JOHNSON LAMBERT LLP

Citizens Property Insurance Corporation

Financial Statements

December 31, 2013 and 2012

Citizens Property Insurance Corporation
Table of Contents
December 31, 2013 and 2012

Independent Auditor's Report

To the Board of Governors and Management
Citizens Property Insurance Corporation

Report on the Financial Statements
We have audited the accompanying statements of net position of Citizens Property Insurance Corporation ("Citizens"), a component unit of the State of Florida, as of December 31, 2013 and 2012, and the related statements of revenue, expenses and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 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 financial position of Citizens as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters, Management Discussion and Analysis and Supplemental Revenues, Expenses and Claim Development Information

Accounting principles generally applicable to Citizens require that the management's discussion and analysis on pages 3–9 and 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 operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Other Matters and Combining Supplemental Statements

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Company's basic financial statements. The supplemental combining statements of net position, of revenues, expenses and changes in net position, and schedule of supplemental revenues, expenses and claim development information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental statements referred to above are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 30, 2014 on our consideration of Citizens internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering and assessing the results of our audit.

Johnson Lambert LLP

Jacksonville, Florida
May 30, 2014

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 $7.3 billion.

- Citizens' total net position increased by $575.4 million. This increase is largely attributable to net income as further explained below.

- Operating income increased $26.7 million during 2013 compared to 2012. This increase is primarily the result of rate increases associated with the glide path, partially offset by reductions in net premiums earned as a result of premiums ceded to both takeout companies and to private reinsurers.

- Operating expenses decreased 24% during 2013 compared to 2012. This decrease is primarily due to a decrease in losses incurred for the current accident year.

- Non-operating revenues decreased 157% during 2013 compared to 2012 due largely to an overall decrease in net investment income.

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. 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.

Overview of Financial Statements (Continued)

The *statements of cash flows* present information concerning cash receipts and cash payments during the year. The statements illustrate the cash effects of operating, investing and financing transactions 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 can be found beginning on page 18 of this report.

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.

A summary of Citizens' Statements of Net Position is presented below *(in thousands)*:

	2013	2012	Change (%)
Assets			
Current assets	$ 3,533,983	$ 3,822,231	-8%
Capital assets	12,362	16,505	-25%
Other noncurrent assets	11,768,434	12,303,426	-4%
Total assets	$ 15,314,779	$ 16,142,162	-5%
Liabilities			
Current liabilities	$ 3,525,005	$ 4,321,886	-18%
Noncurrent liabilities	4,456,496	5,062,351	-12%
Total liabilities	7,981,501	9,384,237	-15%
Net position			
Invested in capital assets	12,362	16,505	-25%
Restricted	15,339	11,112	38%
Unrestricted	7,305,577	6,730,308	9%
Total net position	7,333,278	6,757,925	9%
Total liabilities and net position	$ 15,314,779	$ 16,142,162	-5%

Financial Analysis

Assets

Total assets decreased $827.4 million, or 5%, during 2013 primarily due to repayments of principal on the 2007A, 2010A, and 2012A series debt obligations and payments for losses and loss adjustment expenses (LAE), partially offset by collections of net premiums during 2013. Certain investments, representing less than 1% of total cash and invested assets, continue to be held in legacy assets for which Citizens continues to receive payments of principal and interest. During 2012, total assets increased $2.2 billion, or 16%, primarily due to the increase in cash and invested assets resulting from the $1.5 billion pre-event bond issuance along with a considerable increase in premiums collected, partially offset by repayments of principal on debt obligations and payments for losses and LAE.

Current assets include cash, cash equivalents, and short-term investments of $2.9 billion and $3.1 billion at December 31, 2013 and 2012, respectively. Long-term investments totaled $11.6 billion and $12.0 billion at December 31, 2013 and 2012, respectively. The decrease in invested assets of $574.4 million is the result of repayments of principle on debt obligations and payments for losses and LAE, partially offset by the collection of net premiums and the collection of emergency assessment funds. During 2012, invested assets increased 2.2 billion, or 17%, due to the $1.5 billion bond issuance, positive net cash flows from 2012 operations, and the collection of emergency assessment funds, partially offset by debt maturities and payments for losses and LAE.

Capital assets decreased $4.1 million, or 25%, during 2013. This decrease is primarily due to cyclical reduction in capital asset purchases as well as depreciation on capital assets purchased during prior years. During 2012, capital assets increased $7.7 million largely as a result of capital assets needed as part of Citizens' Core Project.

Liabilities

Total liabilities decreased $1.4 billion, or 15%, during 2013. This decrease is largely the result of decreases in long-term debt as well as decreases in loss reserves and unearned premiums. During 2012, total liabilities increased $1.5 billion, or 19%, largely due to increases in long-term debt, loss reserves, unearned premiums and reinsurance premiums payable.

Current liabilities are comprised primarily of loss reserves, loss adjustment expense (LAE) reserves, unearned premium, and the current portion of long-term debt. Loss and LAE reserves decreased $162.3 million, or 11%, from 2012 to 2013. Net loss and LAE reserves related to the 2004 and 2005 hurricanes were $68.2 million as of December 31, 2013 as compared to $88.1 million as of December 31, 2012. The decrease in 2013 is largely due to the settlement of outstanding hurricane claims. It is expected that these loss reserves will continue to run-off through 2014 and likely beyond.

