Citizens Property Insurance Corporation

(An enterprise fund of the State of Florida)

Financial Statements and Supplementary Information

Years Ended December 31, 2015 and 2014

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Independent Auditors' Report

To the Audit Committee of
Citizens Property Insurance Corporation

We have audited the accompanying financial statement of Citizens Property Insurance Corporation (Citizens), an enterprise fund of the State of Florida, as of and for the year ended December 31, 2015, and the related notes of the financial statements, which collectively comprise the Citizens' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

DIXON HUGHES GOODMAN LLP

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citizens as of December 31, 2015 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis of Presentation

As discussed in Note 2, the financial statements of Citizens are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business type activities of the State of Florida that is attributable to the transactions of Citizens. They do not purport to, and do not, present fairly the financial position of the State of Florida as of December 31, 2015, and the changes in financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As described in Note 2 to the financial statements, Citizens has changed the accounting principle for investments in money-market funds. Our opinion is not modified with respect to that matter.

Predecessor Auditors' Opinion on 2014 Financial Statements

The financial statements as of December 31, 2014, and the related notes to the financial statements, were audited by other auditors whose report, dated May 29, 2015, expressed an unmodified opinion on those financial statements. As discussed in Note 2 to the financial statements, Citizens has adjusted its 2014 financial statements to retrospectively apply the change in accounting for investments in money-market funds. The other auditors reported on the financial statements before the retrospective adjustment.

As part of our audit of the 2015 financial statements, we also audited the adjustments to the 2014 financial statements to retrospectively apply the change in accounting as described in Note 2. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to Citizens' 2014 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 financial statements as a whole.

Other Matters

Required Supplementary Information - Management's Discussion and Analysis and Supplemental Revenues, Expenses and Claim Development Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 to 12 and the Supplement Revenues, Expenses and Claim Development Information on page 42 to 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Supplementary Information - Supplemental Combining Statements

Our audits were conducted for the purpose of forming an opinion of the financial statements as a whole. The supplemental combining statements of net position and supplemental combining statements of revenues, expenses and changes in net position (Supplemental Combining Statements), on pages 39 through 41 as of and for the year ended December 31, 2015, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Supplemental Combining Statements are the responsibility of Citizens' management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted by the United States of America. In our opinion, the Supplemental Combining Statements are fairly stated, in all material respects, in relation to the basic financial statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report on dated May 31, 2016 on our consideration of Citizens' internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Citizens' internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Charlotte, North Carolina
May 31, 2016

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

Financial Highlights

- The assets of Citizens exceeded its liabilities at the close of the most recent year by $7,466,984.
- Citizens' total net position decreased by $38,767, primarily due to a reported net loss for the reporting period.
- The operating loss of $7,090 represents a decrease of $370,241 for 2015 as compared to 2014. This decrease is primarily the result of a decrease of $617,091 in net earned premiums due to continued depopulation activity.
- Operating expenses decreased $246,850 during 2015 compared to 2014. This decrease is primarily the result of decreases in loss adjustment expenses, taxes and fees, and agent commissions.
- Nonoperating expense decreased $1,536 during 2015 compared to 2014 primarily as a result of a decrease of $20,327 in interest expense and increase in assessment income of $34,230.

Overview of Financial Statements

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

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

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

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

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

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

(Dollars in thousands)

Change in Accounting Principle for Investments in Money-Market Funds

On January 1, 2015, Citizens elected to change its method for classifying investments in money-market funds to cash equivalents, whereas in all prior years money-market funds were reported along with other assets with an original maturity of one year or less at the time of acquisition as short-term investments. The change in classification of these assets was made after consideration of guidance provided in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* and due to the right of set off that exists in these assets and cash accounts used in daily operations. Comparative financial statements for the prior year 2014 have been adjusted to apply the new classification method retrospectively. The following financial statement line items for the year ended December 31, 2014 were affected by the change in classification.

	As Originally Reported	As Adjusted	Effect of Change
Statements of Net Position			
Cash and cash equivalents	$ (57,179)	$ 1,232,833	$ 1,290,012
Short-term investments	1,559,730	269,718	(1,290,012)
Statements of Cash Flows			
Proceeds from investments sold, matured or repaid	19,463,189	8,470,288	(10,992,901)
Investments acquired	(18,842,252)	(7,810,863)	11,031,389
Net cash provided by investing activities	887,676	936,173	48,497
Net change in cash and cash equivalents	13,747	62,244	48,497

A summary of Citizens' Statements of Net Position is presented below:

	2015	2014	2013	%Change 2015-2014	%Change 2014-2013
Assets					
Current assets	**$ 2,044,654**	$ 2,073,469	$ 2,060,270	(1.4) %	1.0 %
Capital assets	**10,121**	8,079	12,362	25.3 %	(35.0) %
Other noncurrent assets	**11,484,684**	12,263,861	13,061,334	(6.4) %	(6.0) %
Total assets	**$ 13,539,459**	$ 14,345,409	$ 15,133,976	(5.6) %	(5.0) %
Liabilities					
Current liabilities	**$ 2,565,255**	$ 3,568,939	$ 3,513,931	(28.1) %	1.0 %
Noncurrent liabilities	**3,507,220**	3,270,719	4,443,858	7.2 %	(26.0) %
Total liabilities	**6,072,475**	6,839,658	7,957,789	(11.2) %	(14.0) %
Net position					
Invested in capital assets	**10,121**	8,079	12,632	25.3 %	(36.0) %
Restricted	**20,950**	25,348	15,339	(17.4) %	65.0 %
Unrestricted	**7,435,913**	7,472,324	7,148,216	(0.5) %	5.0 %
Total net position	**7,466,984**	7,505,751	7,176,216	(0.5) %	5.0 %
Total liabilities and net position	**$ 13,539,459**	$ 14,345,409	$ 15,133,976	(5.6) %	(5.0) %

Financial Analysis

Cash and invested assets

Citizens employs an investment policy that focuses on principal preservation, competitive returns, and adequate liquidity in order to meet future claim obligations. Citizens' invested assets are governed by four investment policies, two for taxable operating funds and two for tax-exempt bond proceeds: 1) Liquidity Fund (Taxable) – generally this policy will govern the investment of funds and surplus that, in addition to internally managed cash, will be the first monies used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis; 2) Liquidity Fund (Tax-exempt) – generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on an as needed basis; 3) Claims-Paying Fund (Taxable) – generally this policy will govern the investment of funds that will be used to pay post-event claims after Citizens has expended all monies in the Liquidity Fund. Only monies eligible for investment in taxable instruments will be deposited in this fund; 4) Claims-Paying Fund (Tax-exempt) – generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event, typically after all funds in the Liquidity Fund have been expended. Citizens' investment policy requires all securities in the portfolio be rated Baa1/BBB+/BBB+ or better by Moody's, S&P and/or Fitch at the time of purchase. Citizens engages independent investment managers to invest bond proceeds and certain operating cash pursuant to its taxable and tax-exempt investment policies. Citizens' investment portfolio consists of high-quality debt instruments such as US Treasury and Agency securities and money market funds, corporate bonds, commercial paper and certificates of deposit, tax-exempt money market funds, taxable municipal bonds, tax-exempt municipal bonds, tax-exempt variable rate demand notes, and prime money market funds.

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

Cash and the market value of Citizens' invested assets totaled approximately $13,215,376 at December 31, 2015, marking a decrease of $576,384 from December 31, 2014. Of this decrease, approximately $539,962 resulted from net cash used in operating activities driven by year-over-year declines in direct written premium along with current year payment activity on loss and LAE reserves from prior years. The remaining decrease in cash and invested assets is largely due to net cash outflows associated with Citizens' outstanding long-term debt and the related debt service requirements on those bonds.

Reserve for losses and loss adjustment expenses

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

(Dollars in thousands)

Activity with respect to reserves for unpaid losses and loss adjustment expenses for the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Direct loss and loss adjustment expense reserves, beginning of year	**$ 1,038,612**	$ 1,267,302
Less reinsurance recoverables on reserves	**(7,090)**	(12,155)
Net loss and loss adjustment expense reserves, beginning of year	**1,031,522**	1,255,147
Incurred related to:		
Current accident year	**356,735**	525,725
Prior accident years	**132,318**	114,365
Total incurred	**489,053**	640,090
Paid related to:		
Current accident year	**(189,275)**	(272,398)
Prior accident years	**(600,154)**	(591,478)
Total paid	**(789,429)**	(863,876)
Change in retroactive reinsurance reserves ceded	**33**	161
Net loss and loss adjustment expense reserves, end of year	**731,179**	1,031,522
Add reinsurance recoverables on reserves	**2,720**	7,090
Direct loss and loss adjustment expense reserves, end of year	**$ 733,899**	$ 1,038,612

For the years ended December 31, 2015 and 2014 reserves for unpaid losses, net of amounts ceded under reinsurance contracts, decreased approximately $215,295 (29%) while reserves for unpaid LAE reserves, net of amounts ceded under reinsurance contracts, decreased approximately $85,048 (29%). Net unpaid losses and LAE reserves related to the 2004 and 2005 hurricanes and the 2008 Tropical Storm Fay decreased $17,811 due to the settlement of outstanding hurricane claims. It is expected that these loss reserves will continue to run-off through 2016 and likely beyond. Net unpaid losses and LAE reserves not related to hurricanes decreased $282,532 due to an overall reduction in the number of policies in force and settlement of reserve balances from prior years.

