Other current assets	1,262,445	772,999
Total current assets	210,857,388	289,227,068
Noncurrent assets:		
Restricted cash for escheatment	3,774,211	4,548,504
Investments	81,607,410	984,010
Capital assets	889,554	1,299,101
Other noncurrent assets	108,471	108,471
Total noncurrent assets	86,379,646	6,940,086
Total assets	\$ 297,237,034	\$ 296,167,154
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Deferred outflows - pensions	\$ 202,180	\$ 320,966
Deferred outflows - advanced refunding	13,212,790	26,617,382
Total deferred outflows of resources	\$ 13,414,970	\$ 26,938,348

See accompanying notes to the financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
STATEMENTS OF NET POSITION (Continued)  
DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>LIABILITIES AND NET POSITION:</b>		
Current liabilities:		
Claims reserves	\$ 37,059,763	\$ 37,088,073
Claims adjustment expense reserves	1,547,187	1,739,922
Unearned premiums	36,895,696	50,549,056
Bonds payable - current portion	55,373,177	55,478,876
Unearned tax exempt surcharge	1,288,138	1,738,669
Commissions payable to agents	2,128,846	2,601,197
Taxes, licenses, and fees due	1,518,021	2,619,273
Accrued bond interest	1,832,119	2,012,285
Other liabilities	8,197,420	11,500,237
Total current liabilities	<u>145,840,367</u>	<u>165,327,588</u>
Noncurrent liabilities:		
Bonds payable, net of unamortized premium (discount)	461,155,166	516,528,343
Escheatment payable	3,774,211	4,548,504
Other postretirement benefits	1,973,510	1,846,571
Total noncurrent liabilities	<u>466,902,887</u>	<u>522,923,418</u>
 Total liabilities	 <u>612,743,254</u>	 <u>688,251,006</u>
 <b>DEFERRED INFLOWS OF RESOURCES:</b>		
Deferred inflows - pensions	<u>82,112</u>	<u>1,128</u>
Total deferred inflows of resources	<u>82,112</u>	<u>1,128</u>
 <b>NET POSITION:</b>		
Net investment in capital assets	889,554	1,299,101
Restricted for debt service	134,951,975	138,927,026
Unrestricted (deficit)	<u>(438,014,891)</u>	<u>(505,372,758)</u>
 Total net position	 <u>\$ (302,173,362)</u>	 <u>\$ (365,146,631)</u>

See accompanying notes to the financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
 STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES:</b>		
Premiums earned	\$ 89,282,790	\$ 121,964,132
Premiums ceded	(33,847,850)	(42,913,948)
Net premium revenue	<u>55,434,940</u>	<u>79,050,184</u>
Finance and service charges	948,831	1,321,885
Other operating income	54,623	692,776
Total operating revenues	<u>56,438,394</u>	<u>81,064,845</u>
<b>OPERATING EXPENSES:</b>		
Claims and claim adjustment expenses	22,711,764	(21,899,219)
Commissions and brokerage	6,967,672	9,717,079
Salary and related items	3,310,392	3,353,804
Board, bureaus and associations	637,474	806,700
Taxes, licenses and fees	432,349	600,342
Equipment, depreciation, and repairs and maintenance	641,989	1,181,314
General office	1,144,748	713,258
Employee benefits	1,226,486	1,315,868
Other underwriting expenses	285,850	1,264,975
Total losses and underwriting expenses	<u>37,358,724</u>	<u>(2,945,879)</u>
Operating income	<u>19,079,670</u>	<u>84,010,724</u>
<b>NONOPERATING REVENUE (EXPENSE):</b>		
Interest expense	(24,071,200)	(29,206,255)
Debt issuance costs	-	(1,774,750)
Investment income	1,510,725	340,744
Emergency assessment income	63,336,149	77,521,492
Tax exempt surcharge	3,117,925	4,084,056
Total nonoperating revenues	<u>43,893,599</u>	<u>50,965,287</u>
CHANGE IN NET POSITION	62,973,269	134,976,011
Net position, beginning of year	<u>(365,146,631)</u>	<u>(500,122,642)</u>
NET POSITION, END OF YEAR	<u>\$ (302,173,362)</u>	<u>\$ (365,146,631)</u>

See accompanying notes to the financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>OPERATING ACTIVITIES:</b>		
Premiums collected	\$ 44,909,883	\$ 64,451,561
Finance and service charges collected	948,751	1,321,845
Other receipts	54,623	692,776
Claims recovered (paid)	7,245,450	(17,955,695)
Claim adjustments paid	(7,906,421)	(7,375,980)
Underwriting expense paid	(15,184,355)	(12,562,768)
Net cash provided by operating activities	<u>30,067,931</u>	<u>28,571,739</u>
<b>NONCAPITAL FINANCING ACTIVITIES:</b>		
Emergency assessments received	66,336,149	78,521,492
Tax exempt surcharge received	2,667,395	3,501,474
Amounts remitted to bond trustee, net	(43,589,732)	(39,573,288)
Interest paid on capital debt	(23,085,650)	(22,556,577)
Net cash provided by noncapital financing activities	<u>2,328,162</u>	<u>19,893,101</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	(22,776)	(513,427)
Net cash used by capital and related financing activities	<u>(22,776)</u>	<u>(513,427)</u>
<b>INVESTING ACTIVITIES:</b>		
Purchase of investments	(85,296,265)	(122,805,766)
Investment income received	847,001	84,511
Sale of investments	122,805,766	50,995,710
Net cash provided (used) by investing activities	<u>38,356,502</u>	<u>(71,725,545)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>70,729,819</b>	<b>(23,774,132)</b>
Cash and cash equivalents, beginning of year	<u>63,062,325</u>	<u>86,836,457</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b><u>\$ 133,792,144</u></b>	<b><u>\$ 63,062,325</u></b>