Financial Analysis (Continued)

Liabilities (Continued)

Unpaid loss and LAE reserves not related to hurricanes decreased from $1.33 billion as of December 31, 2012 to $1.19 billion as of December 31, 2013. The decrease during 2013 is largely due to minimal development of sinkhole reserves from prior years along with a reduction in overall sinkhole claims.

Unearned premiums decreased $193 million, or 13% during 2013, primarily due to a decrease in premium written. During 2012 unearned premiums increased $51.1 million, or 4%, primarily due to an increase in premium written.

Reinsurance premiums payable decreased $48.6 million, or 26%. This decrease is the result of an overall reduction in the cost of the 2013 risk transfer program. During 2012, reinsurance premiums payable increased $133.9 million, or 240%. This increase was the result of an increase in the level of reinsurance coverage purchased during 2012.

Operating Revenue

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

	2013	2012	Change (%)
Operating revenue			
Premiums earned	$ 1,880,761	$ 2,248,095	-16%
Operating expenses			
Losses and loss adjustment expenses incurred	750,426	1,073,616	-30%
Other underwriting expenses	492,492	563,289	-13%
Total expenses	1,242,918	1,636,905	-24%
Operating income	637,843	611,190	4%
Non-operating (expenses) revenues	(63,449)	112,279	-157%
Change in net position	$ 574,394	$ 723,469	-21%
Policies in-force	1,021,694	1,314,811	-22%
Policies serviced	1,387,461	1,591,813	-13%
Underwriting ratios			
Loss and LAE ratio (calendar year)	40%	48%	-8%
Expense ratio	26%	25%	1%
Combined ratio	66%	73%	-7%

Financial Analysis (Continued)

Operating Revenue (Continued)

Direct written premiums decreased approximately $419.1 million, or 13%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012. This decrease is the result of a 22% decrease in policies in-force due to high depopulation during 2013, partially offset by the continued implementation of the glide path rate increase. Coverage reductions or removals implemented in mid-2012 have also contributed to an overall decrease in direct written premiums. Direct written premium increased 3% to $3.2 billion as of December 31, 2012 compared to $3.1 billion as of December 31, 2011. This increase was the result of the implementation of the glide path rate increase during 2012, partially offset by an 11% decrease in policies in-force. Net earned premiums decreased to $2.2 billion at December 31, 2012 as compared to $2.3 billion at December 31, 2011, a decrease of $3.6 million. This decrease was primarily due to an increase in ceded premiums.

Premiums ceded to the FHCF totaled $390.9 million and $475.2 million during 2013 and 2012, respectively, and are included in net earned premiums. The decrease in FHCF premium is attributed primarily to a decrease in overall FHCF eligible exposure.

Ceded premiums to private reinsurers decreased $53.0 million, or 16%, as of December 31, 2013. Citizens entered into catastrophe excess of loss reinsurance treaties with private reinsurers in both 2013 and 2012. The amount of risk transferred in 2012 was $1.5 billion as compared to the amount of risk transferred in 2013 of $1.9 billion, reflecting an overall decrease in the cost of reinsurance purchased during 2013. During 2012, ceded premiums to private reinsurers increased $220.4 million, or 194%. The amount of risk transferred in 2011 was $575 million as compared to the amount of risk transferred in 2012 of $1.5 billion. As such, the premium ceded was substantially larger for the 2012 hurricane season due to the level of reinsurance coverage purchased.

Ceded written premiums to takeout companies increased $125.5 million, or 48%, during 2013 compared to 2012, due to a heavy volume of take-out activity resulting from continued efforts to reduce Citizens' exposure. Ceded premiums to takeout companies as of December 31, 2012 increased $217.6 million, or 489%, compared to 2011. This increase was the direct result of an increase in the number of policies assumed from takeout companies, most notably with regards to assumption activity in November and December 2012.

Operating Expenses

Losses and LAE incurred decreased $323.2 million, or 30%, during 2013 compared to 2012. A reduction in the number of reported sinkhole claims, minimal development of prior year sinkhole reserves, and a relatively modest storm season all contributed to the reduction in losses and LAE incurred. Losses and LAE incurred decreased $281.2 million, or 21%, in 2012 as compared to 2011. This decrease was primarily due to a reduction in the number of sinkhole claims reported in 2012.

Financial Analysis (Continued)

Operating Expenses (Continued)

Other underwriting expenses decreased $70.8 million, or 13%, during 2013. Certain underwriting expenses such as agent commissions and premium taxes, are incurred as a percentage of direct written premium and will increase or decrease proportionately. During 2013, commissions and premium and other tax expenses consisted of 48% and 9% of other underwriting expenses, respectively. During 2012, commission and premium and other tax expenses consisted of 47% and 14% of other underwriting expenses, respectively.

Non-operating Income (Expenses)

Non-operating income (expenses) consist mainly of assessment income, net investment income, and interest expense. Non-operating income decreased $175.7 million, or 157% during 2013 compared to 2012. This decrease corresponds with a decrease in net investment income of $166.1 million, or 60%. The decrease in net investment income is mainly attributed to unrealized losses resulting from the difference between book value and market value of certain long-term bonds. Non-operating income increased $44.1 million, or 65% in 2012 as compared to 2011 which corresponds with the increase in net investment income of $77.4 million, or 39%. The 2012 increase in net investment income was mainly attributed to the increase in allocations to external investment managers and an increase in total asset portfolio.