Long-term debt

Citizens has issued multiple Senior Secured Bonds for the purpose of funding losses in the event of a future catastrophe to ensure that liquidity demands associated with policyholder obligations can be met. These bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any surcharges, regular and emergency assessments, and/or reimbursements received from the Florida Hurricane Catastrophe Fund (FHCF).

Series 2015A Senior Secured Bonds

On June 2, 2015 Citizens issued $1,000,000 of Coastal tax-exempt senior secured bonds. The Series 2015A Bonds were issued to provide pre-event liquidity for the Coastal Account. Series 2015A-1 senior secured bonds were issued in the amount of $700,000 and bear interest ranging from 3% - 5% per annum, payable on December 1, 2015 and semiannually on each June 1 and December 1 thereafter. Interest on Series 2015A-1 is calculated using a 360 day year with twelve 30 day months per annum. Series 2015A-2 senior secured bonds were issued in the amount of $300,000 as Securities Industry and Financial Markets Association (SIFMA) Floating Rate Notes. The Series 2015A-2 senior secured bonds bear interest based on the initial SIFMA rate of 0.11% plus a spread of 0.85% for the Series 2015A-2 bonds maturing on June 1, 2018 and a spread of 0.95% for the Series 2015A-2 bonds maturing June 1, 2020. Interest on the Series 2015A-2 bonds is payable monthly in arrears on the first day of each calendar month commencing on August 1, 2015. Interest on Series 2015A-2 bonds is calculated based on a 365 or 366 day year using actual days outstanding. The SIFMA rate is adjusted Wednesday of each week. The bonds are secured by and payable from Pledged Revenues under a trust indenture agreement. Pledged Revenues under the indenture include the following; net premiums and surcharges collected in the Coastal Account, Regular Assessments, Emergency Assessments, FHCF reimbursements for which Citizens has made draws from the bond proceeds, and invested assets held in the accounts and subaccounts established under the indenture.

Cash flows associated with this issuance were offset by the legal defeasance of the 2007A post-event bonds and by principal repayments on previously issued Senior Secured Bonds totaling $765,000.

Series 2007A Senior Secured Refunding Bonds

Effective January 27, 2015, Citizens executed a legal defeasance of its 2007A post-event bonds. Authorization for the action was approved by Citizens' Board of Governors at its September 24, 2014 regular meeting. The defeasance, which is contemplated in the bond agreement, was effected by Citizens transferring $416,411 to a trusteed escrow agent, from which current obligations for bond principal and accrued interest of $400,464 and future interest of $16,347 will be made over the contractual bond period. Citizens is no longer legally obligated to make any future principal and interest payments to the bondholders. The recognition of future interest expenses was accelerated and recognized within net investment income within the statements of revenues, expenses and changes in net position for the year ended December 31, 2015. In connection with the defeasance, Citizens recognized $17,918 in assessment income that was previously reported as unearned assessment income at the time of the defeasance. The unearned assessment income resulted from the issuance of the 2005 Citizens Emergency Assessment and was used to offset bond expenses under the 2007A post-event bonds. The net effect on net position, as a result of the defeasance and recognition of unearned assessment income, was an increase of approximately $1,571.

Additional long-term debt details can be found in Note 7 to the financial statements.

<u>Other liabilities</u>

Effective July 1, 2015, Citizens terminated the 2005 Citizens Emergency Assessment that was activated as a result of unprecedented storm activity during 2004 and 2005 during which eight hurricanes made landfall in various southern US states, including Florida. The collection of these assessment funds were used for debt service obligations incurred in connection with the now defeased 2007A post-event bonds that were issued to provide claims paying resources to Citizens. Amounts collected by Citizens in excess of the 2005 Citizens Emergency Assessment levy are held in a reserve account and may be used by Citizens to offset future plan year deficits as approved by Citizens Board of Governors and the Office of Insurance Regulation. At December 31, 2015, funds held in this reserve totaled $146,095.

(Dollars in thousands)

Operating Revenue

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

	2015	2014	2013	%Change 2015-2014	%Change 2014-2013
Operating revenue					
Premiums earned	**$ 760,750**	$ 1,377,841	$ 1,880,761	(44.8) %	(27.0) %
Operating expenses					
Losses and loss adjustment expenses incurred	**489,053**	640,090	750,426	(23.6) %	(15.0) %
Other underwriting expenses	**278,787**	374,600	461,684	(25.6) %	(19.0) %
Total expenses	**767,840**	1,014,690	1,212,110	(24.3) %	(16.0) %
Operating (loss) income	**(7,090)**	363,151	668,651	(102.0) %	(46.0) %
Non-operating expenses	**(31,654)**	(33,190)	(54,382)	(4.6) %	(39.0) %
Change in net position	**$ (38,744)**	$ 329,961	$ 614,269	(111.7) %	(46.0) %
Policies in-force	**503,865**	661,161	1,021,694	(23.8) %	(35.0) %
Policies serviced	**776,650**	1,077,784	1,589,628	(27.9) %	(15.0) %
Underwriting ratios					
Net loss and LAE ratio (calendar year)	**64%**	46%	40%	18%	6%
Expense ratio (calculated on net premiums earned)	**36%**	27%	25%	9%	2%
Combined ratio	**100%**	73%	65%	27%	8%

Operating (loss) income

During 2015, Citizens incurred an underwriting loss of $7,090 in contrast to the underwriting gain of $363,151 during 2014. The current year loss was substantially the result of declines in direct written premium and an increase in the loss and LAE ratio, partially offset by year over year reductions in premiums ceded through private risk transfer and to the FHCF.

Direct Written Premium

During 2015, consolidated direct written premium decreased $816,114 (39%). By account, decreases in direct written premium were $363,475 (40%), $100,396 (62%), and $352,243 (35%) within the PLA, CLA, and Coastal Account, respectively. An analysis of observed trends in direct written premium, by account, follows:

Personal Lines Account

During 2014 and 2015, DP-3 and HO-3 policy form counts comprised approximately 66% of the PLA book of business while other policy form counts (DP-1, HO-4, HO-6, MDP-1, and MHO-3) comprised the remaining 34%. Premium trends within the PLA are generally driven by policy activity occurring within the DP-3 and HO-3 books of business. Despite moderate-to-decreasing levels of new business activity for DP-3 and HO-3 policy forms, a majority of the year-over-year reduction in overall direct written premium was the result of a reduction in renewal activity. This reduction in renewal activity was in turn driven principally by depopulation that occurred during the 4th quarter of 2014 and 1st half of 2015 during which approximately $222,467 of unearned premium was assumed by private carriers. Also contributing to the year-over-year decline in direct written premium was the 2014 rate filing (effective February 2015) which, for the PLA, generally produced overall rate decreases.

Commercial Lines Account

During 2015, substantially all of the reduction in direct written premium was caused by reductions in commercial residential policies, while new business and renewal counts for commercial non-residential policies remained relatively unchanged. During the 4th quarter of 2014, approximately $41,104 of unearned premium was assumed through depopulation which contributed significantly to the year-over-year decrease in direct written premium, most notably through the reduction in the number of renewed commercial residential policies. Certain statutory provisions allow for the removal of commercial residential and non-residential policies whereby Citizens must not renew policies for which a private carrier has made a valid offer of coverage. The impact of these statutory provisions together with the 2014 rate filing (effective February 2015) also contributed to the year-over-year declines in direct written premium.

Coastal Account

During 2014 and 2015, nearly half of the Coastal Account book of business, in terms of policy counts, consisted of HW-2 and HW-6 ("wind-only") policies with DP-3, DW-2, HO-3, and HO-6 policy form counts comprising approximately 40%. While HW-6 policies have declined at a moderate pace, declines in HW-2 policies contributed most significantly to the year-over-year decrease in direct written premium. Across most policy types, new business rates have decreased moderately with a majority of the overall decrease attributed to reductions in renewal rates. Similar to the PLA, the reduction in renewal rates is largely the result of depopulation that occurred during the 4th quarter of 2014 and 1st half of 2015 during which $157,990 of unearned premium was assumed by private carriers. The decrease in direct written premium is partially offset by overall rate increases as a result of the 2014 rate filing (effective February 2015).

Across all accounts and lines of business, the 2015 rate filings (effective February 2016) are expected to produce approximate rate changes ranging from -6.8% to 10.4% depending on the segment of business.