See accompanying notes to the financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
STATEMENTS OF CASH FLOWS (Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 19,079,670	\$ 84,010,724
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	432,323	453,702
Changes in assets and liabilities:		
Decrease (increase) in:		
Premiums receivable and agents' balances	3,133,058	3,886,641
Reinsurance recoverables	21,980,827	(21,385,899)
Prepaid reinsurance premiums	3,886,619	(46,202)
Other current assets	(489,446)	(84,790)
Increase (decrease) in:		
Claims and claim adjustment expense reserves	(1,814,747)	(25,841,002)
Unearned premiums	(13,653,360)	(18,489,293)
Accrued taxes, licenses and fees due	492,451	(475,198)
Commissions payable to agents	(472,351)	(526,458)
Other postemployment benefits	126,939	133,064
Other current liabilities	(2,634,052)	6,936,450
	<u>\$ 30,067,931</u>	<u>\$ 28,571,739</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		

See accompanying notes to the financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

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, 2017 AND 2016

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, 2017 and 2016, 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, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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.

Securities:

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 which 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 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.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Claims Reserves 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 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.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Assessments: (Continued)

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 hurricane season for which the payments apply. Premiums ceded included catastrophe reinsurances purchases.

Bond Issuance Costs:

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

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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 fiduciary net position, and changes in fiduciary 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.

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.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS:

Cash and Cash Equivalents:

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 and cash equivalents, including cash restricted for escheatment, consisted of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>December 31, 2017</u>		
Demand Deposits	\$ 39,187,535	\$ 40,196,185
Cash Equivalents	<u>98,378,820</u>	<u>97,926,875</u>
	<u>\$ 137,566,355</u>	<u>\$ 138,123,060</u>
 <u>December 31, 2016</u>		
Demand Deposits	\$ 67,360,368	\$ 69,137,534
Cash Equivalents	<u>250,461</u>	<u>250,452</u>
	<u>\$ 67,610,829</u>	<u>\$ 69,387,986</u>

Included in cash and cash equivalents at December 31, 2017 and 2016 is unclaimed property, consisting of outstanding checks totaling \$3,774,211 and \$4,548,504, 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. As of December 31, 2017 and 2016, 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.

Deposit balances at December 31, 2017 and 2016 were secured as follows:

	<u>2017</u>	<u>2016</u>
Insurance (FDIC Coverage)	\$ 250,000	\$ 250,000
Collateral held in Company's name	39,859,427	68,887,534
Unsecured deposits	<u>86,758</u>	<u>-</u>
Bank Balances	<u>\$ 40,196,185</u>	<u>\$ 69,137,534</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS:

Investments:

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, 2017 and 2016, the Company had investments totaling \$228,473,839 and \$167,254,789, 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.

The Company has the following recurring fair value measurement as of December 31, 2017 and 2016:

		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:	<u>December 31, 2017</u>			
Unrestricted investments:				
Bond investments	\$ 85,748,210	\$ -	\$ 85,748,210	\$ -
Cash equivalents - money market mutual funds	<u>97,926,875</u>	<u>97,926,875</u>	-	-
Total Unrestricted Investments	<u>\$ 183,675,085</u>	<u>\$ 97,926,875</u>	<u>\$ 85,748,210</u>	<u>\$ -</u>
Restricted Investments:				
Money market mutual funds	\$ 44,798,754	\$ 44,798,754	\$ -	\$ -
Total Investments	<u>\$ 228,473,839</u>	<u>\$ 142,725,629</u>	<u>\$ 85,748,210</u>	<u>\$ -</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

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

Investments: (Continued)

Investments by Fair Value Level:	December 31, 2016	Fair Value Measurement Using:		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Unrestricted investments:				
Bond investments	\$ 33,875,391	\$ -	\$ 33,875,391	\$ -
Cash equivalents - money market mutual funds	89,180,836	89,180,836	-	-
Total Unrestricted Investments	<u>\$ 123,056,227</u>	<u>\$ 89,180,836</u>	<u>\$ 33,875,391</u>	<u>\$ -</u>
Restricted Investments:				
Money market mutual funds	\$ 44,449,023	\$ 44,449,023	\$ -	\$ -
Total Investments	<u>\$ 167,505,250</u>	<u>\$ 133,629,859</u>	<u>\$ 33,875,391</u>	<u>\$ -</u>

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

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, 2017 and 2016.

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

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

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

Interest Rate Risk: (Continued)

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, 2017 and 2016, 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>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:					
Bond investments	\$ 85,748,210	\$ 9,670,565	\$ 63,989,616	\$ 1,554,563	\$ 10,533,466
Cash equivalents - money market mutual funds	97,926,875	97,926,875	-	-	-
Total Unrestricted Investments	<u>\$183,675,085</u>	<u>\$107,597,440</u>	<u>\$ 63,989,616</u>	<u>\$ 1,554,563</u>	<u>\$ 10,533,466</u>
Restricted Investments:					
Money market mutual funds	<u>\$ 44,798,754</u>	<u>\$ 44,798,754</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>2016</u>					
Unrestricted Investments:					
Bond investments	\$ 33,875,390	\$ 33,098,232	\$ 777,158	\$ -	\$ -
Cash equivalents - money market mutual funds	89,180,836	89,180,836	-	-	-
Total Unrestricted Investments	<u>\$ 123,056,226</u>	<u>\$ 122,279,068</u>	<u>\$ 777,158</u>	<u>\$ -</u>	<u>\$ -</u>
Restricted Investments:					
Money market mutual funds	<u>\$ 44,449,023</u>	<u>\$ 44,449,023</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments in the amount of \$44,798,754 and \$44,449,023 as of December 31, 2017 and 2016, 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.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