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. Bank credit lines may also be a component of the pre-event liquidity program. Subsequent to year end 2007, management determined that its 2004, 2006, and 2007 auction rate securities were no longer an appropriate venue to provide liquidity given the increased interest rates required to be paid as a result of the industry-wide market turmoil of late 2007 and early 2008. These securities were redeemed in 2008. As described in Notes 7 and 10 Citizens issued fixed rate tax-exempt debt in 2012, 2011, 2010, 2009, and 2008 to fulfill its liquidity needs. Bank credit lines were secured in 2009 and 2008 to provide pre-event liquidity for those hurricane seasons.

Citizens' bond ratings are A2 / A+ / A+ from Moody's / Standard & Poor's / Fitch. Citizens' Short-Term ratings are MIG1 / SP-1+ / F1+ from Moody's / Standard & Poor's / Fitch. In 2012, Moody's, Standard & Poor's and Fitch have Stable outlooks on Citizens' credit ratings for all business lines. The ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; Standard & Poor's, 55 Water Street, New York,

Financial Analysis (Continued)

Economic Factors (Continued)

New York, 10041; and Fitch, Inc., One State Street Plaza, New York, NY 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant.

During 2013, 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 the Personal Lines Account, the Commercial Lines Account and the Coastal Account; depopulation tends to be most significant for the Personal Lines Account. During the last five years, policy counts removed from the PLA and Coastal Account were as follows:

	PLA	**Coastal Account**
2013	301,383	64,384
2012	252,968	24,034
2011	45,827	7,750
2010	57,561	2,231
2009	132,803	16,842

Takeout activity increased in 2013 as compared to 2012 largely due to the continued elimination of the ceding commission as well as the clearinghouse implementation that will launch during 2014. During the first quarter of 2012, Citizens removed the hold back of ceding commissions on assumptions effective the fourth quarter of 2011.

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.

Citizens Property Insurance Corporation
Statements of Net Position

	December 31, 2013	December 31, 2012
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 1,180,598	$ 1,282,987
Short-term investments	1,690,797	1,792,078
Restricted cash and cash equivalents	15,339	11,112
Deferred policy acquisition costs	113,371	144,181
Investment income due and accrued	81,873	88,286
Prepaid reinsurance premiums	201,275	215,563
Reinsurance recoverable on paid losses and LAE	2,351	(4,349)
Premiums receivable	147,567	178,231
Premiums receivable from assuming companies	27,133	18,407
Current portion of deferred financing costs	21,692	23,296
Current portion of assessment receivable	51,987	72,439
Total current assets	3,533,983	3,822,231
Noncurrent assets:		
Long-term investments	11,601,585	11,972,344
Capital assets	12,362	16,505
Deferred financing costs	45,740	67,432
Assessment receivable	113,194	254,089
Other assets	7,915	9,561
Total noncurrent assets	11,780,796	12,319,931
Total assets	$ 15,314,779	$ 16,142,162

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Net Position
(Continued)

	December 31, 2013	December 31, 2012
	(In Thousands)	
Liabilities and net position		
Current liabilities:		
Loss reserves	$ 951,703	$ 1,140,377
Loss adjustment expense reserves	303,444	278,678
Unearned premiums	1,295,266	1,488,209
Current portion of unearned assessment income	31,453	40,396
Reinsurance premiums payable	140,985	189,534
Advance premiums and suspended cash	70,440	85,824
Interest payable	25,846	31,772
Taxes and fees payable	3,143	5,989
Current portion of long-term debt	574,402	871,530
Other current liabilities	128,323	189,577
Total current liabilities	3,525,005	4,321,886
Noncurrent liabilities:		
Unearned assessment income	35,860	67,313
Long-term debt	4,420,636	4,995,038
Total noncurrent liabilities	4,456,496	5,062,351
Total liabilities	7,981,501	9,384,237
Net position:		
Invested in capital assets	12,362	16,505
Restricted	15,339	11,112
Unrestricted	7,305,577	6,730,308
Total net position	7,333,278	6,757,925
Total liabilities and net position	$ 15,314,779	$ 16,142,162

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Revenues, Expenses and Changes in Net Position

	Years Ended December 31, 2013	2012
	(In Thousands)	
Operating revenue:		
Premiums earned	$ 1,880,761	$ 2,248,095
Operating expenses:		
Losses incurred	502,376	815,507
Loss adjustment expenses incurred	248,050	258,109
Service company fees	9,401	10,566
Agent commissions	238,742	266,353
Taxes and fees	44,969	79,994
Processing and other fees	1,335	1,413
Other underwriting expenses	198,045	205,006
Takeout bonus income	-	(43)
	1,242,918	1,636,905
Operating income	637,843	611,190
Nonoperating revenues (expenses):		
Net investment income	112,333	278,446
Interest expense	(217,432)	(214,413)
Assessment income	56,442	48,880
Line of credit fees and note issuance costs	(6,575)	(7,464)
Other (expense) income	(8,217)	6,830
Total nonoperating revenues	(63,449)	112,279
Change in net position	574,394	723,469
Net position, beginning of year	6,757,925	6,034,792
Other changes in net position	959	(336)
Net position, end of year	$ 7,333,278	$ 6,757,925