Losses and LAE incurred

Despite a year-over-year reduction in consolidated losses and LAE incurred of approximately $151,037 (24%), the 2015 consolidated net loss and LAE ratio increased 18 percentage points relative to same ratio for 2014. An analysis of direct loss and LAE activity, by account, follows:

Personal Lines Account

For the year ended December 31, 2015, the PLA experienced a substantial increase in its direct loss and LAE ratio to 74%, up 18 percentage points from 2014. This increase is largely the result of adverse development on prior accident year loss and LAE reserves driven by three factors: older (i.e. pre-2012) sinkhole claims, continual worsening of settlements for litigated water claims from prior accident years, and depopulation. Projected losses on older sinkhole claims were revised upward as a result of: 1) sinkhole claims being settled at a higher cost than previously anticipated – prior to 2015, sinkhole claims were generally settled at 68% of Coverage A limits – during 2015, this metric increased to 87%, driving an overall increase in costs of sinkhole claim settlements; and 2) an increase in the number of sinkhole claims that were reopened and entered into settlement – current projected costs of reopened sinkhole claims entering settlement increase from approximately $10,000 to $29,000. Losses and LAE on older sinkhole claims accounted for approximately 14 percentage points of the 2015 direct loss and LAE ratio of 74%. Current year loss and LAE activity on prior accident year litigated water claims also contributed significantly to the increase in the 2015 direct loss and LAE ratio. This increase is attributable to two factors: an increase in the number of water claims reported by an attorney and/or public adjuster – nearly two-thirds of water claims in report year 2014 were reported with representation which generally results in total loss payments that are double the amount of non-represented claims; and an increase in assignments of benefits (AOB). Losses and LAE on litigated water claims (accident years 2014 and prior) accounted for approximately 11 percentage points of the 2015 direct loss and LAE ratio of 74%. Citizens has had a significant amount of exposure and premium reduction over the last several years due to depopulation. In 2012, there was $1.6B dollars of earned premium in the PLA, though in 2015, this number decreased by 67% to approximately $529,000. The 25 percentage points of adverse development (14% for sinkhole claims and 11% for litigated water claims) represents an increase in losses from prior years that had a much higher exposure relative to a much lower premium base in 2015. The precipitous decline in the premium base leads to a situation where the impact of any development from prior accident years is amplified in the current year.

Commercial Lines Account

In contrast to the PLA, for the year ended December 31, 2015, the CLA experienced a substantial decrease in its direct loss and LAE ratio to -18%. Whereas adverse development led to an increase in the PLA direct loss and LAE ratio, favorable development lead to a decrease in the CLA direct loss and LAE ratio. Favorable development within the CLA was similarly driven by sinkhole claims, due principally to downward revisions of ultimate sinkhole losses from prior accident years. As prior accident years continue to mature, it is possible that future reserve releases within the CLA will occur over the next several years.

Coastal Account

For the year ended December 31, 2015, the direct loss and LAE ratio within the Coastal Account increased to 17%, up 4 percentage points from 2014. This increase was principally the result of continual worsening of settlements for litigated water claims from prior accident years and profitability impacts resulting from depopulation (similar to the PLA). The same patterns and causes noted for the PLA are shared by the Coastal Account in terms of litigated water claims – claims reported with representation and an increase in AOB. However, the overall impact of litigated water claims on the direct loss and LAE ratio within the Coastal Account is tempered due to the absence of any recent wind storm losses – wind-only business represented 67% and 64% of Coastal Account direct earned premium for the years ended December 31, 2015 and 2014, respectively.

(Dollars in thousands)

Net investment income and interest expense

Net investment income consists of interest earned on Citizens' invested assets, net realized gains, and increases (decreases) in the fair value of investments. Interest expense includes interest incurred on Senior Secured Bonds outstanding. During 2015, Citizens realized a year-over-year increase in net realized gains from the sale of invested assets as part of its portfolio management and repositioning of investment instruments in connection with revisions to the investment policies that permitted Citizens to increase the duration of certain portfolios. Additionally, liquidity needs principally driven by depopulation required Citizens to sell invested assets during which unrealized holding gains were captured and realized as gains on the sale of these assets. Net realized gains on sales were largely offset as a result of the legal defeasance of Citizens' 2007A post-event bonds in which future interest expenses were accelerated and recognized as a loss within net realized gains.

Economic Factors

Citizens' management performs an evaluation of pre-event liquidity needs in advance of each hurricane season. As a governmental entity, Citizens has the ability to issue municipal debt on a taxable or tax-exempt basis. Pre-event bond proceeds may be accessed as needed and as permitted by the bond documents.

During 2015, management continued to administer programs designed to reduce the number of polices written by Citizens. Citizens' statutory mission includes providing property insurance to applicants who are in good faith entitled to obtain affordable insurance through the voluntary market but are unable to do so. Citizens' depopulation program is designed to return policies to the voluntary market. The private market has responded by removing policies from all three Citizens accounts; depopulation tends to be most significant for the Personal Lines Account. The following exhibit displays depopulation trends, by account, for the last five years:

	PLA	CLA	Coastal Account
2015	**174,144**	**1,073**	**97,568**
2014	323,167	2,493	90,963
2013	301,383	-	64,384
2012	252,968	-	24,034
2011	45,827	-	7,750

Following the record high annual depopulation of 2014, the first nine months of depopulation activity in 2015 exceeded that of the same period in 2014. However, 4th quarter depopulation activity decreased by 188,639 policies in 2015 as compared to 2014. Despite the overall reduction in depopulation activity, the Coastal Account experienced a 6,605 policy increase in policies removed, signaling a change in the private market appetite for wind-only risks.

Citizens' enabling legislation and Plan of Operations established a process by which Citizens Board of Governors levies assessments to recover any deficits incurred in a given year. Citizens' determination of the amount of assessment is subject to the verification of the mathematical calculation by the Office of Insurance Regulation. Citizens' ability to assess provides some assurance of its financial stability.

Subsequent Events

Citizens has evaluated subsequent events for disclosure and recognition through May 31, 2016, the date on which these financial statements were available to be issued. With the exception of those items noted above, there were no additional events requiring disclosure.

Citizens Property Insurance Corporation
Statements of Net Position
December 31, 2015 and 2014
(Dollars in thousands)

	2015	*As Adjusted (Note 2)* 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ **1,396,561**	$ 1,232,833
Short-term investments	**313,181**	269,718
Restricted cash and cash equivalents	**20,950**	25,348
Investment income due and accrued	**74,733**	74,222
Prepaid reinsurance premiums	**99,180**	308,957
Reinsurance recoverable on paid losses and LAE	**2,606**	923
Premiums receivable, net	**89,889**	117,842
Premiums receivable from assuming companies, net	**32,435**	32,654
Other current assets	**15,119**	10,972
Total current assets	**2,044,654**	2,073,469
Noncurrent assets:		
Long-term investments	**11,484,684**	12,263,861
Capital assets	**10,121**	8,079
Total noncurrent assets	**11,494,805**	12,271,940
Total assets	**13,539,459**	14,345,409
LIABILITIES		
Current liabilities:		
Loss reserves, net	**521,307**	736,602
Loss adjustment expense reserves, net	**209,872**	294,920
Unearned premiums	**612,515**	1,005,043
Unearned assessment income	**-**	19,326
Reinsurance premiums payable	**133,138**	144,953
Advance premiums and suspended cash	**32,247**	48,961
Interest payable	**16,592**	22,540
Current portion of long-term debt	**957,807**	1,188,163
Other current liabilities	**81,777**	108,431
Total current liabilities	**2,565,255**	3,568,939
Noncurrent liabilities:		
Long-term debt	**3,361,125**	3,232,473
Reserve for future assessments	**146,095**	38,246
Total noncurrent liabilities	**3,507,220**	3,270,719
Total liabilities	**6,072,475**	6,839,658
Net position:		
Invested in capital assets	**10,121**	8,079
Restricted	**20,950**	25,348
Unrestricted	**7,435,913**	7,472,324
Total net position	$ **7,466,984**	$ 7,505,751

See accompanying notes.

Citizens Property Insurance Corporation
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2015 and 2014
(Dollars in thousands)

	2015	2014
Operating revenue:		
Net premiums earned	**$ 760,750**	$ 1,377,841
Operating expenses:		
Net losses incurred	**402,515**	441,155
Net loss adjustment expenses incurred	**86,538**	198,935
Service company fees	**2,859**	5,891
Agent commissions	**102,871**	169,764
Taxes and fees	**17,396**	27,829
Other underwriting expenses	**155,661**	171,116
Total operating expenses	**767,840**	1,014,690
Operating (loss) income	**(7,090)**	363,151
Nonoperating revenues (expenses):		
Net investment income	**110,555**	155,984
Net interest expense	**(160,508)**	(180,835)
Assessment income (expense)	**21,459**	(12,771)
Bond issuance expense	**(5,292)**	-
Other income	**2,132**	4,432
Total nonoperating expense	**(31,654)**	(33,190)
Change in net position	**(38,744)**	329,961
Net position, beginning of year	**7,505,751**	7,176,187
Other changes in net position	**(23)**	(397)
Net position, end of year	**$ 7,466,984**	$ 7,505,751

Citizens Property Insurance Corporation
Statements of Cash Flows
Years Ended December 31, 2015 and 2014
(Dollars in thousands)

	2015	*As Adjusted (Note 2)* 2014
Cash flows from operating activities:		
Premiums collected, net of reinsurance	**$ 580,637**	$ 967,196
Net losses and loss adjustment expenses paid	**(791,112)**	(862,287)
Payments to employees for services	**(93,421)**	(83,083)
Payments for underwriting expenses	**(197,827)**	(262,920)
Net cash used in operating activities	**(501,723)**	(241,094)
Cash flows from noncapital financing activities:		
Debt issuance	**1,088,275**	-
Debt redemption	**(1,173,934)**	(535,275)
Interest paid	**(204,139)**	(223,269)
Assessment income received	**110,050**	128,068
Net cash used in noncapital financing activities	**(179,748)**	(630,476)
Cash flows from capital and related financing activities:		
Capital assets acquired	**(7,246)**	(2,359)
Net cash used in capital and related financing activities	**(7,246)**	(2,359)
Cash flows from investing activities:		
Proceeds from investments sold, matured or repaid	**8,345,009**	8,470,288
Investments acquired	**(7,776,950)**	(7,810,863)
Interest income received	**279,988**	276,748
Net cash provided by investing activities	**848,047**	936,173
Net change in cash and cash equivalents	**159,330**	62,244
Cash and cash equivalents, beginning of year	**1,258,181**	1,195,937
Cash and cash equivalents, end of year	**$ 1,417,511**	$ 1,258,181
Cash and cash equivalents consist of:		
Cash and cash equivalents	**$ 1,396,561**	$ 1,232,833
Restricted cash and cash equivalents	**20,950**	25,348
	$ 1,417,511	$ 1,258,181

See accompanying notes.

