

LOUISIANA CITIZENS  
PROPERTY INSURANCE CORPORATION

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
(STATUTORY BASIS)

DECEMBER 31, 2015 AND 2014

LOUISIANA CITIZENS  
PROPERTY INSURANCE CORPORATION

REPORT INDEX

DECEMBER 31, 2015 AND 2014

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## INDEPENDENT AUDITOR'S REPORT

May 25, 2016

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

We have audited the accompanying statutory financial statements of Louisiana Citizens Property Insurance Corporation (the "Company"), which comprise the statutory statements of admitted assets, liabilities, surplus and other funds as of December 31, 2015, and the related statutory statements of income, changes in accumulated surplus and other funds, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed or permitted by the Louisiana Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

### Auditor's Responsibility

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus of the Company as of December 31, 2015, and the results of its operations and its cash flows for the year then ended, in accordance with the basis of accounting described in Note 1.

## **Emphasis-of-Matter**

### *Basis of Accounting*

As described in Note 1 to the financial statements, the financial statements were prepared in conformity with accounting practices prescribed or permitted by the Louisiana Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of Louisiana. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Adjustments to Prior Period Financial Statements*

The financial statements of the Company as of December 31, 2014, were audited by other auditors whose report dated May 21, 2015, expressed an unmodified opinion on those financial statements. As discussed in Note 18 to the financial statements, the Company has adjusted its 2014 financial statements to retrospectively apply the correction of errors related to the Company recording a receivable where rights did not exist and an unrecorded liability related to a reinsurance commutation. The other auditors reported on the financial statements before the retrospective adjustments.

As part of our audit of the 2015 financial statements, we also audited the adjustments to the 2014 financial statements to retrospectively apply the correction of the errors as described in Note 18. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the Company's 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 Information*

Our audit was conducted for the purpose of forming an opinion on the statutory financial statements taken as a whole. The supplementary information listed in the index to the report is presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and is not a required part of the basic statutory financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic statutory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory basis financial statements or to the statutory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory basis financial statements as a whole.

*Restriction on Use*

This report is intended solely for the information and use of the board of directors and management of the Company and the Louisiana Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

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

New Orleans, Louisiana

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
 STATUTORY STATEMENTS OF ADMITTED ASSETS,  
 LIABILITIES, SURPLUS AND OTHER FUNDS  
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u> <u>(Restated)</u>
<u>ADMITTED ASSETS</u>		
Cash and invested assets:		
Money market mutual funds	\$ 146,932,779	\$ 170,371,481
Cash and short-term investments	92,100,926	71,815,593
Total cash and invested assets	239,033,705	242,187,074
Premium receivable and agent's balances, net	16,613,718	19,246,068
Reinsurance receivable	980,134	1,347,552
Admitted electronic data processing equipment and software, at cost less accumulated depreciation of approximately \$16,908,790 and \$16,824,715 at December 31, 2015 and 2014, respectively.	849,484	552,542
Emergency assessments receivable - 2005	633,201,939	761,906,939
Emergency assessments receivable - companies	19,000,000	18,500,000
Other receivables	108,479	110,160
TOTAL ADMITTED ASSETS	\$ 909,787,459	\$ 1,043,850,335

See notes to statutory financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
 STATUTORY STATEMENTS OF ADMITTED ASSETS,  
 LIABILITIES, SURPLUS AND OTHER FUNDS  
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u> <u>(Restated)</u>
<b><u>LIABILITIES AND ACCUMULATED SURPLUS</u></b>		
Liabilities:		
Loss reserves	\$ 60,163,559	\$ 63,846,136
Loss adjustment expense reserves	6,099,140	6,165,480
Commissions payable to agents	3,127,655	3,600,855
Unearned premiums	69,038,349	83,610,484
Taxes, licenses, and fees due or accrued	4,234,414	4,266,365
Provision for reinsurance	14,768	19,307
Accounts payable and other accrued expenses	8,120,005	8,325,215
Amounts retained or withheld from others	3,159	4,454
Ceded reinsurance premiums payable, net of ceding commissions	1,832,592	3,148,771
Unearned tax exempt surcharge	2,321,251	2,690,320
Interest payable	2,508,279	3,233,860
Bonds payable	637,436,476	742,651,458
Liability for funds restricted for debt service	<u>76,234,581</u>	<u>150,551,674</u>
 Total liabilities	 <u>871,134,228</u>	 <u>1,072,114,379</u>
Surplus:		
Unassigned surplus (deficit)	<u>38,653,231</u>	<u>(28,264,044)</u>
Total accumulated surplus (deficit)	<u>38,653,231</u>	<u>(28,264,044)</u>
 TOTAL LIABILITIES AND ACCUMULATED SURPLUS	 <u>\$ 909,787,459</u>	 <u>\$ 1,043,850,335</u>

See notes to statutory financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
STATUTORY STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u> <u>(Restated)</u>
REVENUES:		
Premiums earned	\$ 105,259,889	\$ 110,736,079
LOSSES AND UNDERWRITING EXPENSES:		
Losses incurred	19,531,451	106,281,803
Loss adjustment expenses incurred	9,891,147	10,853,682
Other underwriting expenses	23,294,569	27,536,339
Total losses and underwriting expenses	<u>52,717,167</u>	<u>144,671,824</u>
Net underwriting gain (loss)	52,542,722	(33,935,745)
Net investment income	3,720,479	1,581,974
Debt issuance cost	(2,824,147)	-
Interest expense	(37,565,462)	(37,148,116)
Emergency assessment income	36,771,011	35,667,820
Application and other miscellaneous fees	1,506,967	1,821,351
Finances and service charges not included in premiums	540,664	625,950
Non-claim related litigation recovery (expense)	(480)	2,618,595
Net loss from agents or premium balances charged off	<u>(25,975)</u>	<u>(3,219)</u>
NET INCOME (LOSS)	<u>\$ 54,665,779</u>	<u>\$ (28,771,390)</u>