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Cash Flows

	Years Ended December 31, 2013	2012
	(In Thousands)	
Cash flows from operating activities		
Premiums collected, net of reinsurance	$ 1,660,111	$ 2,088,776
Net losses and loss adjustment expenses paid	(921,033)	(1,001,131)
Payments for underwriting expenses	(457,560)	(412,018)
Net cash provided by operating activities	281,518	675,627
Cash flows from noncapital financing activities		
Debt issuance	-	1,500,000
Debt redemption	(871,530)	(317,500)
Interest paid	(250,385)	(125,620)
Assessment income received	177,393	154,773
Financing costs paid	-	8,388
Net cash (used in) provided by noncapital financing activities	(944,522)	1,220,041
Cash flows from capital and related financing activities		
Capital assets acquired	(2,290)	(12,156)
Net cash used in capital and related financing activities	(2,290)	(12,156)
Cash flows from investing activities		
Proceeds from investments sold, matured or repaid	16,953,908	8,933,048
Investments acquired	(16,386,776)	(11,110,039)
Change in restricted cash	(4,227)	614
Net cash provided by (used in) investing activities	562,905	(2,176,377)
Net decrease in cash and cash equivalents	(102,389)	(292,865)
Cash and cash equivalents:		
Beginning of year	1,282,987	1,575,852
End of year	$ 1,180,598	$ 1,282,987

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Cash Flows
(Continued)

	Years Ended December 31,	
	2013	2012
Reconciliation of operating income to net cash provided by operating activities:	*(In Thousands)*	
Operating income	$ 637,843	$ 611,190
Adjustments to reconcile net cash provided by operating activities:		
Depreciation expense	6,437	4,485
(Increase) decrease in operating assets:		
Deferred policy acquisition costs	30,810	766
Prepaid reinsurance premiums	14,288	(189,674)
Reinsurance recoverable	(6,700)	7,479
Premiums receivable	14,699	(14,746)
Other assets	1,643	6,107
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	(163,908)	72,485
Unearned premiums	(192,943)	51,089
Reinsurance premiums payable	(48,549)	133,850
Advance premiums and suspended cash	(15,384)	(13,467)
Taxes and fees payable	(2,846)	(488)
Other current liabilities	6,128	6,887
Other changes in net position	-	(336)
Net cash provided by operating activities	$ 281,518	$ 675,627

See accompanying notes to financial statements.

NOTE 1 – GENERAL

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. The original intent of the legislation was 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 Office of Insurance Regulation (the Office). 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. In 2007, the Act was amended to recognize Citizens' status as a governmental entity and to add affordability as an element of Citizens' statutory mission.

Citizens operates pursuant to a Plan of Operation (the Plan) 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.

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.

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.

NOTE 1 – GENERAL (CONTINUED)

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.

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. A brief history of each account follows:

Personal Lines Account History – The Florida Residential Property and Casualty Joint Underwriting Association (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 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 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 Commercial Lines Account.

NOTE 1 – GENERAL (CONTINUED)

***Coastal Account History* –** The Florida Windstorm Underwriting Association, which was a residual market mechanism for windstorm and hail coverage in select areas of the State, 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. 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.

NOTE 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 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. Citizens applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements, interpretations and codification, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Citizens' has also elected to apply all FASB statements and interpretations issued after November 30, 1989 except for those that conflict with or contradict GASB pronouncements.

GASB Statement No. 34 established standards for financial reporting for all state and local governmental entities, which includes a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows. It requires net assets to be classified and reported in three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – 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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

net position component as the unspent proceeds. As of December 31, 2013 and 2012, Citizens did not have any outstanding debt that was attributable to capital assets.

- Restricted net position – This component of net position includes assets subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net position – This component of net position consists of assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Use of Estimates

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

The financial statements of proprietary funds 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.

Cash, Cash Equivalents, and Investments

Cash consists of demand deposits held with financial institutions, various highly liquid money market funds, other short-term corporate obligations and agency discount notes. Highly liquid investments with original maturities of three months or less at the time of acquisition are considered to be cash.

Investments consist of fixed-income securities and amounts on deposit in the Florida State Board of Administration's Florida Prime (SBA Florida Prime), formerly known as the Florida State Board of Administration's Local Government Investment Pool. 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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, Cash Equivalents, and Investments (Continued)

marketplace. Changes in fair value are reflected as a component of net investment income. Citizens considers all investments with remaining maturities of one year or less to be short-term and all investments with remaining maturities of less than three months to be cash equivalents. Cash and short-term investments include amounts on deposit in excess of insured limits through the Federal Deposit Insurance Corporation. Management does not consider this to represent a significant credit risk to Citizens.

Deferred Policy Acquisition Costs

Costs that are directly related to the successful acquisition of new or renewal policies are deferred and recognized over the term of the related policy. Acquisition costs that are capitalized by Citizens consist of servicing carrier fees, producer commissions, premium taxes, and other underwriting expenses comprised largely of reinspection fees, geographical data services and ISO fees. Amortization of deferred policy acquisition costs recognized for the years ended December 31, 2013 and 2012 was $315.1 million and $388.2 million, respectively.

Capital Assets

Capital assets are stated at cost less related accumulated depreciation. The capitalization threshold for assets purchased is $2,500. Depreciation is computed using the straight-line method over the estimated useful lives of three to seven years. Depreciation expense for capital assets was $6.4 million and $4.5 million for the years ended December 31, 2013 and 2012, respectively.

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, using Citizens' loss experience and industry statistics. While the ultimate amount of losses and loss adjustment expenses 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 loss adjustment expense reserves.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 period are recorded as unearned premiums.

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 $2.1 million and $3.9 million at December 31, 2013 and 2012, respectively.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from premiums charged to policyholders. Operating expenses include incurred losses, loss adjustment expenses 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.