(Dollars in thousands)

	2015	As Adjusted (Note 2) 2014
Reconciliation of operating income to net cash used in operating activities:		
Operating (loss) income	**$ (7,090)**	$ 363,151
Adjustments to reconcile net cash used in operating activities:		
Depreciation expense	**5,171**	6,651
(Increase) decrease in operating assets:		
Prepaid reinsurance premiums	**209,777**	(107,682)
Reinsurance recoverable on paid losses and LAE	**(1,683)**	1,428
Premiums receivable	**28,172**	28,692
Other assets	**(579)**	(1,950)
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	**(300,343)**	(223,625)
Unearned premiums	**(392,528)**	(290,223)
Reinsurance premiums payable	**(11,815)**	(15,468)
Advance premiums and suspended cash	**(16,714)**	(21,478)
Other current liabilities	**(14,091)**	19,410
Net cash used in operating activities	**$ (501,723)**	$ (241,094)

Notes to Financial Statements

1. Organization and Description of the Company

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

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

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

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

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

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

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

Commercial Lines Account History - The Florida Property and Casualty Joint Underwriting Association (FPCJUA) was activated in early 1994 to provide commercial residential coverage (i.e., coverage for condominium associations, apartment buildings and homeowner associations) to organizations unable to obtain such coverage from a private insurer. During 1995, legislation was enacted to transfer all obligations, rights, assets, and liabilities related to commercial residential coverage from the FPCJUA to the FRPCJUA. The legislation required that the premiums, losses, assets and liabilities be accounted for separately from the FRPCJUA's personal residential business. This portion of the FRPCJUA's activities became the Commercial Lines Account (CLA) under Citizens. In 2006, the FPCJUA was re-activated to provide commercial non-residential wind-only coverage. In 2007, legislation was enacted which resulted in the transfer and assumption of the FPCJUA's commercial non-residential policies by Citizens. These policies were added to the CLA.

Coastal Account History - The FWUA, which was a residual market mechanism for windstorm and hail coverage in select areas of the State of Florida, was created by an act of the Florida Legislature in 1970 pursuant to Section 627.351(2), Florida Statutes. FWUA was a Florida unincorporated association, the members of which were all property insurance companies holding a certificate of authority to provide property insurance coverage in the State of Florida. FWUA provided policies of windstorm insurance for property owners within the eligible areas who were unable to obtain such coverage from private insurers. Insured properties include personal residential, commercial residential and commercial non-residential properties. This portion of the FWUA's activities became the High-Risk Account under Citizens. In 2007, Citizens received authority to issue multi-peril policies in the High-Risk Account. Pursuant to legislative changes during 2011, the High-Risk Account was renamed the Coastal Account.

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

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

GASB Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Government,* established standards for financial reporting for all state and local governmental entities, which includes a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. It requires net position to be classified and reported in three components: 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. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. As of December 31, 2015 and 2014, Citizens did not have any outstanding debt that was attributable to capital assets.
- Restricted - This component of net position includes assets subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. Restricted net position on the statements of net position includes funds advanced to Citizens by the Florida Surplus Lines Service Office (FSLSO) for obligations under the 2005 Citizens Emergency Assessment.
- Unrestricted - This component of net position consists of assets that do not meet the definition of “restricted” or “net investment in capital assets.”

Use of Estimates

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

Measurement Focus

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

(Dollars in thousands)

Cash, Cash Equivalents, and Investments

Cash and cash equivalents consists of demand deposits held with financial institutions, various highly liquid money market funds, other short-term corporate obligations and agency discount notes. During 2015, Citizens adopted a change in principle under GASB 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* to include highly-liquid money market funds as a cash equivalent as these instruments are readily convertible to cash and near their contractual maturity. These money market funds were previously reported as short-term investments within the accompanying statements of net position. Demand deposits and highly liquid investments with original maturities of three months or less at the time of acquisition are considered to be cash and cash equivalents.

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

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

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

Net Investment Income

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

Capital Assets

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

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

The cost and accumulated depreciation for capital assets was $100,775 and $90,654 at December 31, 2015, and $93,827 and $85,748 at December 31, 2014, respectively. Depreciation and amortization expense was $5,171 and $6,651 for the years ended December 31, 2015, and 2014, respectively and is included in other underwriting expenses on the accompanying statements of revenues, expenses and changes in net position.

Loss Reserves and Loss Adjustment Expense Reserves

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

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

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

Premiums

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

If anticipated losses and LAE exceed Citizens' recorded unearned premium reserve, a premium deficiency is recognized by recording an additional liability for the deficiency. Citizens anticipates investment income as a factor in the premium deficiency calculation. For purposes of determining premium deficiencies, contracts are grouped in a manner consistent with how Citizens' policies are marketed, serviced, and measured for the profitability of such contracts. Additionally, Citizens' premium deficiency calculation is performed separately for the Accounts. At December 31, 2015 and 2014, management determined that no premium deficiency reserve was required.

Premiums receivable includes amounts due from policyholders for billed premiums. Billings are calculated using estimated annual premiums for each policy and are paid either through an installment plan offered by Citizens or in their entirety at the inception of the policy. An allowance for doubtful accounts is recorded for the estimated uncollectible amounts, and amounted to $2,027 and $3,473 at December 31, 2015 and 2014, respectively.

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

Operating Revenues and Expenses

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

Guaranty Fund and Other Assessments

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

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

Reinsurance

Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums. Reinsurance recoverables on unpaid losses and LAE are recorded as a reduction to loss and LAE reserves. Reinsurance recoverables on paid losses and LAE are recorded as receivables. All catastrophe reinsurance payments are recorded as premiums ceded and are amortized over the life of the hurricane season for which the payments apply, while depopulation premiums ceded are earned pro-rata over the life of the underlying policies. Ceded unearned premiums are reported as an asset and not as a reduction of direct unearned premium reserves. Premiums ceded include both Florida Hurricane Catastrophe Fund (FHCF) and private catastrophic reinsurance purchases and depopulation premiums.

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

Income Taxes

Pursuant to a determination letter received from the Internal Revenue Service, Citizens is exempt from federal income tax as a political subdivision and integral part of the State of Florida and as such, is liable for income taxes only on business income unrelated to the purpose for which it is exempt. No federal or state income tax was incurred in 2015 or 2014.

Significant Concentrations of Risks

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

(Dollars in thousands)

Citizens' exposure to concentrations of credit risk consists primarily of its cash, investments, and reinsurance balances. Citizens minimizes this risk by maintaining cash at highly rated financial institutions, adhering to an investment strategy that emphasizes preservation of principal and contracting with reinsurance companies that meet certain rating criteria and other qualifications. Financial instruments that potentially subject Citizens to concentrations of credit risk consist principally of cash and cash equivalents, and investments. Citizens' cash management and investment policies restrict investments by type, credit and issuer, and Citizens performs periodic evaluations of the credit standing of the financial institutions with which it deals. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation up to $250,000 per depositor. Bank deposits at times may exceed federally insured limits. An increased risk of loss occurs as more investments are acquired from one issuer or a group of issuers within one industry which results in a concentration of credit risk. Excluding securities issued by U.S. Government & Agencies, Citizens does not hold any securities from any single issuer that exceeded 5% of the investment portfolio. Citizens' investment strategy focuses primarily on higher quality, fixed income securities, reviews the credit strength of all entities in which it invests, limits its exposure in any one investment, and monitors portfolio quality, taking into account credit ratings assigned by recognized credit rating organizations. Citizens enters into reinsurance treaties with highly rated reinsurers and obtains a letter of credit from any unauthorized reinsurer and certain certified reinsurers. As of December 31, 2015, management believes Citizens had no significant concentrations of credit risk.