See notes to statutory financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
 STATUTORY STATEMENTS OF CHANGES IN  
 ACCUMULATED SURPLUS AND OTHER FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u> <u>(Restated)</u>
UNASSIGNED DEFICIT, BEGINNING OF YEAR	\$ (28,264,044)	\$ (5,281,743)
Net income (loss)	54,665,779	(28,771,390)
Change in nonadmitted assets	7,202,587	62,360
Change in provision for reinsurance	4,539	523
Tax exempt surcharge	4,668,816	5,453,177
Other gains and losses in surplus	<u>375,554</u>	<u>273,029</u>
UNASSIGNED SURPLUS (DEFICIT), END OF YEAR	<u><u>\$ 38,653,231</u></u>	<u><u>\$ (28,264,044)</u></u>

See notes to statutory financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
STATUTORY STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>OPERATING ACTIVITIES:</b>		
Premiums, policy proceeds, and other considerations received, net of reinsurance	\$ 99,248,934	\$ 107,028,711
Underwriting expenses paid	(33,757,205)	(38,585,238)
Investment income received	(36,669,130)	(35,566,142)
Other revenues received	38,792,187	40,730,498
Losses and loss adjustment expenses paid	(22,847,337)	(102,778,988)
Net cash provided (used) by operating activities	<u>44,767,449</u>	<u>(29,171,159)</u>
<b>INVESTING ACTIVITIES:</b>		
Proceeds from investments sold or matured	236,072,670	355,593,902
Cost of investments acquired	(212,633,968)	(349,207,737)
Net cash provided by investing activities	<u>23,438,702</u>	<u>6,386,165</u>
<b>FINANCING ACTIVITIES:</b>		
Payments on borrowed funds	(105,940,563)	(47,231,727)
Other cash provided	58,019,745	33,460,092
Net cash used by financing activities and miscellaneous	<u>(47,920,818)</u>	<u>(13,771,635)</u>
Net change in cash and short-term investments	20,285,333	(36,556,629)
Cash and short-term investments, beginning of year	<u>71,815,593</u>	<u>108,372,222</u>
<b>CASH AND SHORT-TERM INVESTMENTS, END OF YEAR</b>	<u><u>\$ 92,100,926</u></u>	<u><u>\$ 71,815,593</u></u>

See notes to statutory financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

Louisiana Citizens Property Insurance Corporation was created in accordance with provisions of Louisiana Revised Statute (LRS) 22:2293 and began operations on January 1, 2004. The Company operates solely in Louisiana. The Company's principal business activity is to operate insurance plans which provide property insurance for residential and commercial property, solely for applicants who in good faith are entitled, but are unable to procure insurance through the voluntary market. The Company operates residual market insurance programs designated as the Coastal Plan and the Fair Access to Insurance Requirements Plan (FAIR Plan). The Coastal Plan is for property insurance written on locations between the Gulf of Mexico and the Intracoastal Waterway and the FAIR Plan is for property insurance written on locations above the Intracoastal Waterway.

Louisiana Citizens Property Insurance Corporation (the "Company") is a component unit of the State of Louisiana.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation and Accounting:

The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Louisiana Department of Insurance. The State of Louisiana generally requires that insurance companies domiciled in the State of Louisiana prepare their statutory basis financial statements in accordance with the National Association of Insurance Commissioners (NAIC) Accounting Practices and Procedures Manual. Such practices vary from accounting principles generally accepted in the United States of America (GAAP). The more significant variances from GAAP are as follows:

- Commissions and other costs of acquiring insurance are expensed when incurred rather than capitalized and amortized over the terms of the related policies as required by GAAP.
- Certain assets designated as "nonadmitted" are excluded from the balance sheet and are charged directly to unassigned surplus.
- Reserves for losses and loss adjustment expenses are reported net, rather than gross, of certain reinsurance recoverables.
- Gains and losses on the defeasance of debt are reported in the period the debt was extinguished. GASB requires the deferral of gains and loss to be amortized over the shorter of the remaining life of the old bonds or the life of the new bonds.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Basis of Presentation and Accounting: (Continued)

- The statement of cash flows is presented in the required statutory format. This format differs from the format specified by GAAP which requires a reconciliation of net income to net cash flow from operating activities and supplemental schedules of noncash financing and investing activities.
- Cash and short-term investments in the statement of cash flows represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less. Also, under GAAP, short-term investments are disclosed separately from cash and include investments with remaining maturities of one year or less.

The aggregate effect on the accompanying statutory financial statements of the variations from GAAP is outlined in Note 14 to the financial statements.

Estimates:

The financial statements are prepared in conformity with accounting practices prescribed or permitted by the Louisiana Department of Insurance which require 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 reported period. Actual results could differ from those estimates.

Statement of Cash Flows:

For the purpose of reporting cash flows, cash and short-term investments include all liquid investments with a maturity of one year or less when purchased. Short-term investments are stated at cost, which approximates fair value.

Bonds:

Bonds, which consist solely of debt securities, are recorded at admitted asset values as prescribed by NAIC valuation procedures, and are rated in accordance with current NAIC guidelines. Debt securities are stated at amortized cost using the interest method. Bonds are recorded in cash and short-term investments within the Statutory Statements of Admitted Assets, Liabilities, Surplus and Other Funds.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Equity Investments:

Equity investments held by the Company represent money market mutual funds. Shares of mutual funds, regardless of the underlying security, are considered to be shares of common stock and are reported as such as designated by NAIC reporting requirements. These funds are stated at cost, which approximates fair value.

EDP Equipment and Operating System Software:

Electronic Data Processing (EDP) equipment and software purchased or developed for internal use with an original cost of over \$1,000,000 is capitalized and depreciated using the straight line method over the software's useful life of 3 years.

Depopulation:

The Company is required to undertake a depopulation effort annually per Louisiana Revised Statute R.S. 22:2314. The Company accounts for premiums of depopulated policies as a reduction of direct premiums written. Losses and other costs associated with depopulated policies are assumed by the acquiring entity and thus are removed from the Company's financial statements.