Assessments

Citizens' assessments made pursuant to the Act and the Plan are recognized as revenue and recorded as a receivable in the period approved by Citizens' Board and verified by the Office for mathematical accuracy. Assessment receivables are considered to be fully collectible. Unearned assessment income consists of the additional financing costs related to the HRA post-event bond issuance that is earned out over the period during which the bonds remain outstanding.

Reinsurance

Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums. Reinsurance recoverables on unpaid losses are recorded as a reduction to loss and LAE reserves in accordance with GASB. Reinsurance recoverables on paid losses are recorded as receivables. All catastrophe reinsurance payments are recorded as premiums ceded and are amortized over the life of the hurricane season for which the payments apply. Premiums ceded include both FHCF and private catastrophic reinsurance purchases and depopulation premiums.

Deferred Financing Costs

Note issuance costs incurred in connection with issuing notes payable are deferred and amortized over the life of the note agreements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Market Risk

Citizens underwrites residential and commercial property insurance policies in the State of Florida. Therefore, adverse economic changes or certain changes in the insurance laws of the State of Florida could have a significant impact on Citizens' future financial position and results of operations. Approximately 55.6% of Citizens' insurance coverage exposure lies in the Southeast Florida counties of Miami-Dade, Broward, Monroe and Palm Beach at December 31, 2013. Approximately 13.8% of Citizens' insurance coverage lies in Pinellas and Hillsborough counties at December 31, 2013. Severe storm activity in any of these counties, or throughout the State of Florida, could have a significant impact on Citizens' future financial position and results of operations. Unlike private insurers that are subject to liquidation in the event of insolvency, Citizens is able (and statutorily required) to levy surcharges and assessments in the event of a deficit in any or all of its accounts. See Note 16 for further information.

Concentration of Credit Risk

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. As of December 31, 2013, management believes Citizens had no significant concentrations of credit risk other than those disclosed in Note 4.

Subsequent Events

Citizens has evaluated subsequent events for disclosure and recognition through May 30, 2014, the date on which these financial statements were available to be issued.

NOTE 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:

NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2013, financial assets measured and reported at fair value are as follows *(in thousands)*. Citizens has no liability-based financial instruments.

Description	Total	Level 1	Level 2	Level 3
Financial Instruments - Assets				
U.S. Treasury	$ 1,532,328	$ 1,528,860	$ 3,468	-
All Other Government	23,754	-	23,754	-
States, Territories & Possessions	1,079,076	-	1,079,076	-
Political Subdivisions	1,014,183	-	1,014,183	-
Special Revenue	5,032,776	41,186	4,991,590	-
Industrial & Miscellaneous	4,226,423	1,600	4,224,823	-
Asset backed securities:				
Residential & Commercial Mortgage Backed	187,008	-	187,008	-
Industrial & Miscellaneous (Legacy)	196,835	-	196,835	-
Total	**$ 13,292,382**	**$ 1,571,646**	**$ 11,720,737**	**-**

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. During the current reporting period, no such transfers occurred.

Bonds carried at fair value categorized as Level 2 are valued using the market approach. The estimated fair values of some of these items were determined by independent pricing services and relevant market data observable inputs. Others were based on broker quotes from markets which were not considered actively traded. Some valuations were determined to be Level 2 valuations as quoted market prices for similar instruments in an active market were utilized. This was accomplished by the use of matrix pricing. Matrix pricing takes quoted prices of bonds with similar features and applies analytic methods to determine the fair value of bonds held.

NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

Features that are inputs into the analysis include duration, credit quality, tax status and call and sinking fund features.

NOTE 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 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.

- 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.

- 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.

- 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.

The Liquidity Fund taxable policy requires a minimum of half of all securities in its portfolio to be U.S. Government or U.S. Government Agency fixed income securities while the remaining half may be corporate fixed income securities rated Baa1/BBB+/BBB+ or better by Moody's, S&P or Fitch, respectively, at the time of purchase. The Claims Paying Fund taxable policy requires a minimum of 40% of all securities in its portfolio to be U.S. Government or U.S. Government Agency fixed income securities while the remaining 60% may be corporate fixed income securities rated Baa1/BBB+/BBB+ or better by Moody's, S&P and/or Fitch at the time of purchase. The Liquidity Fund and Claims Paying Fund tax-exempt policies require all securities be invested in tax exempt fixed income securities not subject to the federal alternative minimum tax rated A3/A-/A- equivalent or better by Moody's, S&P or Fitch, at the time of purchase. The investment policies provide that a significant portion of Citizens' assets should be in relatively short duration instruments and the majority of Citizens' assets should have a weighted duration consistent with the objectives of maximizing return without exposure to interest rate risk.

NOTE 4 – INVESTMENTS (CONTINUED)

Citizens may invest in fixed or variable rate instruments that have minimum ratings as specified in the investment policy by one of the Rating Agencies. Investments in the Liquidity Fund portfolios (taxable and tax-exempt) may have a maximum maturity of 39 months and the weighted average maturity cannot exceed 365 days. Investments in the Claims Paying Fund portfolios (taxable and tax-exempt) may have a maximum maturity of 61 months and the weighted average maturity cannot exceed 3 years 6 months. In accordance with Citizens' applicable taxable and tax-exempt investment policies the majority of Citizens' bond proceeds and operating cash are managed by independent investment management firms engaged by Citizens and in part by Citizens' staff. Permitted investments generally must be rated in one of the two or three highest rating categories of each of the Rating Agencies (Moody's, S&P or Fitch), depending on the type of investment.