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

Change in Accounting Principle for Investments in Money-Market Funds

On January 1, 2015, Citizens elected a change in its method for classifying investments in money-market funds to cash equivalents, whereas in all prior years money-market funds were reported along with other assets with an original maturity of one year or less at the time of acquisition as short-term investments. The change in classification of these assets was made after consideration of guidance provided in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* and due to the right of set off that exists in these assets and cash accounts used in daily operations. Comparative financial statements for the prior year 2014 have been adjusted to apply the new classification method retrospectively. The following financial statement line items for the year ended December 31, 2014 were affected by the change in classification.

	As Originally Reported	As Adjusted	Effect of Change
Statements of Net Position			
Cash and cash equivalents	$ (57,179)	$ 1,232,833	$ 1,290,012
Short-term investments	1,559,730	269,718	(1,290,012)
Statements of Cash Flows			
Proceeds from investments sold, matured or repaid	19,463,189	8,470,288	(10,992,901)
Investments acquired	(18,842,252)	(7,810,863)	11,031,389
Net cash provided by investing activities	887,676	936,173	48,497
Net change in cash and cash equivalents	13,747	62,244	48,497

(Dollars in thousands)

3. Fair Value Measurements

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

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

At December 31, 2015 and 2014, Citizens financial assets measured at estimated fair value on a recurring basis include long-term and short-term investments. Citizens has no financial liabilities measured at estimated fair value on a recurring basis.

The following tables reflect the estimated fair values of all assets and liabilities that are financial instruments at December 31, 2015 and 2014, including those measured at estimated fair value on a recurring basis. The estimated fair values are categorized into the three-level fair value hierarchy as described below.

	2015			
	Estimated Fair Value	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Long-term investments	**$ 11,484,684**	**$ 1,360,220**	**$ 10,124,464**	**$ -**
Short-term investments	**313,181**	**91,877**	**221,304**	**-**
Cash and cash equivalents	**1,417,511**	**1,314,731**	**102,780**	**-**
Investment income due and accrued	**74,733**	**-**	**74,733**	**-**
Total financial assets	**$ 13,290,109**	**$ 2,766,828**	**$ 10,523,281**	**$ -**
Financial liabilities				
Long-term debt	**$ 4,528,742**	**$ -**	**$ 4,528,742**	**$ -**
Interest payable	**16,592**	**-**	**16,592**	**-**
Total financial liabilities	**$ 4,545,334**	**$ -**	**$ 4,545,334**	**$ -**

(Dollars in thousands)

	2014			
	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets				
Long-term investments	$ 12,263,861	$ 1,518,965	$ 10,744,896	$ -
Short-term investments	269,718	38,022	231,696	-
Cash and cash equivalents	1,258,181	1,150,505	107,676	-
Investment income due and accrued	74,222	-	74,222	-
Total financial assets	$ 13,865,982	$ 2,707,492	$ 11,158,490	$ -
Financial liabilities				
Long-term debt	$ 4,692,407	$ -	$ 4,692,407	$ -
Interest payable	22,540	-	22,540	-
Total financial liabilities	$ 4,714,947	$ -	$ 4,714,947	$ -

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

Long-term and Short-Term Investments

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

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

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

Cash and Cash Equivalents

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

Investment Income Due and Accrued and Interest Payable

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

Long-term Debt

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

At the end of each reporting period, Citizens evaluates whether or not any event has occurred or circumstances have changed that would cause an instrument to be transferred between Levels 1 and 2. This policy also applies to transfers into or out of Level 3.

At December 31, 2015 Citizens analyzed its investment portfolio and determined U.S. treasuries, which were previously classified as Level 2, should be classified as Level 1 based on the inputs used to measure estimated fair value. As such, transfers into Level 1 from Level 2 were $1,452,097 during the year ended December 31, 2015. In addition, $1,556,987 related to U.S treasuries in the table related to December 31, 2014 was transferred from Level 2 to Level 1. During the year ended December 31 2014, Citizens had no transfers into or out of any of the levels.

4. Investments

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

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

Custodial Risk Credit – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Citizens would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Citizens had no investments with custodial credit risk as of December 31, 2015 and 2014, respectively. All investments were held by Citizens or its agent in Citizens' name.

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

(Dollars in thousands)

Interest Rate Risk - Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Citizens measures this risk by using the weighted average maturity method. Citizens' investment policy requires that the weighted average maturity of the Liquidity Fund and Claims Paying Fund portfolios not exceed 397 days and 5 years, respectively. This policy takes interest rate reset dates, primarily related to tax-exempt variable rate demand notes and floating rate notes, into consideration

Foreign Currency Risk - Citizens had no investments with foreign currency risk at December 31, 2015 and 2014, respectively. All investments are settled in U.S. dollars.

Credit Risk Disclosure - Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. All long-term and short-term securities held in the investment portfolio are rated by two of the three nationally recognized rating agencies. The following table presents the fair value by rating classification as reported by Moody's at December 31, 2015.

Rating	**Estimated Fair Value**
A1	$ 1,357,362
A2	1,346,125
A3	794,002
Aa1	1,183,548
Aa2	1,202,636
Aa3	961,768
Aa3e	1,999
Aaa	3,587,461
Aaae	5,383
AGY	7,192
Ba1	140
Baa1	492,578
Baa1e	16,174
Baa2	12,260
Baa3	1,245
WR	28,975
NR	799,017
	$ 11,797,865

(Dollars in thousands)

The following tables provide a summary of investments estimated fair value, amortized cost, and net unrealized gain (loss) by type as of December 31, 2015 and 2014.

Description	2015 Estimated Fair Value	2015 Amortized Cost	2015 Net Unrealized Gain (Loss)
Non asset backed securities:			
U.S. treasury and U.S government	**$ 1,429,278**	**$ 1,433,448**	**$ (4,170)**
All other government	**67,844**	**67,948**	**(104)**
States, territories & possessions	**728,933**	**726,886**	**2,047**
Political subdivisions	**826,246**	**823,722**	**2,524**
Special revenue	**3,985,368**	**3,984,273**	**1,095**
Industrial & miscellaneous	**4,394,597**	**4,409,936**	**(15,339)**
Asset backed securities:			
Residential & commercial mortgage backed	**234,950**	**234,694**	**256**
Industrial & miscellaneous	**130,649**	**89,356**	**41,293**
Total	**$ 11,797,865**	**$ 11,770,263**	**$ 27,602**

Description	2014 Estimated Fair Value	2014 Amortized Cost	2014 Net Unrealized Gain (Loss)
Non asset backed securities:			
U.S. treasury and U.S government	$ 1,557,106	$ 1,557,513	$ (407)
All other government	56,126	56,012	113
States, territories & possessions	821,477	817,222	4,255
Political subdivisions	870,126	866,075	4,051
Special revenue	4,476,654	4,465,765	10,889
Industrial & miscellaneous	4,342,091	4,337,466	4,625
Asset backed securities:			
Residential & commercial mortgage backed	252,224	250,699	1,526
Industrial & miscellaneous	157,775	105,657	52,118
Total	$ 12,533,579	$ 12,456,409	$ 77,170

(Dollars in thousands)

The following tables summarize unrealized losses on investments by the length of time that the securities have continuously been in unrealized loss positions as of December 31, 2015 and 2014.

	2015					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury and U.S government	**$ 887,181**	**$ (4,246)**	**$ 253,805**	**$ (742)**	**$ 1,140,986**	**$ (4,988)**
All other government	**17,897**	**(160)**	**19,451**	**(81)**	**37,348**	**(241)**
States, territories and possessions	**138,154**	**(311)**	**33,474**	**(163)**	**171,628**	**(474)**
Political subdivisions	**131,535**	**(263)**	**41,514**	**(101)**	**173,049**	**(364)**
Special revenue	**1,159,461**	**(3,503)**	**710,024**	**(3,630)**	**1,869,485**	**(7,133)**
Industrial and miscellaneous	**1,862,484**	**(12,210)**	**1,363,729**	**(8,061)**	**3,226,213**	**(20,271)**
Mortgage-backed securities	**88,278**	**(666)**	**37,801**	**(70)**	**126,079**	**(736)**
Total	**$ 4,284,990**	**$ (21,359)**	**$ 2,459,798**	**$ (12,848)**	**$ 6,744,788**	**$ (34,207)**

	2014					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. treasury and U.S government	$ 461,613	$ (679)	$ 230,054	$ (1,364)	$ 691,667	$ (2,043)
All other government	16,682	(68)	-	-	16,682	(68)
States, territories and possessions	123,826	(522)	15,275	(55)	139,101	(576)
Political subdivisions	154,137	(527)	11,802	(13)	165,939	(540)
Special revenue	1,023,529	(2,367)	388,413	(2,816)	1,411,942	(5,183)
Industrial and miscellaneous	1,443,311	(4,687)	712,428	(4,628)	2,155,739	(9,315)
Mortgage-backed securities	54,331	(111)	19,055	(12)	73,386	(123)
Total	$ 3,277,429	$ (8,961)	$ 1,377,027	$ (8,888)	$ 4,654,456	$ (17,848)

Citizens believes there were no fundamental issues such as credit losses or other factors with respect to any of its bond securities that are in an unrealized loss position. The unrealized losses on bonds were primarily caused by interest rate changes. It is expected that the securities would not be settled at a price less than the par value of the bonds. Citizens evaluates U.S. treasury, corporate, and state and municipal bonds based upon factors such as expected cash flows and the financial condition, and near-term and long-term prospects of the issuer, and evaluates mortgage-backed securities and asset-backed securities based on actual and projected cash flows after considering such factors as the quality of the underlying collateral, expected prepayment speeds, current and forecasted severity, consideration of the payment terms of the underlying assets, and payment priority of the security. Because the decline in fair value is attributable to changes in interest rates or market conditions and not credit quality, and because Citizens has the ability and intent to hold its bond securities until a market price recovery or maturity, Citizens does not consider any of its bonds to be other than temporarily impaired at December 31, 2015 and 2014.