Loss Reserves and Loss Adjustment Expense Reserves:

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

Premiums:

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

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

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Market Risk:

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

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

Assessments:

In the event that the Governing Board of the Company determines that a deficit exists in either the Coastal Plan or the FAIR Plan, the Company may levy a regular assessment for each affected Plan in order to remedy any deficit. All insurers who become authorized and then engage in writing property insurance within the State of Louisiana shall participate in regular assessment of the Coastal and FAIR Plans in the proportion that the net direct premium of such participant written in the State during the preceding calendar year bears to the aggregate net direct premiums written in the State by all insurers during the preceding calendar year as certified to the Governing Board by the Louisiana Insurance Rating Commission.

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

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

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Assessments: (Continued)

accounts of the Company for the prior year, plus interest, fees, commissions, required reserves, and other costs associated with financing the original deficit. To the extent the aggregate amount of the emergency assessment will not exceed the greater of (a) or (b) above, the governing Board shall impose an emergency assessment in the amount required by any applicable loan agreement, trust indenture or other financing agreement.

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

Liability for Funds Restricted For Debt Service and Related Accounting Changes:

The Commissioner of Insurance has the right to permit other specific practices that deviate from prescribed practices. During the second quarter of 2009, with agreement from the Louisiana Department of Insurance ("the Department"), the Company received permission from the Department to reclassify, as a liability, the excess emergency assessments collected that were greater than the debt service costs since the inception of the bond debt in 2006 with the cumulative excess amount being \$76,234,581 and \$150,551,674 at December 31, 2015 and 2014, respectively. The Company will record emergency assessment collections and costs through net income only in amounts sufficient to offset interest costs and amortization of bond issuance costs.

Reinsurance and Reinsurance Recoverables:

All catastrophe reinsurance premiums are recorded as premiums ceded and are amortized over the life of the hurricane season for which the payments apply. Reinsurance recoverables on unpaid losses are recorded as a reduction of losses incurred and loss adjustment expenses incurred. Reinsurance recoverable on paid losses is recorded as an asset in the accompanying statutory statements of admitted assets, liabilities, surplus and other funds. Premiums ceded include catastrophe reinsurance purchased.

Income Taxes:

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

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Financial Instruments:

The carrying value of cash and cash equivalents, premiums receivable, other admitted assets and other liabilities approximates fair value given their short-term nature.

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

2. REPURCHASE AGREEMENTS:

In 2006, the Company entered into a Repurchase Agreement with Societe Generale, New York Branch to invest a portion of the Debt Service Reserve Fund. The agreement requires Societe Generale to maintain margins on collateral of 104% to 105% of market value depending on the type of collateral. Acceptable securities are GNMA, Government Agencies, mortgage-backed securities of FHLMC or FHLB and U.S. Treasury securities. The custodian for the collateral is Wells Fargo Bank, N.A.

The collateral percentage, fair value and book value of collateral accepted from Societe Generale was as follows:

<u>Year End</u>	<u>Collateral Percentage</u>	<u>Book Value</u>	<u>Fair Value</u>
December 31, 2015	-%	\$ -	\$ -
December 31, 2014	104.54%	\$28,298,272	\$29,583,099

The Repurchase Agreement with Societe Generale was sold during year end December 31, 2015.

3. FAIR VALUE MEASUREMENTS FOR INVESTMENTS:

FASB ASC Topic Fair Value Measurements and Disclosures (FASB ASC 820) and FASB ASC Topic Financial Instruments (FASB ASC 825), requires disclosure of fair value information about financial instruments, whether or not recognized in the Statutory Statements of Admitted Assets, Liabilities, Surplus and Other Funds. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
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3. FAIR VALUE MEASUREMENTS FOR INVESTMENTS: (Continued)

and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. FASB ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

Level 1 classification is applied to assets (liabilities) that have readily available quoted prices from active markets where significant transparency exists in the executed/quoted price.

Level 2 classification is applied to assets (liabilities) that have evaluated prices received from fixed income vendors with data inputs which are observable either directly or indirectly, but do not represent quoted prices from an active market for each individual security.

Level 3 classification is applied to assets (liabilities) for which prices are not derived from existing market data.

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

Common Stock: Fair values of common stock are based on quoted market prices.

The valuation of the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 and 2014 are as follows:

	<u>2015</u>		<u>2014</u>	
	<u>Carrying</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>	<u>Carrying</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
Financial assets:				
Common stock -				
Money Market				
Mutual Funds	\$ <u>146,932,779</u>	\$ <u>146,932,779</u>	\$ <u>170,371,481</u>	\$ <u>170,371,481</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

3. FAIR VALUE MEASUREMENTS FOR INVESTMENTS: (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As of December 31, 2015				
Common Stock -				
Money Market Mutual Funds	\$ <u>146,932,779</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>146,932,779</u>
As of December 31, 2014				
Common Stock -				
Money Market Mutual Funds	\$ <u>170,371,481</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>170,371,481</u>

The carrying amounts in the preceding table are included in the accompanying Statutory Statements of Admitted Assets, Liabilities, Surplus and Other Funds under the applicable captions.

Net investment income consists of:

Interest earned on money market mutual funds	\$ 114,548	\$ 114,634
Interest earned on cash, cash equivalents and short-term investments	3,623,431	1,476,840
Investment expenses	<u>(17,500)</u>	<u>(9,500)</u>
Total	\$ <u>3,720,479</u>	\$ <u>1,581,974</u>

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2015 and 2014, no declines are deemed to be other-than-temporary.

4. ELECTRONIC DATA PROCESSING EQUIPMENT AND SOFTWARE:

Electronic Data Processing (EDP) equipment and software with an original cost of \$17,758,274 and \$17,377,257 at December 31, 2015 and 2014, respectively, is being depreciated using the straight-line method over the asset's useful life of three years, in accordance with NAIC statutory requirement. Depreciation expense for admitted EDP equipment and operating system software totaled \$84,075 and \$63,688 for the years ended December 31, 2015 and 2014, respectively.