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

Credit Risk: (Continued)

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

	Total	AAAm	AA	A	BBB	Unrated
Money market						
mutual funds	\$ 97,926,875	\$ 97,926,875	\$ -	\$ -	\$ -	\$ -
Trust cash sweep						
money market funds	44,798,754	44,798,754	-	-	-	-
Bond investments	85,748,210	-	60,257,408	11,147,270	206,292	14,137,240
Total Investments	<u>\$ 228,473,839</u>	<u>\$ 142,725,629</u>	<u>\$ 60,257,408</u>	<u>\$ 11,147,270</u>	<u>\$ 206,292</u>	<u>\$ 14,137,240</u>

As of December 31, 2016, the Company had the following exposure to investment credit risk:

	Total	AAAm	AA	A	Unrated
Money market					
mutual funds	\$ 89,180,836	\$ 89,180,836	\$ -	\$ -	\$ -
Trust cash sweep					
money market funds	44,449,023	44,449,023	-	-	-
Bond investments	33,875,390	-	30,981,887	969,861	1,923,642
Total Investments	<u>\$ 167,505,249</u>	<u>\$ 133,629,859</u>	<u>\$ 30,981,887</u>	<u>\$ 969,861</u>	<u>\$ 1,923,642</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 investments, not meeting the criteria above that represented more than 5 percent of net investments as of December 31, 2017 and 2016:

<u>Issuer</u>	<u>2017</u>	<u>2016</u>
FIMM Government Portfolio Class I	\$ 97,926,875	\$ 89,180,836
FIMM Government Portfolio Class III	44,798,754	44,449,023

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

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

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, 2017 and 2016.

3. ASSESSMENTS RECEIVABLE:

Louisiana Revised Statute 22:2299-2300 provides that any insurer who engages in writing property insurance with the State shall become an 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 2017 and 2016.

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, 2017 and 2016 were 2.52% and 2.93% of written premium, respectively. The assessments are collected by the insurers and remitted to the Company's bond trustee quarterly. The total of emergency assessments levied for years ended December 31, 2017 and 2016 amounted to \$63,336,149 and \$77,527,977, respectively, of which approximately \$15,000,000 and \$18,000,000 remained outstanding as of December 31, 2017 and 2016, respectively.

4. CAPITAL ASSETS:

Depreciation expense for capital assets for the years ended December 31, 2017 and 2016 was \$432,323 and \$453,702, respectively, and was allocated to loss adjustment expenses and underwriting expenses.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

4. CAPITAL ASSETS: (Continued)

A summary of changes in capital assets and depreciation follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>2017</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>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>2016</u>				
Depreciable capital assets:				
Electronic data processing equipment	\$17,758,274	\$ 473,598	\$ (130,095)	\$ 18,101,777
Office equipment	1,105,639	39,829	-	1,145,468
Total depreciable assets	<u>18,863,913</u>	<u>513,427</u>	<u>(130,095)</u>	<u>19,247,245</u>
Less accumulated depreciation:				
Electronic data processing equipment	(16,908,790)	(370,404)	130,095	(17,149,099)
Office equipment	(715,747)	(83,298)	-	(799,045)
Total accumulated depreciation	<u>(17,624,537)</u>	<u>(453,702)</u>	<u>130,095</u>	<u>(17,948,144)</u>
Capital assets, net	<u>\$ 1,239,376</u>	<u>\$ 59,725</u>	<u>\$ -</u>	<u>\$ 1,299,101</u>

5. LINE OF CREDIT:

The Company maintains a line of credit providing for a maximum borrowing of \$50,000,000 and \$100,000,000 at December 31, 2017 and 2016, respectively. Interest on these notes 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 91<sup>st</sup> day. LIBOR at December 31, 2017 and 2016 was 1.56% and 0.77%, 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, 2017 and 2016.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

6. RESTRICTED ASSETS:

Restricted assets in the Company at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash for escheatment	\$ 3,774,211	\$ 4,548,504
Investments with bond trustee	44,798,754	44,449,023
Total	<u>\$ 48,572,965</u>	<u>\$ 48,997,527</u>

The cash for escheatment is held by the Company until escheated. Investment with bond trustee includes repurchase agreements and money market mutual 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.

7. LIABILITIES FOR CLAIMS 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, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Balance at January 1,	\$ 48,453,092	\$ 72,898,770
Less: reinsurance recoverables	8,031,395	6,636,071
Net balance at January 1,	<u>40,421,697</u>	<u>66,262,699</u>
Incurred related to:		
Current year	21,490,906	22,706,420
Prior years	1,374,963	(44,578,954)
Total incurred	<u>22,865,869</u>	<u>(21,872,534)</u>
Paid related to:		
Current year	18,812,030	18,228,381
Prior years	3,988,712	(14,259,913)
Total paid	<u>22,800,742</u>	<u>3,968,468</u>
Net balance at December 31,	40,486,824	40,421,697
Plus reinsurance recoverables on unpaid claims	3,283,234	8,031,395
Balance at December 31,	<u>\$ 43,770,058</u>	<u>\$ 48,453,092</u>

Included in the net balances above were liabilities of \$1,879,874 and \$1,593,702 which were included in other line items on the Statements of Net Position.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

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

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.