(Dollars in thousands)

The estimated fair value and amortized cost of securities at December 31, 2015, 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.

	Estimated Fair Value	Amortized Cost
Maturity:		
In 2016	$ 1,754,319	$ 1,722,199
2017-2020	9,035,776	9,049,209
2021-2025	468,353	468,491
After 2025	304,467	295,670
Mortgage-backed securities	234,950	234,694
Total	$ 11,797,865	$ 11,770,263

Sources and uses of investment income for the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Gross interest income earned		
Bonds	**$ 139,881**	$ 133,341
Cash, cash equivalents, and short-term investments	**7,308**	1,687
Total gross interest income earned	**147,189**	135,028
Net realized gains		
Net realized capital gains on sales		
Bonds	**22,372**	31,514
Cash, cash equivalents, and short-term investments	**13,022**	21,987
Total net realized capital gains on sales	**35,394**	53,501
Loss on defeasance of debt	**(16,347)**	-
Net realized gains	**19,047**	53,501
Net decrease in the fair value of investments	**(49,576)**	(26,052)
Investment expenses	**(6,105)**	(6,493)
Net investment income	**$ 110,555**	$ 155,984

(Dollars in thousands)

5. Liability for Loss Reserves and Loss Adjustment Expense Reserves

Activity in the net liability for loss and LAE reserves for the years ended December 31, 2015 and 2014, were as follows:

	2015	2014
Direct loss and loss adjustment expense reserves, beginning of year	$ 1,038,612	$ 1,267,302
Less reinsurance recoverables on reserves	(7,090)	(12,155)
Net loss and loss adjustment expense reserves, beginning of year	1,031,522	1,255,147
Incurred related to:		
Current accident year	356,735	525,725
Prior accident years	132,318	114,365
Total incurred	489,053	640,090
Paid related to:		
Current accident year	(189,275	(272,398)
Prior accident years	(600,154)	(591,478)
Total paid	(789,429)	(863,876)
Change in retroactive reinsurance reserves ceded	33	161
Net loss and loss adjustment expense reserves, end of year	731,179	1,031,522
Add reinsurance recoverables on reserves	2,720	7,090
Direct loss and loss adjustment expense reserves, end of year	$ 733,899	$ 1,038,612

As a result of changes in estimates of insured events in prior years, the provision for loss and LAE reserves increased by $132,318 and $114,365, net of reinsurance, in 2015 and 2014, respectively. These adjustments are the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. There can be no assurance that the ultimate settlement of losses will not vary significantly from the recorded provision for losses and LAE. However, management believes the provision for losses and LAE is adequate to cover the cost of unpaid claims incurred. During 2015 and 2014, net recoveries with respect to reinsurance recoverable on paid losses and LAE was ($1,683) and $1,428, respectively.

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

(Dollars in thousands)

6. Reinsurance Agreements

Citizens has entered into various contracts with reinsurers for the purpose of reducing its net exposure to qualifying losses should such losses occur. These contracts provide for the recovery of amounts above specified retention levels, subject to contractual limits, under per occurrence and aggregate catastrophe excess of loss arrangements. Reinsurance coverage is purchased separately for the Coastal Account and combined for the PLA and CLA. As required by statute, Citizens participates in the FHCF. Coverage provided by and premium ceded to the FHCF as respects the Coastal Account is measured and recognized as though the Coastal Account is a separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. Likewise, the PLA and CLA are considered together as a single, separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. Reinsurance coverage purchased through the FHCF was $2,124,115 and $1,106,086 in the Coastal Account and PLA and CLA, respectively, for 2015, and $2,849,470 and $1,698,582 in the Coastal Account and PLA and CLA, respectively, for 2014. Reinsurance coverage purchased in the Coastal Account through traditional and capital markets totaled $3,905,500 and $3,269,000 for 2015 and 2014, respectively.

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

	2015		2014	
	Written	Earned	Written	Earned
Direct premiums	**$ 1,267,754**	**$ 1,660,282**	$ 2,083,870	$ 2,374,093
FHCF ceded premiums	**(226,435)**	**(226,435)**	(345,100)	(345,100)
Private ceded premiums	**(282,609)**	**(282,609)**	(303,857)	(303,857)
Depopulation ceded premiums	**(180,711)**	**(390,488)**	(454,977)	(347,295)
Net premiums	**$ 577,999**	**$ 760,750**	$ 979,936	$ 1,377,841

Ceded premiums include premiums ceded to companies that assume policies pursuant to a depopulation program (see Note 10). Ceded losses and LAE incurred were $2,229 and $2,518 during 2015 and 2014, respectively. Ceded unearned premiums on depopulation contracts of $99,180 and $308,957 at December 31, 2015 and 2014, respectively, are reported as prepaid reinsurance on the accompanying statements of net position. There were no ceded unearned premiums on FHCF or traditional and capital markets agreements at December 31, 2015 and 2014.

Amounts recoverable from reinsurers on unpaid losses and LAE are estimated based on the allocation of estimated unpaid losses and LAE among Citizens' coverage lines. Actual amounts recoverable will depend on the ultimate settlement of losses and LAE. Reinsurance contracts do not relieve Citizens from its obligation to policyholders. Citizens remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under their reinsurance agreements

7. Long-Term Debt

Citizens has issued multiple Senior Secured Bonds for the purpose of funding losses in the event of a future catastrophe. Bond proceeds are invested in permitted investments until proceeds are drawn to pay claims, if ever. Citizens investment policy for bond proceeds is at least or more restrictive than the bond documents require. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any surcharges, regular, and emergency assessments, and/or reimbursements received from the FHCF.

(Dollars in thousands)

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

	Issuance Date	Original Face Value	Current Face Value	Current Carrying Value	Stated Interest Rate	Current Year Principal Paid	Current Year Interest Paid
Series 2007A Senior Secured Refunding Bonds (Post-event HRA)	Feb 26, 2007	$ 1,062,540	$ -	$ -	3.75% - 5.00%	$ 388,930	$ 7,877
Series 2009A-1 Senior Secured Bonds (Pre-event HRA)	May 7, 2009	1,021,000	746,585	746,987	4.00% - 6.00%	-	42,707
Series 2010A-1 Senior Secured Bonds (Pre-event HRA)	Apr 6, 2010	1,550,000	830,000	834,843	3.00% - 5.25%	410,000	50,979
Series 2011A-1 Senior Secured Bonds (Pre-event HRA)	Jul 14, 2011	645,000	565,000	571,438	3.00% - 5.00%	80,000	29,647
Series 2012A-1 Senior Secured Bonds (Pre-event PLA/CLA)	Jun 21, 2012	1,100,000	1,025,000	1,079,205	3.00% - 5.00%	75,000	52,948
Series 2012A-3 Senior Secured Bonds (Pre-event PLA/CLA)	Jun 21, 2012	200,000	-	-	SIFMA + 1.25%	200,000	1,288
Series 2015A-1 Senior Secured Bonds (Pre-event Coastal)	Jun 2, 2015	700,000	700,000	786,459	3.00% - 5.00%	-	17,303
Series 2015A-2 Senior Secured Bonds (Pre-event Coastal)	Jun 2, 2015	300,000	300,000	300,000	SIFMA + 0.85%-0.95%	-	1,390
Total			$ 4,166,585	$ 4,318,932		$ 1,153,930	$ 204,139

Interest expense includes the amortization and accretion of premiums and discounts of $37,684 and $39,127 for the years ended December 31, 2015 and 2014, respectively. Citizens recorded a premium of $93,567 in connection with the issuance of Series 2015A-1 pre-event bonds and accelerated the recognition of $3,657 premium in connection with the legal defeasance of the 2007A post-event bonds during the year ended December 31, 2015. Net unamortized premium at December 31, 2015 and 2014 was $152,347 and $100,121, respectively.

Effective January 27, 2015, Citizens executed a legal defeasance of its 2007A post-event bonds. Authorization for the action was approved by the Board at its September 24, 2014 regular meeting. The defeasance, which is contemplated in the bond agreement, was effected by Citizens transferring $416,411 to a trusteed escrow agent, from which current obligations for bond principal and accrued interest of $400,464 and future interest of $16,347 will be made over the contractual bond period. Citizens is no longer legally obligated to make any future principal and interest payments to the bondholders. The recognition of future interest expenses was accelerated and recognized within net investment income within the statements of revenues, expenses and changes in net position for the year ended December 31, 2015. As a result of the defeasance, Citizens recognized $17,918 in assessment income that was previously reported as unearned assessment income at the time of the defeasance. The unearned assessment income resulted from the issuance of the 2005 Citizens Emergency Assessment and was used to offset bond expenses under the 2007A post-event bonds. The net effect on net position, as a result of the defeasance and recognition of unearned assessment income, was an increase of approximately $1,571.