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5. LIABILITIES FOR LOSS AND LOSS ADJUSTMENT EXPENSES:

Activity in the liabilities for loss and loss adjustment expenses is summarized as follows for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Balance at January 1,	\$ 70,011,616	\$ 66,300,361
Incurred related to:		
Current year	23,405,829	26,153,966
Prior years	<u>6,016,769</u>	<u>90,981,514</u>
Total incurred	29,422,598	117,135,480
Paid related to:		
Current year	18,108,312	21,679,776
Prior years	<u>15,063,203</u>	<u>91,744,449</u>
Total paid	<u>33,171,515</u>	<u>113,424,225</u>
Balance at December 31,	<u>\$ 66,262,699</u>	<u>\$ 70,011,616</u>

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

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

6. AGENT COMMISSIONS AND SERVICING COMPANY FEES:

The Company policies are written by various insurance agents licensed in the State of Louisiana. These agents are compensated at commission rates established by the Board and calculated as a percentage of direct written premiums, net of certain surcharges and assessments. Agent commissions are reported in the statutory statement of income as other underwriting expenses. Agent commissions incurred were approximately \$13,127,628 and \$15,989,890 during the years ended December 31, 2015 and 2014, respectively.

Additionally, the Company entered into agreements with two servicing companies to provide underwriting and policy management services. The agreements provide for monthly compensation to the servicing companies based on a "Per Transaction Fee" applied to the number of transactions processed in a monthly cycle. During 2012, the servicing agreements

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6. AGENT COMMISSIONS AND SERVICING COMPANY FEES: (Continued)

were extended under the same (or similar) terms and expired on March 31, 2014. Since the expiration of the servicing agreements, claims and underwriting management have been brought in-house. Servicing company fees incurred and included in other underwriting expenses were approximately \$0 and \$233,364 during the years ended December 31, 2015 and 2014, respectively.

7. CAPITAL AND ACCUMULATED SURPLUS:

Changes in balances of surplus from the prior year are, in part, due to collections made by the Company during the normal course of collecting policy component charges. The policy component charge affecting surplus funds is the tax exempt surcharge.

In 2005, the Company suffered losses of \$1.8 billion as a result of Hurricanes Katrina and Rita. In 2006, the Company issued \$978.2 million of bonds to pay for these losses. Under LRS 22:2307, the Company may assess, in any one year, up to 10% of the total property premiums assessable statewide to pay the debt service on the bonds. The total statewide assessable premiums are approximately \$2.5 billion.

Emergency assessments were as follows:

		December 31, <u>2015</u>	December 31, <u>2014</u>
2007	3.6% assessment rate	\$ 78,012,088	\$ 78,012,088
2008	5.0% assessment rate	99,751,686	99,751,686
2009	5.0% assessment rate	116,753,866	116,753,866
2010	4.3% assessment rate	103,046,094	103,046,094
2011	4.0% assessment rate	101,027,353	101,027,353
2012	3.9% assessment rate	92,242,635	92,242,635
2013	3.7% assessment rate	95,503,384	95,503,384
2014	3.5% assessment rate	94,979,546	94,979,546
2015	3.4% assessment rate	<u>91,158,917</u>	<u>-</u>
		872,475,569	781,316,652
Plus: cumulative bond earnings		33,485,857	29,849,758
Less: cumulative debt service		<u>(829,726,845)</u>	<u>(660,614,736)</u>
Liability for funds restricted for debt service		\$ <u>76,234,581</u>	\$ <u>150,551,674</u>

The unassigned surplus/(deficit) as of December 31, 2015 and 2014 was \$38,653,231 and \$(28,264,044), respectively.

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8. REINSURANCE AGREEMENTS:

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

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

For the year ended December 31, 2015 (in thousands):

	January 1, 2015 to May 31, 2015			June 1, 2015 to December 31, 2015		
	<u>First Excess</u>	<u>Second Excess</u>	<u>Third Excess</u>	<u>First Excess</u>	<u>Second Excess</u>	<u>Third Excess</u>
Company's Retention	\$ 50,000	\$ 75,000	\$ 175,000	\$ 50,000	\$ 75,000	\$ 175,000
Reinsurer's Per Occurrence Limit	\$ 25,000	\$ 100,000	\$ 47,000	\$ 25,000	\$ 100,000	\$ 44,000
Reinsurer's Term Limit	\$ 50,000	\$ 200,000	\$ 94,000	\$ 50,000	\$ 200,000	\$ 88,000
Annual Minimum Premium	\$ 5,375	\$ 14,000	\$ 4,700	\$ 4,125	\$ 12,000	\$ 3,740
Adjustment Rate	0.000000%	0.000000%	0.000000%	0.000000%	0.000000%	0.000000%

As of June 2014, the Company's contract for reinsurance was restructured. There are no longer adjustment rates. The premium can potentially be adjusted if the total insurable value is greater than or less than 10% of the estimated total insurable value used to calculate the contract premium.

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8. REINSURANCE AGREEMENTS: (Continued)

For the year ended December 31, 2014 (in thousands):

	January 1, 2014 to May 31, 2014			June 1, 2014 to December 31, 2014		
	<u>First Excess</u>	<u>Second Excess</u>	<u>Third Excess</u>	<u>First Excess</u>	<u>Second Excess</u>	<u>Third Excess</u>
Company's Retention	\$ 75,000	\$ 193,000	\$ 264,000	\$ 50,000	\$ 75,000	\$ 175,000
Reinsurer's Per Occurrence Limit	\$ 118,000	\$ 71,000	\$ 111,000	\$ 25,000	\$ 100,000	\$ 47,000
Reinsurer's Term Limit	\$ 236,000	\$ 142,000	\$ 222,000	\$ 50,000	\$ 200,000	\$ 94,000
Annual Minimum Premium	\$ 15,104	\$ 6,390	\$ 6,216	\$ 5,375	\$ 14,000	\$ 4,700
Adjustment Rate	0.944000%	0.039994%	0.038850%	0.000000%	0.000000%	0.000000%

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

In addition, the Company has additional coverage through three catastrophe bonds. In 2012, the Company purchased coverage through a \$125 million, three-year catastrophe bond providing coverage for 63.8% of up to \$389 million in losses in excess of \$193 million covered by retention and traditional reinsurance. In 2013, the Company purchased coverage through a \$140 million, four-year catastrophe bond providing coverage for 93.3% of up to \$539 million in losses in excess of \$389 million covered by retention, traditional reinsurance and the 2012 catastrophe bond. In 2015, the Company purchased additional coverage through a \$100 million, three-year catastrophe bond that provides coverage for 69.4% of up to \$319 million in losses in excess of \$175 million covered by retention and traditional reinsurance.