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 2006C1 through 2006C4:

During April 2006, the Company issued \$300,000,000 of assessment revenue bonds at auction rate for the purpose of redeeming the bond anticipation notes issued to finance, on an interim basis, a portion of the Plan Year Deficit for 2005 in the FAIR Plan resulting from Hurricanes Katrina and Rita, to finance the balance of the Plan Year for 2005, to make deposits to the Capitalized Interest Fund and Debt Service Reserve Fund and to pay cost of issuance. The bonds were issued in denominations of \$25,000 or any integral multiple thereof. Prior to their remarketing explained below, interest on the bonds adjusted based upon 35-per day auction periods. Generally, the interest payment date for an auction period was the business day immediately following each auction period. The length of the auction period with respect to the bonds could be changed at the option of the Company in accordance with the auction agreement. The bonds are secured, together with additional bonds, if any, by pledged revenues, which include primarily the 2005 Emergency Assessments. The bonds are not secured by the full faith and credit of the State of Louisiana. Payments of the principal and interest on the bonds when due are insured by a bond insurance policy. The bonds were reoffered in March 2009 after the Auction Rate Securities market collapsed.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

8. BONDS PAYABLE: (Continued)

Series 2006C1 through 2006C4: (Continued)

During March 2009, the 2006C1 through 2006C4 series were reoffered in connection with the conversion of the interest rate from the auction mode rate to the long-term interest rate and the remarketing of the 2006C bonds. In connection with the conversion and remarketing of the Series 2006C bonds, the original seventh supplement indenture was amended and restated by the amended and restated seventh supplemental indenture of trust dated as of April 1, 2009.

The Series 2006C bonds were remarketed in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof. On and after the respective conversion dated of each subseries of the series 2006C bonds, interest on the bonds is payable on each June 1 and December 1 commencing June 1, 2009, until maturity or prior redemption and the bonds were converted to the long-term interest rate on May 6, 2009. The 2006C bonds bear interest ranging from 2.75% to 6.75% per annum with a weighted average of 5.90%.

On and after the respective conversion dates of each subseries of the series 2006C bonds the schedule payment of principal and interest on such subseries of the bonds, when due, is guaranteed under a financial guaranty insurance policy issued concurrently with the delivery of such subseries of the 2006C bonds by Assured Guaranty Corp. The Series 2006C bonds are subject to optional redemption prior to maturity.

On April 1, 2012, the 2006C4 bonds were paid with the issuance of the 2012R bonds proceeds. The bond maturity dates range from June 1, 2009 to June 1, 2026. Principal payments, including the refinanced amount, were \$0 and \$216,350,000 during the years ended December 31, 2017 and 2016, respectively. During the year ending December 31, 2016 the Company refinanced the Series 2006C1 through 2006C3 revenue bonds. The outstanding balance due on these bonds as of December 31, 2017 and 2016 was \$0.

Series 2012R:

During April 2012, the Company issued \$53,620,000 of assessment revenue refunding bonds in order to advance refund \$54,235,000 principal amount of a catastrophe bond, issued in the original aggregate principal amount of \$75,000,000, and to pay the cost of issuance of the Series 2012R bonds. The bonds were issued in denominations of \$5,000 or any integral multiple thereof. The 2012R bonds bear interest ranging from 2.00% to 5.00% per annum (weighted average of 4.55%), payable semiannually on June 1 and December 1 of each year, commencing June 1, 2012. The bond maturity dates range from June 1, 2012 to June 1, 2024. Principal payments of \$0 and \$50,730,000 were made during the years ended December 31, 2017 and 2016, respectively. During the year ending December 31, 2016 the Company refinanced the Series 2012R revenue bonds. The outstanding balance due on this bond as of December 31, 2017 and 2016 was \$0.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

8. BONDS PAYABLE: (Continued)

Series 2015R:

During July 2015, the Company issued \$333,295,000 of assessment revenue refunding bonds in order to advance refund \$415,290,000 principal amount 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 June 1, 2015. The bond maturity dates range from June 1, 2016 to June 1, 2022. Bond principal payments of \$43,240,000 and \$41,500,000 were made during the years ended December 31, 2017 and 2016, respectively. The outstanding balance due on this bond as of December 31, 2017 and 2016 was \$248,555,000 and \$291,795,000, 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 principal amount 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, 2017 and 2016. The outstanding balance due on this bond as of December 31, 2017 and 2016 was \$217,510,000.

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

<u>Maturity</u>	<u>Principal</u>	<u>Premium/ (Discount)</u>	<u>Total</u>
2018	\$ 44,380,000	\$ 10,993,177	\$ 55,373,177
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
2023-2026	217,510,000	9,326,516	226,836,516
	<u>\$ 466,065,000</u>	<u>\$ 50,463,343</u>	<u>\$ 516,528,343</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

8. BONDS PAYABLE: (Continued)

Net unamortized premium at December 31, 2017 and 2016 was \$50,463,343 and \$62,702,219, respectively.