Citizens' short-term investments include shares held in the SBA Florida Prime. The entire $9.4 million (cost basis) invested in the SBA Florida Prime at December 31, 2013 is invested in Fund B, which has been frozen from investor withdrawals due to that portfolio's investment in distressed illiquid assets. As principal and interest payments are received, Citizens' allocable portion is eligible for withdrawal and such withdrawals have been consistently made. Fund B is accounted for as a fluctuating net asset value pool, which had a market value factor at December 31, 2013 of 1.21063. Fund B is not rated by any nationally recognized statistical rating agency. Citizens withdrew $22.7 million and $8.8 million, during 2013 and 2012, respectively. Full realization of the principal value of Pool B assets is not readily determinable.

Citizens investment policy for bond proceeds is at least or more restrictive than the bond documents require.

- ***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, 2013. (See discussion of rating agencies in "Economic Factors" under "Management's Discussion & Analysis").

NOTE 4 – INVESTMENTS (CONTINUED)

Rating	Fair Value (in thousands)
Aaa	$ 4,844,880
Aa1	1,401,770
Aa2	1,771,877
Aa3	1,208,437
A1	1,660,647
A2	1,203,399
A3	725,638
Baa1	125,739
Baa2	48,743
MIG1	25,981
NR	31,726
P-1	46,710
Default	196,835
	$ 13,292,382

- ***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, 2013 and 2012, 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 insurers 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.

- ***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 365 days and 3.5 years, respectively. This policy takes interest rate reset dates, primarily related to tax-exempt variable rate demand notes and floating rate notes, into consideration.

NOTE 4 – INVESTMENTS (CONTINUED)

The table that follows reflects the weighted average maturity, without consideration of resets, by security type at year-end *(in thousands)*. By not considering interest rate reset dates, the weighted average maturity below appears longer in duration than it would if reset dates had been considered.

December 31, 2013	Amortized Cost	Fair Value	Weighted Average Maturity (Days)
U.S. Treasury & Agency	$ 1,536,436	$ 1,532,329	843
All Other Government	23,775	23,775	829
States, Territories & Possessions	1,070,691	1,079,076	911
Political Subdivisions	1,006,772	1,014,183	950
Special Revenue	5,016,339	5,032,776	1,354
Industrial & Miscellaneous	4,348,966	4,423,236	1,352
Mortgage-backed Securities	186,181	187,007	1,120
Total	$ 13,189,160	$ 13,292,382	1,223

December 31, 2012	Amortized Cost	Fair Value	Weighted Average Maturity (Days)
U.S. Treasury & Agency	$ 1,169,186	$ 1,172,565	765
All Other Government	27,488	27,672	752
States, Territories & Possessions	1,158,305	1,171,064	1,049
Political Subdivisions	1,197,715	1,208,278	1,166
Special Revenue	6,106,770	6,144,020	1,498
Industrial & Miscellaneous	3,827,038	3,933,407	955
Loan-Backed and		-	
Structured Securities:	-	-	
Mortgage-backed Securities	104,962	106,626	1,326
Other Loan-backed Securities	800	790	694
Total	$ 13,592,264	$ 13,764,422	1,210

No other types of investments or securities were held during the year that were sold before year-end.

NOTE 4 – INVESTMENTS (CONTINUED)

- ***Foreign Currency Risk –*** Citizens had no investments with foreign currency risk at December 31, 2013 and 2012, respectively. All investments are settled in U.S. dollars.

Sources and uses of investment income for the years ended December 31, 2013 and 2012 were as follows *(in thousands)*:

	2013	2012
Income earned		
U.S. Government bonds	$ 6,125	$ 5,166
Bonds exempt from U.S. Tax	56,622	54,181
Other bonds	69,551	71,949
Cash, cash equivalents and short-term investments	2,809	4,967
Total gross investment income earned	135,107	136,263
Capital gains		
U.S. Government Bonds	677	3,578
Bonds exempt from U.S. Tax	12,024	7,064
Other bonds	19,814	26,284
Cash, cash equivalents and short-term investments	20,313	24,367
Total realized gain on sales	52,828	61,293
Market value adjustment	(68,934)	87,268
Investment expenses	(6,668)	(6,378)
Net investment income	$ 112,333	$ 278,446

NOTE 5 – CAPITAL ASSETS

A summary of changes in capital assets and depreciation for the year ended December 31, 2013 follows *(in thousands)*:

	Beginning Balance	Additions	Reductions/ Adjustments	Ending Balance
Leasehold improvements	$ 7,941	$ 14	$ -	$ 7,955
Furniture and equipment	48,236	1,988	(1)	50,223
Other capital assets	33,027	296	(34)	33,289
Totals at historical cost	89,204	2,298	(35)	91,467
Less accumulated depreciation for:				
Leasehold improvements	(4,724)	(759)	-	(5,483)
Furniture and equipment	(36,166)	(5,133)	-	(41,299)
Other capital assets	(31,809)	(544)	30	(32,323)
	(72,699)	(6,436)	30	(79,105)
	$ 16,505	$ (4,138)	$ (5)	$ 12,362

A summary of changes in capital assets and depreciation for the year ended December 31, 2012 follows *(in thousands)*:

	Beginning Balance	Additions	Reductions/ Adjustments	Ending Balance
Leasehold improvements	$ 7,843	$ 98	$ -	$ 7,941
Furniture and equipment	37,532	10,706	(2)	48,236
Other capital assets	31,675	1,352	-	33,027
Totals at historical cost	77,050	12,156	(2)	89,204
Less accumulated depreciation for:				
Leasehold improvements	(3,969)	(755)	-	(4,724)
Furniture and equipment	(32,994)	(3,174)	2	(36,166)
Other capital assets	(31,253)	(556)	-	(31,809)
	(68,216)	(4,485)	2	(72,699)
	$ 8,834	$ 7,671	$ -	$ 16,505