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

Years ended December 31,	2015 Premiums		2014 Premiums	
	<u>Written</u>	<u>Earned</u>	<u>Written</u>	<u>Earned</u>
Direct	\$ 140,385,470	\$ 154,713,755	\$ 168,068,464	\$ 177,510,523
Ceded	(49,453,866)	(49,453,866)	(66,774,444)	(66,774,444)
Net premiums	<u>\$ 90,931,604</u>	<u>\$ 105,259,889</u>	<u>\$ 101,294,020</u>	<u>\$ 110,736,079</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
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8. REINSURANCE AGREEMENTS: (Continued)

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

The reserve for uncollectable reinsurance recoverables at December 31, 2015 and 2014 were as follows:

December 31,	<u>2015</u>	<u>2014</u>
Colisee Re	\$ -	\$ 4,425
Hanover Rueck SE	9,748	11,747
Markel Bermuda Ltd	-	3,135
New Castle Reinsurance Company	<u>5,020</u>	<u>-</u>
	<u>\$ 14,768</u>	<u>\$ 19,307</u>

9. LINE OF CREDIT:

The Company maintains a line of credit providing for a maximum borrowing of \$100,000,000 and \$125,000,000 at December 31, 2015 and 2014, respectively. Interest on this note is payable monthly at a variable rate based on the 30-day London Interbank Offered Rate (LIBOR) plus 2.0% for the first 90 days following the date drawn and 30-day LIBOR plus 2.35% commencing on the 91<sup>st</sup> day. LIBOR at December 31, 2015 and 2014 was 0.43% and 0.17%, respectively. The line of credit is secured by all premiums and accounts receivable and revenue from all sources, exclusive of emergency assessments resulting from the 2005 catastrophes levied pursuant to LA R.S. 22:2307E. There was no balance outstanding on the line of credit at December 31, 2015 and 2014.

10. BONDS PAYABLE:

Series 2006B:

During April 2006, the Company issued \$678,205,000 of assessment revenue bonds for the purpose of redeeming bond anticipation notes issued to finance, on an interim basis, a portion of the Plan Year Deficit for 2005 in the FAIR Plan resulting from Hurricanes Katrina and Rita, to finance the balance of the Plan Year Deficit for 2005, to make deposits to the Capitalized Interest Fund and the Debt Service Reserve Fund and to pay costs of issuance. The bonds were issued in denominations of \$5,000 or any integral multiple thereof. The 2006B

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10. BONDS PAYABLE: (Continued)

Series 2006B: (Continued)

bonds bear interest ranging from 4.00% to 5.25% per annum, payable semiannually on June 1 and December 1 of each year, commencing December 1, 2006. The bonds are secured, together with additional bonds, if any, by pledged revenues, which include primarily the 2005 Emergency Assessments. The bonds are not secured by the full faith and credit of the State of Louisiana. Payment of the principal of and interest on the bonds when due is insured by a bond insurance policy. The bond maturity dates range from June 1, 2009 to June 1, 2023. Bond principal payments of \$459,035,000 and \$40,595,000 were made in 2015 and 2014, respectively. During year ending December 31, 2015, the Company refinanced the Series 2006B revenue bonds. The outstanding balance due as of the years ended December 31, 2015 and 2014 was \$0 and \$459,035,000, respectively.

Series 2006C1 through 2006C3:

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

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

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10. BONDS PAYABLE: (Continued)

Series 2006C1 through 2006C3: (Continued)

The Series 2006C bonds were remarketed in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof. On and after the respective conversion date of each subseries of the Series 2006C bonds, interest on the bonds is payable on each June 1 and December 1 commencing June 1, 2009, until maturity or prior redemption and the bonds were converted to the long-term interest rate on May 6, 2009. The 2006C bonds bear interest ranging from 2.75% to 6.75% per annum. On and after the respective conversion dates of each subseries of the series 2006C bonds, the scheduled payment of principal and interest on such subseries of the bonds, when due, is guaranteed under a financial guaranty insurance policy issued concurrently with the delivery of such subseries of the 2006C bonds by Assured Guaranty Corp. The Series 2006C bonds are subject to optional redemption prior to maturity. On April 1, 2012, the 2006C4 bonds were paid with the issuance of the 2012R bonds proceeds. Bond maturity dates range from June 1, 2009 to June 1, 2026. Principal payments, including the refinanced amount, were \$2,045,000 and \$2,945,000 during the years ended December 31, 2015 and 2014, respectively. The outstanding balance due on these bonds as of December 31, 2015 and 2014 was \$216,350,000 and \$218,395,000, respectively.

Series 2012R:

During April 2012, the Company issued \$53,620,000 of assessment revenue refunding bonds in order to advance refund \$54,235,000 principal amount of the Assessment Revenue Bonds Series 2006C4, issued in the original aggregate principal amount of \$75,000,000, and to pay the cost of issuance of the Series 2012R bonds. The bonds were issued in denominations of \$5,000 or any integral multiple thereof. The 2012R bonds bear interest ranging from 2.00% to 5.00% per annum, payable semiannually on June 1 and December 1 of each year, commencing June 1, 2012. The bond maturity dates range from June 1, 2012 to June 1, 2024. Bond principal payments of \$920,000 and \$900,000 were made during the years ended December 31, 2015 and 2014, respectively. The outstanding balance due on this bond as of December 31, 2015 and 2014 was \$50,730,000 and \$51,650,000, respectively.