The total interest expense on the fixed rate bonds for the years ended December 31, 2017 and 2016 was \$24,071,200 and \$29,206,255, respectively, including annual amortized net premium of \$12,238,876 and \$13,726,138, and is included in "Interest Expense" in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

	<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>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>December 31, 2016:</u>				
Bonds payable - face	\$ 600,375,000	\$ 217,510,000	\$ (308,580,000)	\$ 509,305,000
Bond premium/discount	37,061,476	39,366,881	(13,726,138)	62,702,219
Bonds payable	<u>\$ 637,436,476</u>	<u>\$ 256,876,881</u>	<u>\$ (322,306,138)</u>	<u>\$ 572,007,219</u>

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 \$6,967,671 and \$9,717,079 on during the years ended December 31, 2017 and 2016, respectively. Agent commissions payable were \$2,128,846 and \$2,601,196 for the years ended December 31, 2017 and 2016, 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

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

10. REINSURANCE: (Continued)

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, 2017 was as follows:

	<u>January 1, 2017 to May 31, 2017</u>		
	<u>First Excess</u>	<u>Second Excess</u>	<u>Third Excess</u>
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>		
	<u>First Excess</u>	<u>Second Excess</u>	<u>Third Excess</u>
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

Reinsurance in place for the year ended December 31, 2016 was as follows:

	<u>January 1, 2016 to May 31, 2016</u>		
	<u>First Excess</u>	<u>Second Excess</u>	<u>Third Excess</u>
Company's retention	\$ 50,000,000	\$ 75,000,000	\$ 175,000,000
Reinsurer's per occurrence limit	\$ 25,000,000	\$ 100,000,000	\$ 44,000,000
Reinsurer's term limit	\$ 50,000,000	\$ 200,000,000	\$ 88,000,000
Annual minimum premium	\$ 4,125,000	\$ 12,000,000	\$ 3,740,000

	<u>June 1, 2016 to December 31, 2016</u>		
	<u>First Excess</u>	<u>Second Excess</u>	<u>Third Excess</u>
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

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.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

10. REINSURANCE: (Continued)

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, 2017, 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. The 2013 catastrophe bonds were retired during the year ended December 31, 2017.

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

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>

Year ended December 31, 2016:

	<u>Premiums</u>	
	<u>Written</u>	<u>Earned</u>
Direct	\$ 105,098,108	\$ 121,964,132
Ceded	<u>(42,913,947)</u>	<u>(42,913,947)</u>
Net premiums	<u>\$ 62,184,161</u>	<u>\$ 79,050,185</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, 2017 and 2016, the Company had reinsurance receivables on unpaid claims of \$3,283,234 and \$8,031,395 and reinsurance recoverables on paid losses of \$385,207 and \$22,366,034, respectively.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

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.

*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:

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

11. RETIREMENT PLANS:

Benefits Provided: (Continued)

- 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.
- 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:

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

11. RETIREMENT PLANS:

Benefits Provided: (Continued)

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

*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:

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

11. RETIREMENT PLANS:

Benefits Provided: (Continued)

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 62<sup>nd</sup> birthday (or date of death if earlier), the amount described as follows, reduced by the applicable early retirement reduction factor above:

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

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

11. RETIREMENT PLANS:

Benefits Provided: (Continued)

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.

*Employees Covered by the Benefit Terms*

As of December 31, 2017 and 2016, the following employees were covered by the Plan:

	<u>2017</u>	<u>2016</u>
Active employees	30	31
Inactive employees or beneficiaries currently receiving benefits	11	11
Inactive employees entitled to but not yet receiving benefits	5	4
Total	46	46

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.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

11. RETIREMENT PLANS:

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

As of December 31, 2017 and 2016, the Company reported an asset of \$346,381 and \$151,652, respectively for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2017 and 2016 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, 2017 and 2016, the Company recognized pension (benefit) expense of \$(194,729) and \$65,186, respectively. As of December 31, 2017 and 2016, the Company reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>2017</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 96,355	\$ 13,053
Changes 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>
<u>2016</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 125,575	\$ 1,128
Changes of assumptions	134,198	-
Net difference between projected and actual earnings on pension plan investments	61,193	-
Total	<u>\$ 320,966</u>	<u>\$ 1,128</u>

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

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

11. RETIREMENT PLANS:

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

Year ending:	<u>Amount</u>
2018	\$ 49,997
2019	58,642
2020	17,884
2021	(9,746)
2022	4,085
Thereafter	(794)
Total	<u>\$ 120,068</u>

Actuarial Assumptions:

The total pension liability in the December 31, 2017 and 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2017</u>	<u>2016</u>
Discount Rate	5.50%	5.50%
Investment Rate of Return	5.50%	6.00%
Inflation	3.00%	3.00%
Salary Increase	N/A	N/A
Mortality Rates	RP-2014 mortality tables with the MP-2017 mortality improvement scale applied on a generational basis	RP-2014 mortality tables with the MP-2016 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, 2017 and 2016 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, 2017 and 2016 were as follows:

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

11. RETIREMENT PLANS: (Continued)

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

	Increase (Decrease)		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Asset</u>
Balance, December 31, 2016	\$ 1,796,934	\$ 1,948,586	\$ 151,652
Changes 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>

	Increase (Decrease)		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Asset</u>
Balance, December 31, 2015	\$ 1,674,907	\$ 1,891,745	\$ 216,838
Changes for the year:			
Service cost	-	-	-
Interest cost	98,542	-	(98,542)
Difference between expected and actual experience	(1,330)	-	1,330
Changes of assumptions	89,909	-	(89,909)
Net investment income	-	134,212	134,212
Contributions - employer	-	-	-
Benefit payments	(65,094)	(65,094)	-
Administrative expenses	-	(12,277)	(12,277)
Net changes	<u>122,027</u>	<u>56,841</u>	<u>(65,186)</u>
Balance, December 31, 2016	<u>\$ 1,796,934</u>	<u>\$ 1,948,586</u>	<u>\$ 151,652</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

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, 2017 and 2016 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, 2017 and 2016:

	1.0% Decrease <u>4.50%</u>	Current Discount Rate <u>5.50%</u>	1.0% Increase <u>6.50%</u>
<u>2017</u>			
Company's proportionate share of the net pension asset (liability)	\$ 99,406	\$ 346,381	\$ 548,474
	<u>          </u>	<u>          </u>	<u>          </u>
 <u>2016</u>			
Company's proportionate share of the net pension asset (liability)	\$ (102,839)	\$ 151,652	\$ 358,752
	<u>          </u>	<u>          </u>	<u>          </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 assets. The Company's contribution to the plan was approximately \$657,124 and \$643,340 during the years ended December 31, 2017 and 2016, 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 \$198,246 and \$180,326 for the years ended December 31, 2017 and 2016, 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, 2017 AND 2016

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, 2017 and 2016 was approximately \$102,475 and \$89,168, 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, 2017 are as follows:

Years ending:	<u>Amount</u>
2018	483,943
2019	489,190
2020	494,436
2021	499,681
2022	504,928
2023	381,647
Total	<u>\$ 2,853,825</u>

Lease expense for the years ended December 31, 2017 and 2016 was approximately \$516,461 and \$515,460, 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 assets and the deficiency in net assets as reported under GAAP basis and statutory basis for the years ended December 31, 2017 and 2016 follows:

	<u>2017</u>	<u>2016</u>
Change in net position - GAAP basis	\$ 62,973,269	\$ 134,976,011
Adjustments to:		
Pension plan expense	(361,775)	(7,170)
Other	(130,783)	228,557
Interest expense	13,404,593	(16,720,322)
Excess emergency assessments	(52,853,461)	(29,835,313)
Tax exempt surcharge	(3,117,925)	(4,084,056)
Net income - statutory basis	<u>\$ 19,913,918</u>	<u>\$ 84,557,707</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

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

	<u>2017</u>	<u>2016</u>
Total deficiency in net assets - GAAP basis	\$ (302,173,362)	\$ (365,146,631)
Adjustments to:		
Non-admitted assets	(3,838,503)	(26,484,129)
Net pension asset	(466,449)	(471,490)
Deferred of loss on advanced refunding	(13,212,790)	(26,617,382)
Other accrued liabilities	(1,562,802)	(1,195,986)
Excess emergency assessments	(32,511,987)	(31,857,180)
Allowance for doubtful accounts	751,912	882,696
Emergency assessments receivable	506,790,570	558,989,223
Provision for reinsurance receivable	(276,658)	(1,393,252)
Accumulated (deficit) surplus - statutory basis	<u>\$ 153,499,931</u>	<u>\$ 106,705,869</u>

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, 2017 AND 2016

15. COMMITMENTS AND CONTINGENCIES: (Continued)

In lawsuits, plaintiffs seek a variety of remedies. In some cases, the monetary damages sought 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. 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. At December 31, 2017 and 2016, the Company had a reserve of \$33.7 million 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 107 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, 2017 AND 2016

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, 2017 and 2016, 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 will offer its in-force policies for removal to the voluntary market. The Company will include offers for depopulation policies with all available geographic and risk characteristics that 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 Net Position and totaled \$12,205,293 and \$15,537,510 for the years ended December 31, 2017 and 2016, 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, which includes servicing company fees and agent commissions. While the Company is not liable

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

16. DEPOPULATION: (Continued)

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, 2017 and 2016, there were no assumed premiums due from certain take-out companies.

17. RESTRICTED NET POSITION:

The Statement of Net Position includes \$134,951,975 and \$138,927,026 of funds restricted by enabling legislation for the repayment of Special Assessment Revenue Bonds as of December 31, 2017 and 2016, 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 \$(302,173,362) and \$(365,146,631) at December 31, 2017 and 2016, 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 45, *Accounting and Financial Reporting by Employers 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 postretirement health care benefits discussed below. Statement No. 45 improves financial reporting and disclosure by matching the cost of postemployment benefits with the periods when the related services are received by the employer, by providing information about accrued liabilities for promised benefits related to past services and the extent those liabilities have been funded and by providing valuable information about demands on future employer cash flows. The Company is required to measure and recognize the annual cost of the future benefits and calculate the annual employer funding requirements and, to the extent funding is not made by the Company; recognize an OPEB liability on the balance sheet.

The postemployment benefit liability reported on the financial statements was \$1,973,510 and \$1,846,571 at December 31, 2017 and 2016, respectively.

Plan Description:

The Company provides postretirement 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, 2017 AND 2016

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.

Funding Policy:

The Company's plan is administered by the Company.

Annual Required Contribution:

The Company's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB 45. The Annual Required Contribution (ARC) is the sum of the Normal Cost plus the contribution to amortize the Actuarial Accrued Liability (AAL). A level dollar, closed amortization period of 30 years (the maximum amortization period allowed by GASB 45) has been used for the postemployment benefits. The total ARC for the fiscal year ended December 31, 2017 and 2016 is \$222,293 and \$227,827, respectively, as set forth below:

	<u>2017</u>	<u>2016</u>
Employer's normal cost	\$ 90,231	\$ 110,541
Amortization of unfunded actuarial accrued liability (UAAL)	121,477	106,437
Interest on normal cost and UAAL	10,585	10,849
Annual required contribution (ARC)	<u>\$ 222,293</u>	<u>\$ 227,827</u>

Net Postemployment Benefit Obligation:

The table below shows the Company's Other Postemployment Benefit (OPEB) Obligation for the fiscal years ending December 31:

	<u>2017</u>	<u>2016</u>
Beginning net OPEB obligation, January 1,	\$ 1,846,571	\$ 1,713,507
Annual required contribution	222,293	227,827
Interest on net OPEB obligation	92,329	85,675
ARC adjustment	(120,122)	(111,466)
OPEB cost	194,500	202,036
Contribution	(67,561)	(68,972)
Change in net OPEB obligation	<u>126,939</u>	<u>133,064</u>
Ending net OPEB obligation, December 31,	<u>\$ 1,973,510</u>	<u>\$ 1,846,571</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

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

Net Postemployment Benefit Obligation: (Continued)

The following table shows the Company's annual other postemployment benefits (OPEB) cost, percentage of the cost contributed, and the net unfunded other postemployment benefits (OPEB) liability:

Post Employment Benefit	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
Medical	December 31, 2017	\$ 194,500	34.74%	\$1,973,510
Medical	December 31, 2016	\$ 202,036	34.14%	\$1,846,571

Funded Status and Funding Progress:

During the year ended December 31, 2017 and 2016, the Company made no contributions to its postemployment benefits plan. The plan has no assets, and hence has a funded ratio of zero. As of December 31, 2017 and 2016, the most recent actuarial valuation reported the Actuarial Accrued Liability (AAL) of \$2,778,632 and \$2,534,847, respectively. The AAL is defined as that portion, as determined by a particular actuarial cost method (the Company uses the Projected Unit Credit Method), of the actuarial present value of postemployment plan benefits and expenses which is not provided by normal cost. Since the plan was not funded in fiscal year 2017 and 2016, the entire actuarial accrued liability of \$2,778,632 and \$2,534,847, respectively, was unfunded.

	<u>2017</u>	<u>2016</u>
Actuarial Accrued Liability (AAL)	\$ 2,778,632	\$ 2,534,847
Actuarial Value of Plan Assets	-	-
Unfunded Act. Accrued Liability (UAAL)	<u>\$ 2,778,632</u>	<u>\$ 2,534,847</u>
Funded Ratio (Act. Val. Assets/AAL)	0%	0%
Covered Payroll (active plan members)	\$ 2,829,516	\$ 3,597,947
UAAL as a percentage of covered payroll	98.20%	70.45%

Actuarial Methods and Assumptions:

Assumptions used to determine projected benefit obligations at December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	5.00%	5.00%
Salary increase rate	N/A	N/A
Current healthcare cost trend rate	7.00%	7.00%
Ultimate healthcare cost trend rate	5.00%	5.00%
Year ultimate healthcare cost trend rate	2024	2023

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

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

Actuarial Methods and Assumptions: (Continued)

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 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.

During the December 31, 2017 and 2016 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 5% investment rate of return and a current health care cost trend rate of 7% gradually decreasing to an ultimate trend rate of 5%. The Unfunded Actuarial Accrued Liability (UAAL) is being amortized over 30 years assuming 30 annual level payments. The remaining amortization period at December 31, 2017 and 2016 was 30 years.

Actuarial Value of Plan Assets:

There are currently no plan assets. It is anticipated that in future valuations, should funding take place, a smoothed market value as provided in GASB Statement 45 will be used.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

20. DISAGGREGATION OF RECEIVABLE BALANCES:

Receivable balances (net of allowance for doubtful accounts) at December 31, 2017 and 2016 were as follows:

<u>Description</u>	<u>2017</u>	<u>2016</u>
Premiums receivable	\$ 1,492,135	\$ 2,520,218
Premiums deferred	8,853,796	11,084,800
Allowance for doubtful accounts	<u>(751,912)</u>	<u>(877,941)</u>
Total premium receivables, net	<u>\$ 9,594,019</u>	<u>\$ 12,727,077</u>
Emergency assessment receivable	<u>\$ 15,000,000</u>	<u>\$ 18,000,000</u>
Reinsurance recoverables on paid losses	<u>\$ 385,207</u>	<u>\$ 22,366,034</u>

21. RECLASSIFICATIONS:

Certain amounts in the 2016 financial statements were reclassified to conform to the 2017 presentation. These reclassifications had no effect on the reported results of operations.

22. SUBSEQUENT EVENTS:

In connection with the preparation of the financial statements, management of the Company evaluated subsequent events through June 20, 2018, which was the date the financial statements were available to be issued.

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, as further noted in Note 15. The payment was adequately reserved as of December 31, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIOS  
FOR THE FOUR YEARS ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:				
Service cost	\$ -	\$ -	\$ 39,518	\$ 40,198
Interest	97,099	98,542	88,164	79,982
Difference between expected and actual experience	(14,459)	(1,330)	155,128	33,868
Change of assumptions	(10,143)	89,909	19,877	79,179
Benefit payments, including refunds	<u>(63,010)</u>	<u>(65,094)</u>	<u>(76,800)</u>	<u>(47,450)</u>
Net change in total pension liability	9,487	122,027	225,887	185,777
Total pension liability - beginning	<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>\$ 1,806,421</u>	<u>\$ 1,796,934</u>	<u>\$ 1,674,907</u>	<u>\$ 1,449,020</u>
Plan fiduciary net position:				
Net investment income	\$ 267,353	\$ 134,212	\$ (52,967)	\$ 172,670
Contributions - employer	10,821	-	-	-
Benefit payments, including refunds	(63,010)	(65,094)	(76,800)	(47,450)
Administrative expense	<u>(10,948)</u>	<u>(12,277)</u>	<u>(9,638)</u>	<u>(11,113)</u>
Net change in plan fiduciary net position	204,216	56,841	(139,405)	114,107
Plan fiduciary net position - beginning	<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>\$ 2,152,802</u>	<u>\$ 1,948,586</u>	<u>\$ 1,891,745</u>	<u>\$ 2,031,150</u>
Net pension asset - ending	<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	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

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  
 SCHEDULES OF FUNDING PROGRESS FOR OPEB  
FOR THE THREE YEARS ENDED DECEMBER 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2017	\$ -	\$2,778,632	\$2,778,632	- %	\$ 2,829,516	98.20 %
12/31/2016	-	2,534,847	2,534,847	-	3,597,947	70.45
12/31/2015	-	2,488,662	2,488,662	-	3,822,488	65.11

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2017

1. CHANGES OF 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.

2. CHANGES OF ASSUMPTIONS:

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. Also in 2017, the expected investment rate of return was reduced from 6.00% to 5.50%.