(Dollars in thousands)

A schedule of bond maturities is as follows:

Years Ending December 31	2009 Bonds	2010 Bonds	2011 Bonds	2012 Bonds	2015 Bonds	Total
2016	$ 403,085	$ 305,000	$ 90,000	$ 125,000	$ -	$ 923,085
2017	343,500	525,000	-	130,000	-	998,500
2018	-	-	125,000	130,000	200,000	455,000
2019	-	-	175,000	160,000	-	335,000
2020	-	-	175,000	160,000	300,000	635,000
2021 - 2025	-	-	-	320,000	500,000	820,000
	$ 746,585	$ 830,000	$ 565,000	$ 1,025,000	$ 1,000,000	$ 4,166,585

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

Years Ended December 31,	Principal	Interest	Total
2016	$ 923,085	$ 171,577	$ 1,094,662
2017	998,500	121,122	1,119,622
2018	455,000	90,053	545,053
2019	335,000	73,460	408,460
2020	635,000	51,598	686,598
2021 - 2025	820,000	91,239	911,239
	$ 4,166,585	$ 599,049	$ 4,765,634

8. Retirement Plan

Citizens sponsors a 457(b)/401(a) defined contribution employee savings plan for qualified employees (the Savings Plan). The Savings Plan qualifies as a deferred salary arrangement under Section 401(a) of the Internal Revenue Code. Under the Savings Plan, participating eligible employees may defer a portion of their pretax earnings, up to the Internal Revenue Service annual contribution limit. Citizens matches 100% of each employee’s contributions, up to a maximum of 8% of the employee’s pretax earnings. Citizens’ matching contributions to the Savings Plan were $4,766 and $4,076 for the years ended December 31, 2015 and 2014, respectively.

9. Agent Commissions and Servicing Company Fees

Citizens has contracted with various insurance agents licensed in the State of Florida. These agreements provide for commissions to be paid to the agents at rates established by the Board and calculated as a percentage of direct written premiums, net of certain surcharges and assessments. Agent commissions were $102,871 and $169,764 during 2015 and 2014, respectively.

Additionally, Citizens is a party to an agreement with a servicing company to provide underwriting and policy management services. The agreement provides for monthly compensation to the company based on a “Per Transaction Fee” applied to the number of transactions processed in a monthly cycle. These services are for both Citizens’ Commercial Lines and Personal Lines business. The amount per transaction ranges from $3.50 to $140.00, depending on the complexity and volume of each transaction. Service company fees incurred were $2,859 and $5,891, during 2015 and 2014, respectively.

(Dollars in thousands)

10. Depopulation

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

During 2015 and 2014, Citizens recognized ceded written premiums of $180,711 and $454,977, respectively as a result of depopulation.

Citizens provides policy administration services with respect to the assumed policies. All agreements provide for the Takeout Company to adjust losses. While Citizens is not liable to cover claims after the assumption (unless the assumed insured exercises its option to return to Citizens during the assumption period), Citizens continues to service policies for items such as policyholder endorsements or cancellation refunds. Should Citizens process and provide a refund to policyholders, such amount is subsequently collected from the Takeout Company. At December 31, 2015 and 2014, assumed premiums recoverable in the amount of $32,435 and $32,654, respectively were due from certain Takeout Companies and are reported as premiums receivable from assuming companies in the statements of net position. In addition, premiums due to Takeout Companies of $25,891 and $19,436, at December 31, 2015 and 2014, respectively, are included in reinsurance premiums payable on the accompanying statements of net position.

11. Operating Leases

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to $8,133 and $7,287 for the years ended December 31, 2015 and 2014, respectively. There are no contingent rental payments or unusual renewal options, escalation clauses or restrictions and there have been no early terminations of existing leases. Future minimum payments under operating leases are as follows:

2016	$ 3,390
2017	6,205
2018	5,199
2019	5,115
2020	4,283
2021 - 2025	22,824
2026 - 2030	1,942
Total	$ 48,958

12. Commitments and Contingencies

Citizens is involved in certain litigation and disputes incidental to its operations. In the opinion of management, after consultation with legal counsel, there are substantial defenses to such litigation and disputes and any ultimate liability, in excess of reserves resulting there from, will not have a material adverse effect on the financial condition or results of operations of Citizens. Citizens is also involved in other potentially significant litigation described below. Due to the preliminary nature of the following litigation, the potential loss, if any, is not determinable at this time.

In September 2013, Citizens received a subpoena from the Securities and Exchange Commission (SEC) requesting information relating to catastrophe bonds issued by Everglades Re Ltd. in 2012 and 2013. Citizens is voluntarily cooperating with the SEC and is of the belief that any action by the SEC will not materially affect the financial condition of Citizens.

A summary of potentially significant litigation follows:

Davis & Hernandez v. Citizens. This is a putative class action. The court has not certified the class. Potential class members are Citizens' policyholders who presented a claim for damage to their residential property from April 2006 to present. At issue is whether Citizens appropriately calculated and paid overhead and profit policy benefits. Citizens responded to Plaintiff's Third Amended Complaint on October 2, 2013 and litigation is moving forward. Following 10 months of inactive record activity, the court signed its Notice of Failure to Prosecute. In response, Plaintiff filed a Motion for Leave to Amend attaching a proposed 4th Amended Complaint. Citizens responded that it had no objection to the 4th amended complaint, but requested that the court order prohibit any further amendments. Citizens Answer to the 4th Amended Complaint was filed on July 20, 2015. Plaintiff's counsel requested this matter be stayed pending an appellate decision in the 4th District Court of Appeals. Citizens has agreed to stay the trial court proceeding pending that opinion.

Frank Catchpole v. Citizens. This Leon County Circuit Court class action relates to Citizen's wind mitigation reinspections around the time of 2011-2012. Plaintiff alleges that Uniform Wind Mitigation Inspection Form (submitted by the insured) which identified wind mitigation feature which were eligible for a discount was valid for five years. Therefore, Plaintiff contend Citizens' reinspection of the wind mitigation features of the property and removal of wind mitigation discounts that were not validated was improper. In particular, Plaintiff alleges that Citizens "accepted" the Mitigation Form by applying the discount and then could not subsequently verify the mitigation through reinspection.

Litigation of this suit, as a class action, will take an extended period of time. Citizens will vigorously defend our actions.

Multi-Year Reinsurance Treaties

Citizens is party to several aggregate and per occurrence catastrophe excess of loss reinsurance arrangements that provide coverage into 2016 and 2017. Premiums ceded under multi-year contracts are determined before each contractual reset period and are based upon defined risk parameters within the contracts that may result in increases or decreases to premiums ceded. Such adjustments to premiums ceded are included in the treaty year to which they apply. Payment obligations due under multi-year reinsurance treaties using the most currently available reset parameters are $154,010 and $37,891 in 2016 and 2017, respectively, provided: 1) there are no bilateral agreements to modify the contractual terms of the contracts, 2) there is no partial or full exhaustion of coverage provided, 3) there are no changes to current contractual resets that adjust the risk profile of coverage provided, or 4) Citizens' does not invoke its ability to exercise a call option on certain of its catastrophe bonds.

(Dollars in thousands)

Risk Management Programs

In addition to claims under the insurance policies it issues, Citizens is potentially exposed to various risks of loss, including those related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. As a state government entity, Citizens has immunity from certain claims. For the years ending December 31, 2015 and 2014, Citizens had insurance protection in place from various commercial insurance carriers covering various exposures, including workers' compensation, property loss, employee liability, general liability, data-breach liability, and directors' and officers' liability. Management continuously reviews the limits of coverage and believes that current coverage is adequate. There were no significant reductions in insurance coverage from the previous year. Additionally, the amount of settlements has not exceeded insurance coverage in the past three years.

13. Reconciliation of GAAP to SAP

A reconciliation of Citizens' 2015 and 2014 GAAP basis (as determined by the Governmental Accounting Standards Board) change in net position and net position to statutory-basis net income and accumulated surplus, respectively, is as follows:

	2015	2014
Change in net position - GAAP basis	**$ (38,744)**	$ 329,961
Adjustments:		
Change in allowance for doubtful accounts	**(2,987)**	1,359
Change in FIGA assessment income	**(2,133)**	(6,250)
Change in net unrealized gain on investments	**49,568**	26,052
Net income - statutory basis	**$ 5,704**	$ 351,122

	2015	2014
Net position - GAAP basis	**$ 7,466,984**	$ 7,505,751
Adjustments:		
Nonadmitted assets	**(53,010)**	(49,460)
Provision for reinsurance	**(11)**	(556)
FIGA assessment recoverable	**3,330**	5,463
Net unrealized gain on investments	**(27,602)**	(77,170)
Accumulated surplus - statutory basis	**$ 7,389,691**	$ 7,384,028

14. Assessments

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

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

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

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

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

In November 2012, Citizens received notice of an assessment from the FIGA totaling $27,759. Amounts recouped from policyholders relating to this assessment were $2,133 and $6,250 during 2015 and 2014, respectively.