Series 2015R:

During July 2015, the Company issued \$333,295,000 of assessment revenue refunding bonds in order to advance refund \$415,290,000 principal amount of the Assessment Revenue Bonds Series 2006B, issued in the original aggregate principal amount of \$678,205,000, and to pay the cost of issuance of the Series 2015R bonds. The bonds were issued in denominations of \$5,000 or any integral multiple thereof. The 2015R bonds bear interest of 5.00% per annum, payable semiannually on June 1 and December 1 of each year, commencing June 1, 2015. The bond maturity dates range from June 1, 2016 to June 1, 2022. No principal payments were

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10. BONDS PAYABLE: (Continued)

Series 2015R: (Continued)

made during the year ended December 31, 2015. The outstanding balance due on this bond as of December 31, 2015 and 2014 was \$333,295,000 and \$0, respectively.

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

<u>Maturity</u>	<u>Principal</u>	<u>Premium/ (Discount)</u>
2016	\$ 45,600,000	\$ 8,612,345
2017	46,495,000	7,972,339
2018	48,795,000	6,724,105
2019	51,190,000	5,408,788
2020	53,765,000	4,015,357
2021-2026	<u>354,530,000</u>	<u>4,328,542</u>
	<u>\$ 600,375,000</u>	<u>\$ 37,061,476</u>

Net unamortized premium at December 31, 2015 and 2014 was approximately \$37.1 and \$13.6 million, respectively.

The total interest expense on the fixed rate bonds for the years ended December 31, 2015 and 2014 was \$37,565,462 and \$37,148,116, respectively, including annual amortized premiums of \$14,752,349 and \$2,602,808, respectively, and is included in "Interest expense, net" in the accompanying Statutory Statements of Income.

11. RETIREMENT PLANS:

Defined Benefit Plan:

Prior to September 1, 2008, the Company sponsored a non-contributory defined benefit pension plan covering all employees that were hired prior to April 1, 2008, through a services agreement with Property Insurance Association of Louisiana (PIAL) in which retirement expenses were previously reimbursed to PIAL.

The table below sets forth the changes in projected benefit obligations, changes in plan assets, and components of the net periodic benefit costs for fiscal year ending December 31:

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11. RETIREMENT PLANS: (Continued)

Defined Benefit Plan: (Continued)

	<u>2015</u>	<u>2014</u>
Change in projected benefit obligation:		
Beginning projected benefit obligation, January 1,	\$ 2,196,368	\$ 1,744,434
Interest cost	88,221	87,816
Actuarial gain/(loss)	(222,310)	411,568
Benefit payments	(76,800)	(47,450)
Plan amendments	49,937	-
Ending projected benefit obligation, December 31,	<u>\$ 2,035,416</u>	<u>\$ 2,196,368</u>

	<u>2015</u>	<u>2014</u>
Change in plan assets:		
Fair value of plan assets, January 1,	\$ 2,031,150	\$ 1,917,043
Benefit payments	(76,800)	(47,450)
Actual return on plan assets	<u>(62,605)</u>	<u>161,557</u>
Fair value of plan assets, December 31,	<u>1,891,745</u>	<u>2,031,150</u>
Funded status	<u>\$ (143,671)</u>	<u>\$ (165,218)</u>

Assumptions used to determine projected benefit obligations and pension costs at December 31, 2015 and 2014, were as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	4.25%	5.00%
Long-term rate of return on assets	6.00%	6.25%
Rate of compensation increase	N/A	N/A

Net periodic benefit cost for the years ended December 31, 2015 and 2014, includes the following components:

	<u>2015</u>	<u>2014</u>
Interest cost	\$ 88,221	\$ 87,816
Expected return on plan assets	(118,877)	(118,210)
Amortization net loss	<u>31,692</u>	<u>5,421</u>
Ending net periodic benefit cost, December 31,	<u>\$ 1,036</u>	<u>\$ (24,973)</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
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11. RETIREMENT PLANS: (Continued)

Defined Benefit Plan: (Continued)

Changes in amounts recognized in accumulated surplus for the years ended December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Unrecognized balances, January 1,	\$ 564,985	\$ 202,185
Net gain recognized	(31,692)	(5,421)
New prior service cost/(credit) occurring	49,937	-
Actuarial loss/(gain) occurring	<u>(40,828)</u>	<u>368,221</u>
Ending unrecognized balances, December 31,	<u>\$ 542,402</u>	<u>\$ 564,985</u>

The fair value of assets as of December 31, 2015 was determined in a manner similar to the allocation method used for the ERISA funding valuation for the Pension Plan for Insurance Organizations (PPIO). The asset allocation method in general projects the assets from the prior year using the actual return on the PPIO fund for the years ending December 31, 2015 and 2014 and adjusting for actual payments and contributions. The fund return for the years ending December 31, 2015 and 2014 was (1.33%) and 9.26%, respectively.

Future benefit payments expected to be paid in each of the next five years and in the aggregate for the following five years:

Years ending December 31,	
2016	\$ 55,142
2017	64,575
2018	73,740
2019	82,512
2020	91,205
2021-2025	<u>571,218</u>
	<u>\$ 938,392</u>

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11. RETIREMENT PLANS: (Continued)

Defined Contribution Plans:

As of September 1, 2008, the Company froze its defined benefit pension plan and in its place established a defined contribution plan. The Company contributes 11% of each employee's wages to the defined contribution plan. Contributions are expensed each month and the Company carried no assets or liabilities for the defined contribution plan on its statement of admitted assets, liabilities and surplus. The Company's contribution to the plan was approximately \$658,318 and \$629,715 and during the years ended December 31, 2015 and 2014, respectively.

In addition, the Company sponsors a contributory 401k plan covering eligible employees for which the Company matches 75% of employee contributions up to a maximum of 6% of eligible compensation. Contributions by the Company to the 401k plan during the years ended December 31, 2015 and 2014 totaled \$183,347 and \$187,760, respectively.