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%

SUPPLEMENTARY INFORMATION

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF COUNCIL COMPENSATION  
DECEMBER 31, 2017

Year ended December 31, 2017:

<u>Council Members</u>	<u>Per Diem</u>	<u>Expense Reimbursement</u>	<u>Total Compensation</u>
Jeffrey Albright	\$ -	\$ -	\$ -
Eric Berger	-	-	-
Liz Butler	-	-	-
Brian E. Chambley	-	-	-
Thomas Enright Jr.	-	-	-
Gene Galligan	-	999	999
Denise Gardner	-	-	-
Tom Glasson	-	-	-
Craig LeBouef	-	404	404
Sam Little	-	209	209
A. Eugene Montgomery, III	-	-	-
Kevin Reinke	-	-	-
John Smith	-	-	-
J. William Starr	-	300	300
Kirk Talbot	-	-	-
Brian D. Van Dreumel	-	-	-
	<u>\$ -</u>	<u>\$ 1,913</u>	<u>\$ 1,913</u>



Duplantier  
Hrapmann  
Hogan &  
Maher, LLP

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

Heather M. Jovanovich, CPA  
Terri L. Kitto, CPA

Michael J. O'Rourke, CPA  
David A. Burgard, CPA  
Clifford J. Giffin, Jr., CPA

A.J. Duplantier, Jr., CPA  
(1919-1985)  
Felix J. Hrapmann, Jr., CPA  
(1919-1990)  
William R. Hogan, Jr., CPA  
(1920-1996)  
James Maher, Jr., CPA  
(1921-1999)

**New Orleans**  
1615 Poydras Street,  
Suite 2100  
New Orleans, LA 70112  
Phone: (504) 586-8866  
Fax: (504) 525-5888

**Northshore**  
1290 Seventh Street  
Slidell, LA 70458  
Phone: (985) 641-1272  
Fax: (985) 781-6497

**Houma**  
247 Corporate Drive  
Houma, LA 70360  
Phone: (985) 868-2630  
Fax: (985) 872-3833

**Napoleonville**  
5047 Highway 1  
P.O. Box 830  
Napoleonville, LA 70390  
Phone: (985) 369-6003  
Fax: (985) 369-9941

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 20, 2018

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, 2017, 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 20, 2018.

**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.

[www.dhmcpa.com](http://www.dhmcpa.com)

Members  
American Institute of  
Certified Public Accountants  
Society of LA CPAs

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 a certain matter that was reported to management of the Company in a separate letter dated June 20, 2018.

### **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 and questioned costs. 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.

***Duplantier, Hrapmann, Hogan & Maher, LLP***

New Orleans, Louisiana

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2017

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, 2017 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:

17-01      Microsoft Windows Server 2003

During our audit, we noted that four servers 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.

Managements Response:

As of December 31, 2017, we were in the process of moving away from Microsoft Windows Server 2003. As an added security measure, we also removed outside access to these remaining servers. This issue was resolved in the first quarter of fiscal 2018.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
DECEMBER 31, 2017

STATUS OF PRIOR YEAR AUDIT FINDINGS:

16-01      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.

This finding was repeated in the current year.



# Duplantier Hrapmann Hogan & Maher, LLP

June 20, 2018

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

Heather M. Jovanovich, CPA  
Terri L. Kitto, CPA

Michael J. O'Rourke, CPA  
David A. Burgard, CPA  
Clifford J. Giffin, Jr., CPA

A.J. Duplantier, Jr., CPA  
(1919-1985)  
Felix J. Hrapmann, Jr., CPA  
(1919-1990)

William R. Hogan, Jr., CPA  
(1920-1996)

James Maher, Jr., CPA  
(1921-1999)

**New Orleans**  
1615 Poydras Street,  
Suite 2100  
New Orleans, LA 70112  
Phone: (504) 586-8866  
Fax: (504) 525-5888

**Northshore**  
1290 Seventh Street  
Slidell, LA 70458  
Phone: (985) 641-1272  
Fax: (985) 781-6497

**Houma**  
247 Corporate Drive  
Houma, LA 70360  
Phone: (985) 868-2630  
Fax: (985) 872-3833

**Napoleonville**  
5047 Highway 1  
P.O. Box 830  
Napoleonville, LA 70390  
Phone: (985) 369-6003  
Fax: (985) 369-9941

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, 2017, 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.

## Microsoft Windows Server 2003

During our audit, we noted that four servers were still operating using Microsoft Windows Server 2003. As of July 14, 2015, Microsoft stopped 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.

[www.dhhmcpa.com](http://www.dhhmcpa.com)

Members  
American Institute of  
Certified Public Accountants  
Society of LA CPAs

June 20, 2018

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



A handwritten signature in blue ink, reading "Michelle H. Cunningham", is written over a horizontal line.

Michelle H. Cunningham, CPA  
Partner

MHC/bo