Effective March 5, 2015, the 2005 Emergency Assessment was terminated for all policies with effective dates on or after July 1, 2015. The 2005 Emergency Assessment was anticipated to be collected over a ten year period commencing July 1, 2007. However, as of December 31, 2015 and 2014, Citizens collected approximately $146,095 and $38,245, respectively, in excess of the original Emergency Assessment receivable, respectively. These balances are reported as the reserve for future assessments on the accompanying statements of net position until such time as the Board approves a change to direct these excess collections to be used for any lawful purpose available within the Plan.

15. Restricted Cash

Restricted cash and surplus represents assessments that were, in accordance with the Act, over-collected by the Florida Surplus Lines Servicing Office (FSLSO) from surplus lines insureds with respect to the 2004 Plan Year Deficit. Pursuant to a consent order, the Office, FSLSO and Citizens agreed that $70,585 would be included in Citizens restricted surplus until such time future regular and emergency assessments would otherwise be payable by surplus lines insureds. As amounts have been approved by FSLSO with respect to regular and emergency assessments for Citizens' 2005 Plan Year deficit, Citizens has transferred these funds to unrestricted surplus. For the years ended December 31, 2015 and 2014 restricted cash and restricted surplus of $20,950 and $25,348, respectively, are included within the statements of net position.

16. Subsequent Events

Citizens has evaluated subsequent events for disclosure and recognition through May 31, 2016, the date on which these financial statements were available to be issued. With the exception of those items noted above, there were no additional events requiring disclosure.

Supplementary Information

Citizens Property Insurance Corporation
Supplemental Combining Statement of Net Position
December 31, 2015
(Dollars in thousands)

	Combined	Personal Lines Account	Commercial Lines Account	Coastal Account
ASSETS				
Current assets:				
Cash and cash equivalents	$ 1,396,561	$ 336,810	$ 142,656	$ 917,095
Short-term investments	313,181	38,475	23,837	250,869
Restricted cash and cash equivalents	20,950	-	-	20,950
Investment income due and accrued	74,733	20,847	7,774	46,112
Prepaid reinsurance premiums	99,180	43,410	3,784	51,986
Reinsurance recoverable on paid losses and LAE	2,606	2,708	-	(102)
Premiums receivable, net	89,889	40,790	3,205	45,894
Premiums receivable from assuming companies, net	32,435	19,794	1,118	11,523
Other current assets	15,119	8,941	5,874	304
Inter-account receivable (payable)	-	15,633	6,691	(22,324)
Total current assets	2,044,654	527,408	194,939	1,322,307
Noncurrent assets:				
Long-term investments	11,484,684	3,721,743	1,761,721	6,001,220
Capital assets	10,121	10,121	-	-
Total noncurrent assets	11,494,805	3,731,864	1,761,721	6,001,220
Total assets	13,539,459	4,259,272	1,956,660	7,323,527

(Dollars in thousands)

	Combined	Personal Lines Account	Commercial Lines Account	Coastal Account
LIABILITIES				
Current liabilities:				
Loss reserves, net	$ 521,307	$ 347,089	$ 91,649	$ 82,569
Loss adjustment expense reserves, net	209,872	148,451	24,252	37,169
Unearned premiums	612,515	272,868	28,046	311,601
Reinsurance premiums payable	133,138	12,429	1,822	118,887
Advance premiums and suspended cash	32,247	12,838	3,041	16,368
Interest payable	16,592	3,617	643	12,332
Current portion of long-term debt	957,807	121,472	19,186	817,149
Other current liabilities	81,777	59,742	7,358	14,677
Total current liabilities	2,565,255	978,506	175,997	1,410,752
Noncurrent liabilities:				
Long-term debt	3,361,125	794,881	143,666	2,422,578
Reserve for future assessments	146,095	-	-	146,095
Total noncurrent liabilities	3,507,220	794,881	143,666	2,568,673
Total liabilities	6,072,475	1,773,387	319,663	3,979,425
Net position:				
Invested in capital assets	10,121	10,121	-	-
Restricted	20,950	-	-	20,950
Unrestricted	7,435,913	2,475,764	1,636,997	3,323,152
Total net position	$ 7,466,984	$ 2,485,885	$ 1,636,997	$ 3,344,102

Citizens Property Insurance Corporation
Supplemental Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2015
(Dollars in thousands)

	Combined	Personal Lines Account	Commercial Lines Account	Coastal Account
Operating revenue:				
Net premiums earned	$ 760,750	$ 464,560	$ 61,721	$ 234,469
Operating expenses:				
Net losses incurred	402,515	331,790	(12,043)	82,768
Net loss adjustment expenses incurred	86,538	61,196	(1,931)	27,273
Service company fees	2,859	1,703	-	1,156
Agent commissions	102,871	39,538	6,805	56,528
Taxes and fees	17,396	8,046	863	8,487
Other underwriting expenses	155,661	72,582	8,122	74,957
Total operating expenses	767,840	514,855	1,816	251,169
Operating income (loss)	(7,090)	(50,295)	59,905	(16,700)
Nonoperating revenues (expenses):				
Net investment income	110,555	43,042	20,862	46,651
Net interest expense	(160,508)	(30,118)	(5,352)	(125,038)
Assessment income	21,459	1,100	49	20,310
Bond issuance expense	(5,292)	-	-	(5,292)
Other income	2,132	1,792	362	(22)
Total nonoperating income (expense)	(31,654)	15,816	15,921	(63,391)
Change in net position	(38,744)	(34,479)	75,826	(80,091)
Net position, beginning of year	7,505,751	2,520,364	1,561,171	3,424,216
Other changes in net position	(23)	-	-	(23)
Net position, end of year	$ 7,466,984	$ 2,485,885	$ 1,636,997	$ 3,344,102

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Gross earned premiums and investment revenue	2,785,538	4,041,529	3,191,122	2,521,096	2,509,794	3,054,678	3,408,112	3,066,913	2,530,077	1,770,837
Premiums ceded	495,778	624,252	922,754	698,869	421,501	601,934	881,571	1,073,819	996,252	899,532
Net earned premiums and investment revenue	2,289,760	3,417,277	2,268,368	1,822,227	2,088,293	2,452,744	2,526,541	1,993,094	1,533,825	871,305
Unallocated expenses	321,522	569,661	442,570	342,840	293,047	366,109	507,579	495,680	366,261	278,787
Gross incurred claims and claims expenses, as originally reported	339,770	692,583	839,708	674,431	786,223	1,236,012	1,049,652	686,676	525,725	356,735
Incurred claims and expenses ceded, as originally reported	-	-	-	-	-	-	5	2,127	-	-
Net incurred claims and claims expenses, as originally reported	339,770	692,583	839,708	674,431	786,223	1,236,012	1,049,647	684,549	525,725	356,735

(Dollars in thousands)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Paid (cumulative) as of:										
End of policy year	157,640	353,312	413,175	307,072	330,603	501,310	516,059	352,354	272,398	189,275
One year later	291,045	555,540	622,104	472,476	553,965	799,332	785,930	520,164	431,384	
Two years later	326,997	625,868	675,168	532,779	643,424	965,456	900,022	593,799		
Three years later	341,906	661,758	698,220	553,356	702,357	1,120,696	980,299			
Four years later	350,721	677,041	709,550	566,641	798,270	1,265,008				
Five years later	355,658	683,229	732,381	587,168	890,356					
Six years later	357,534	688,043	738,610	607,998						
Seven years later	358,381	693,600	744,815							
Eight years later	360,091	700,774								
Nine years later	361,988									
Re-estimated incurred claims and claims expenses ceded	-	-	-	-	-	-	20	2,310	-	-
Re-estimated net incurred claims and expense:										
End of policy year	339,770	692,583	839,708	674,431	786,223	1,236,012	1,049,647	684,549	525,725	356,735
One year later	354,194	678,130	753,244	651,058	876,415	1,237,713	1,068,384	648,934	548,044	
Two years later	359,950	693,332	750,380	624,955	886,308	1,259,076	1,045,511	664,324		
Three years later	358,122	697,792	738,966	622,057	893,876	1,342,169	1,069,951			
Four years later	360,230	701,651	738,733	622,963	962,361	1,384,234				
Five years later	360,996	700,302	747,942	634,117	976,708					
Six years later	360,694	702,670	749,604	639,930						
Seven years later	361,555	705,898	753,806							
Eight years later	364,139	712,256								
Nine years later	364,883									
Increase (decrease) in estimated incurred claims and expense from end of policy year	25,113	19,673	(85,902)	(34,501)	190,485	148,222	20,304	(20,225)	22,319	-

DIXON HUGHES GOODMAN LLP

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

The Audit Committee of
Citizens Property Insurance Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Citizens Property Insurance Corporation (Citizens), which comprise the statement of net position as of December 31, 2015, and the related statement of revenue, expenses and changes in net positon, and cash flows for the year ended and the related notes to the financial statements, which collectively comprise the Citizens' basic financial statements, and have issued our report thereon dated May 31, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

DIXON HUGHES GOODMAN LLP

Purpose of this Report

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

Dixon Hughes Goodman LLP

Charlotte, North Carolina
May 31, 2016