12. OTHER POSTEMPLOYMENT BENEFITS:

Plan Description:

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

Contribution Rates:

Plan members contribute 25% of medical premiums, including Medicare supplement, dental and vision coverage, and 100% of supplemental life insurance. Plan members are not required to contribute for basic life insurance.

Funding Policy:

The Company's plan is administered by the Company.

The table below sets forth the changes in accumulated postretirement benefit obligation (APBO) for eligible participants, changes in plan assets, and components of the net periodic benefit costs for fiscal year ending December 31:

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12. OTHER POSTEMPLOYMENT BENEFITS: (Continued)

Funding Policy: (Continued)

	<u>2015</u>	<u>2014</u>
Change in benefit obligation:		
Beginning APBO, January 1,	\$ 2,467,034	\$ 1,393,202
Interest on net benefit obligation	103,841	70,632
Service cost	112,010	61,446
Plan participants' contributions	18,838	14,275
Actuarial gain/(loss)	100,694	1,025,260
Benefit payments	<u>(86,071)</u>	<u>(97,781)</u>
Ending APBO, December 31,	<u>\$ 2,716,346</u>	<u>\$ 2,467,034</u>
Change in plan assets:		
Fair value of plan assets, January 1,	\$ -	\$ -
Employer contributions	67,233	83,506
Plan participants' contributions	18,838	14,275
Benefit payments	<u>(86,071)</u>	<u>(97,781)</u>
Fair value of plan assets, December 31,	<u>-</u>	<u>-</u>
Funded status	<u>\$ (2,716,346)</u>	<u>\$ (2,467,034)</u>

Assumptions used to determine projected benefit obligations at December 31, 2015 and 2014, were as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	4.50%	4.25%
Rate of compensation increase	3.00%	3.00%
Assumed health care cost trend rate during first year	7.00%	7.00%
Ultimate health care cost trend	5.00%	5.00%
Year ultimate health care cost trend reached	2021	2021

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12. OTHER POSTEMPLOYMENT BENEFITS: (Continued)

Funding Policy: (Continued)

Net periodic benefit cost for the years ended December 31, 2015 and 2014, includes the following components:

	<u>2015</u>	<u>2014</u>
Service cost	\$ 112,010	\$ 61,446
Interest cost	103,841	70,632
Net prior service cost amortization	114,917	114,917
Amortization net loss	<u>129,848</u>	<u>19,481</u>
Ending net periodic benefit cost, December 31,	<u>\$ 460,616</u>	<u>\$ 266,476</u>

Assumptions used to determine projected benefit costs at December 31, 2015 and 2014, were as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	4.25%	5.00%
Long-term rate of return assets	N/A	N/A
Rate of compensation increase	3.00%	3.00%
Assumed health care cost trend during first year	7.00%	7.50%
Ultimate health care cost trend rate	5.00%	5.00%
Year ultimate health care cost trend reached	2021	2018

Changes in amounts recognized in accumulated surplus for the years ended December 31, 2015 and 2014 are per the table below:

	<u>2015</u>	<u>2014</u>
Change in unrecognized balances		
Unrecognized balances, January 1,	\$ 1,569,595	\$ 678,733
Net prior service cost recognized	(114,917)	(114,917)
Net gain recognized	(129,848)	(19,481)
Actuarial loss/(gain) occurring	<u>100,694</u>	<u>1,025,260</u>
Ending unrecognized balances, December 31,	<u>\$ 1,425,524</u>	<u>\$ 1,569,595</u>

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12. OTHER POSTEMPLOYMENT BENEFITS: (Continued)

Funded Status and Funding Progress:

During the years ended December 31, 2015 and 2014, the Company made no contributions to its postemployment benefits plan. The plan has no assets, and hence has a funded ratio of zero.

Future benefit payments expected to be paid in each of the next five years and in the aggregate for the following five years:

Years ending December 31,	
2016	\$ 65,442
2017	57,736
2018	61,430
2019	74,621
2020	83,001
2021-2025	<u>574,155</u>
	<u>\$ 916,385</u>

13. LEASES:

The Company is obligated under certain non-cancelable operating leases for office space that will expire in September 2023. The future minimum payments as of December 31, 2015 follow:

Years ending December 31,	
2016	\$ 473,452
2017	478,698
2018	483,943
2019	489,190
2020	494,436
2021-2023	<u>1,386,256</u>
	<u>\$ 3,805,975</u>

Rental expense for the years ended December 31, 2015 and 2014 was approximately \$515,126 and \$507,348, respectively.

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14. RECONCILIATION OF GAAP AND STATUTORY BASIS OF ACCOUNTING  
(UNAUDITED):

Accounting principles generally accepted in the United States of America (GAAP basis) differ in certain respects from the accounting practices prescribed or permitted by insurance regulatory authorities (statutory basis). A reconciliation between the change in net assets and the deficiency in net assets as reported under GAAP basis and statutory basis for the years ended December 31, 2015 and 2014 was as follows:

	<u>2015</u>	2014 (Restated)
Change in net position - GAAP basis	\$ 124,037,055	\$ 34,427,481
Adjustments to:		
Pension plan expense	(46,791)	(2,295,758)
Allowance for doubtful accounts	-	(18,897)
Other	(1,634)	97,335
Interest expense	(9,897,060)	-
Excess emergency assessments	(54,387,906)	(55,255,337)
Tax exempt surcharge	<u>(5,037,885)</u>	<u>(5,726,214)</u>
Net income (loss) - statutory basis	<u>\$ 54,665,779</u>	<u>\$ (28,771,390)</u>

	<u>2015</u>	2014 (Restated)
Total deficiency in net assets - GAAP basis	\$ (500,122,642)	\$ (624,159,697)
Adjustments to:		
Non-admitted assets	(7,279,974)	(14,482,561)
Deferral of loss on advanced refunding	(9,897,060)	-
Premiums receivable	-	(503,824)
Net pension asset	(513,796)	(582,130)
Other accrued liabilities	(1,146,510)	(1,031,384)
Excess emergency assessments	(76,234,581)	(150,551,674)
Allowance for doubtful accounts	660,623	1,159,597
Emergency assessments receivable	633,201,939	761,906,939
Provision for reinsurance receivable	<u>(14,768)</u>	<u>(19,310)</u>
Accumulated (deficit) surplus - statutory basis	<u>\$ 38,653,231</u>	<u>\$ (28,264,044)</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

15. COMMITMENTS AND CONTINGENCIES:

The Company is involved in certain litigation and disputes incidental to its operations. In the opinion of management, after consultation with legal counsel, there are substantial defenses to such litigation and disputes and any ultimate liability, in excess of reserves resulting there from, will not have a material adverse effect on the Company's financial condition or results of operations.