NOTE 6 – LIABILITY FOR LOSS RESERVES AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the net liability for loss reserves and loss adjustment expense reserves for the years ended December 31, 2013 and 2012 were as follows *(in thousands)*:

	2013	2012
Direct loss and loss adjustment expense reserves, beginning of year	$ 1,434,337	$ 1,372,647
Less reinsurance recoverables on reserves	(15,282)	(26,076)
Net loss and loss adjustment expense reserves, beginning of year	1,419,055	1,346,571
Incurred related to:		
Current accident year	684,549	1,049,646
Prior accident years	65,877	23,970
	750,426	1,073,616
Paid related to:		
Current accident year	352,354	516,059
Prior accident years	560,353	485,073
	912,707	1,001,132
Retroactive reinsurance reserves ceded	(1,627)	-
Net loss and loss adjustment expense reserves, end of year	1,255,147	1,419,055
Add reinsurance recoverables on reserves	12,155	15,282
Direct loss and loss adjustment expense reserves, end of year	$ 1,267,302	$ 1,434,337

As a result of changes in estimates of insured events in prior years, primarily due to the re-estimation of costs relating to prior year litigated sinkhole claims, the provision for loss and LAE increased by approximately $65.9 million and $24.0 million, net of reinsurance, in 2013 and 2012, respectively. Increases or decreases of this nature occur as a result of claim settlements during the current year, and as additional information is received regarding individual claims, causing changes from the original estimates of the cost of these claims.

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 per-day rate or on a graduated fee schedule based on the gross claim amount. Such costs are included as loss adjustment expenses.

NOTE 7 – 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 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 considered as 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.

The effect of reinsurance on premiums written and earned is as follows *(in thousands)*:

	2013		2012	
	Written	Earned	Written	Earned
Direct premiums	$2,761,638	$2,954,580	$3,180,755	$3,129,666
Ceded premiums	(1,059,530)	(1,073,819)	(1,071,246)	(881,571)
Net premiums	$1,702,108	$1,880,761	$2,109,509	$2,248,095

Coverage and retention amounts, by layer of coverage, were as follows *(rounded, in thousands)*:

	December 31, 2013			
	Coastal Account		**PLA/CLA**	
	Coverage	**Retention**	**Coverage**	**Retention**
Layer 1 (FHCF)	$ 3,029,000	$ 1,229,000	$ 2,196,000	$ 891,000
Layer 2	604,000	1,351,000	N/A	N/A
Layer 3	250,000	5,139,000	N/A	N/A
Layer 4	1,000,000	5,445,000	N/A	N/A
	$ 4,883,000		$ 2,196,000	

	December 31, 2012			
	Coastal Account		**PLA/CLA**	
	Coverage	**Retention**	**Coverage**	**Retention**
Layer 1 (FHCF)	$ 3,619,000	$ 1,510,000	$ 2,941,000	$ 1,227,000
Layer 2	1,000,000	6,350,000	N/A	N/A
Layer 3	500,000	7,350,000	N/A	N/A
	$ 5,119,000		$ 2,941,000	

NOTE 7 – REINSURANCE AGREEMENTS (CONTINUED)

Ceded premiums include premiums ceded to companies that assume policies pursuant to a depopulation program (See Note 12), as well as premium ceded under 100% private quota share arrangements.

Ceded loss and LAE incurred were $2.3 million and ($12.3) million during 2013 and 2012, respectively.

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 Citizens' coverage lines. Actual amounts recoverable will depend on the ultimate settlement of losses and loss adjustment expenses. 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.

NOTE 8 – LONG-TERM DEBT

Series 2007A Senior Secured Refunding Bonds – On February 26, 2007 Citizens issued $1.06 billion of tax exempt post event High-Risk Account Senior Secured Refunding Bonds, Series 2007A for the purpose of financing the current refunding and redemption of the outstanding 7.125% Series 1999A Senior Secured Insured Notes due 2019 previously issued by the Florida Windstorm Underwriting Association ("FWUA"), a predecessor of Citizens. In order to refund these notes Citizens paid a make whole call premium at the time of refunding, amounting to $181.1 million that was calculated on the current yield of a twelve year treasury note plus 30 basis points. The 2007A bonds bear interest ranging from 3.75% to 5.00% per annum, payable semi-annually on March 1st and September 1st. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The principal reduction on theses notes was $111.5 million and $106.1 million during 2013 and 2012, respectively. Outstanding maturities net of unamortized premiums were $513.6 million and $629.8 million, respectively, as of December 31, 2013 and 2012. The effective interest rate, calculated as the "All-in True Interest Cost", was 4.11%.

Series 2009 Senior Secured Bonds – On May 7, 2009 Citizens issued $1.02 billion of High-Risk Account tax-exempt Senior Secured Bonds, Series 2009A-1 and $625 million of High-Risk Account tax-exempt Senior Secured Bonds, Series 2009A-2 (short-term notes) for the purpose of funding losses in the event of a future catastrophe. The Series 2009A-1 bonds bear interest ranging from 4.00% to 6.00% per annum, payable semi-annually on June 1st and December 1st. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The principal reduction on theses notes was $0 and $106.4 million during 2013 and 2012, respectively. Outstanding maturities net of unamortized

NOTE 8 – LONG-TERM DEBT (CONTINUED)

premiums were $917.7 million and $919.4 million, respectively, as of December 31, 2013 and 2012. The effective interest rate, calculated as the "All-in True Interest Cost", was 5.40%.