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

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

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

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

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

15. COMMITMENTS AND CONTINGENCIES: (Continued)

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

A summary of potentially significant litigation follows:

*Oubre v. Louisiana Citizens Property Insurance Corporation.* The plaintiffs in this suit allege that the Company failed to timely initiate loss adjustment as required by Louisiana statutory law exposing the Company to mandatory penalties in the amount of \$5,000 per claim. On July 23, 2012, the Company settled the majority of this class action suit with a payment of \$104 million to the plaintiff counsel for distribution to the current class members. The Company entered into a settlement with the class for the remaining Oubre claims. At December 31, 2015 and 2014, the Company had a reserve of \$47.1 and \$55.2 million for this case for resolution of the remaining claims which the Company believes is adequate. The reserve is included in loss and loss adjustment reserves on the accompanying statement of admitted assets, liabilities, surplus and other funds.

Various other lawsuits against the Company have arisen in the course of the Company's business, including approximately 663 first-party suits of which a majority are related to Hurricanes Katrina, Rita and Isaac. The Company believes it has established appropriate reserves for all lawsuits, in addition to class action claims described above. The Company has no assets that it considers to be impaired.

In addition to claims under the insurance policies it issues, the Company is potentially exposed to various risks of loss, including those related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As of the end of 2015 and 2014, the Company had insurance protection in place from various commercial insurance carriers covering various exposures, including workers' compensation, property loss, employee liability, general liability, and directors' and officers' liability. Management continuously revisits the limits of coverage and believes that current coverage is adequate. There were no significant reductions in insurance coverage from the previous year.

16. DEPOPULATION:

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

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
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DECEMBER 31, 2015 AND 2014

16. DEPOPULATION: (Continued)

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

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

Unearned premiums remitted to take-out companies pursuant to assumption agreements is reflected as a reduction in "Premiums earned" in the Statutory Statements of Income and totaled \$15,181,982 and \$13,615,931 for the years ended December 31, 2015 and 2014, respectively.

The Company provides administration services with respect to the assumed policies. All agreements provide for the take-out company to adjust losses. The take-out company pays a ceding commission to the Company to compensate for policy acquisition costs, which includes servicing company fees and agent commissions. While the Company is not liable to cover claims after the assumption, the Company continues to service policies for items such as policyholder endorsements or cancellation refunds. Should the Company process and provide a refund to policyholders, such amount is subsequently collected from the take-out company. At December 31, 2015 and 2014, there were no assumed premiums due from certain take-out companies.

17. SUBSEQUENT EVENTS:

In connection with the preparation of the financial statements, management of the Company evaluated subsequent events through May 25, 2016, which was the date the financial statements were available to be issued. During this period, the Company did not have any material recognizable subsequent events that required recognition in the disclosures to the December 31, 2015 financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
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18. RESTATEMENT:

The Company restated its historical financial statements for the year ended December 31, 2014. This restatement and resulting revisions related to the recording of a reinsurance receivable for which rights did not exist and an unrecorded liability related to the commutation of a reinsurance contract. The effect of the write-off of the reinsurance receivable was to decrease reinsurance receivable and decrease premiums earned by \$3,726,592 for the year ended December 31, 2014. The effect of the unrecorded liability to increase reinsurance premiums payable and decrease premiums earned by \$839,740. The cumulative effect of the correction of errors was to decrease the deficit for the year ended December 31, 2014 by \$4,566,332.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
 SUPPLEMENTARY INFORMATION  
 SUMMARY INVESTMENT INFORMATION  
DECEMBER 31, 2015

	<u>Gross investment holdings</u>		<u>Admitted assets as reported in the annual statement</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Equity interests:				
Investments in mutual funds	\$ 146,932,779	61.469%	\$ 146,932,779	61.469%
Cash, cash equivalents, short-term investments	<u>92,100,926</u>	<u>38.531%</u>	<u>92,100,926</u>	<u>38.531%</u>
Total invested assets	\$ <u><u>239,033,705</u></u>	<u><u>100.000%</u></u>	\$ <u><u>239,033,705</u></u>	<u><u>100.000%</u></u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
 SUPPLEMENTARY INFORMATION  
 SUPPLEMENTAL INVESTMENT RISK INTERROGATORIES  
DECEMBER 31, 2015

The following is a summary of certain statutory financial data included in the supplemental investment risk interrogatories.

1. Total admitted assets as reported on the statutory assessments of admitted assets, liabilities, surplus and other funds \$909,787,459
  
2. By investment category, the ten largest exposures to a single issuer/borrower/investment, excluding (i) U.S. government, U.S. government agency securities, and those U.S. government money market funds listed in the Appendix to the *SVO Purposes and Procedures Manual*, as exempt, (ii) property occupied by the Company, and (iii) policy loans.

<u>Issuer</u>	<u>Description of Exposure</u>	<u>Amount</u>	<u>Of Total Admitted Assets</u>
Fidelity Instl Cash PTF Treas II	CS – Money Market Mutual	\$95,937,069	10.5%
Regions Trust Cash Sweep	CS – Money Market Mutual	\$50,995,710	5.6%

Interrogatories 3 through 23 are not applicable to the Company.