Series 2010 Senior Secured Bonds – On April 6, 2010 Citizens issued $1.55 billion of High-Risk Account tax-exempt senior secured bonds, Series 2010A-1, $500 million of High-Risk Account tax-exempt senior secured bonds, Series 2010A-2 (short-term notes) and $350 million of High-Risk Account tax-exempt senior secured bonds, Series 2010A-3 (SIFMA floating rate notes) for the purpose of funding losses in the event of a future catastrophe. The Series 2010A-1 bonds bear interest ranging from 3.00% to 5.00% per annum, payable semi-annually on June 1st and December 1st. The Series 2010A-3 bonds have a variable interest rate (SIFMA rate plus 1.75%) per annum, payable monthly in arrears on the first day of each calendar month. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The principal reduction on these notes was $560 million and $0 during 2013 and 2012. Outstanding maturities net of unamortized premiums were $1.36 billion and $1.94 billion as of December 31, 2013 and 2012. The effective interest rate, calculated as the "All-in True Interest Cost", was 3.75%.

Series 2011 Senior Secured Bonds – On July 14, 2011 Citizens issued $645 million of Coastal Account tax-exempt senior secured bonds, Series 2011A-1, $105 million of High-Risk Account tax-exempt senior secured bonds, Series 2011A-2 (short-term notes) and $150 million of High-Risk Account tax-exempt senior secured bonds, Series 2011A-3 (SIFMA floating rate notes) for the purpose of funding losses in the event of a future catastrophe. The Series 2011A-1 bonds bear interest ranging from 3.00% to 5.00% per annum, payable semi-annually on June 1st and December 1st. The Series 2011A-3 bonds have a variable interest rate (SIFMA rate plus 1.76%) per annum, payable monthly in arrears on the first day of each calendar month. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The principal reduction on these notes was $0 and $105 million during 2013 and 2012. Outstanding maturities net of unamortized premiums were $809.1 million and $813.1 million as of December 31, 2013 and 2012. The effective interest rate, calculated as the "All-in True Interest Cost", was 4.13%.

Series 2012 Senior Secured Bonds – On June 21, 2012 Citizens issued $1.10 billion of PLA-CLA tax-exempt senior secured bonds, Series 2012A-1, $200 million of PLA-CLA tax-exempt senior secured bonds, Series 2012A-2 (short-term notes) and $200 million of PLA-CLA tax-exempt senior secured bonds, Series 2012A-3 (SIFMA floating rate notes) for the purpose of funding policyholder claims obligations in the event of a future catastrophe. The Series 2012A-1 bonds bear interest ranging from 3.00% to 5.00% per annum, payable on December 1, 2012 and semi-annually on June 1st and December 1st thereafter. The Series 2012A-2 bonds bear interest of 2.50% per annum, payable at their maturity on June 1, 2013. The Series 2012A-3 bonds bear interest based on the SIFMA rate (initially 0.16%) plus 1.25% per annum, payable monthly in arrears on the first day of each calendar month commencing August 1, 2012. The bonds are secured by pledged revenues which consist of monies and investments held in accounts

NOTE 8 – LONG-TERM DEBT (CONTINUED)

established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The principal reduction on these notes was $200 million and $0 during 2013 and 2012. Outstanding maturities net of unamortized premiums were $1.39 billion and $1.61 billion as of December 31, 2013 and 2012. The effective interest rate, calculated as the "All-in True Interest Cost", was 3.10%.

A schedule of bond maturities is as follows *(in thousands)*:

Years ending December 31	Series 2007 Bonds	Series 2009 Bonds	Series 2010 Bonds	Series 2011 Bonds	Series 2012 Bonds	Total
2014	$ 117,220	$ 168,055	$ 100,000	$ 150,000	$ -	$ 535,275
2015	123,225	-	410,000	80,000	275,000	888,225
2016	129,540	403,085	305,000	90,000	125,000	1,052,625
2017	136,165	343,500	525,000	-	130,000	1,134,665
2018	-	-	-	125,000	130,000	255,000
After	-	-	-	350,000	640,000	990,000
	$ 506,150	**$ 914,640**	**$ 1,340,000**	**$ 795,000**	**$ 1,300,000**	**$ 4,855,790**

A schedule of debt service requirements, including principal and interest, is as follows *(in thousands)*:

Years ending December 31	Principal	Interest	Total
2014	$ 535,275	$ 220,436	$ 755,711
2015	888,225	189,633	1,077,858
2016	1,052,625	141,663	1,194,288
2017	1,134,665	84,491	1,219,156
2018	255,000	54,483	309,483
After	990,000	$ 76,902	1,066,902
	$ 4,855,790	**$ 767,607**	**$ 5,623,397**

Total deferred issuance costs related to all notes was $67.4 million and $90.7 million at December 31, 2013 and 2012. Total bond premium related to all notes was $139.3 million and $183.0 million at December 31, 2013 and 2012 and is included in long-term debt balance.

NOTE 8 – LONG-TERM DEBT (CONTINUED)

A summary of changes in long-term liabilities for the year ended December 31, 2013 follows *(in thousands)*:

	December 31, 2012	Additions	Reductions	December 31, 2013	Due within one year
Bonds payable - face	$ 5,727,320	$ -	$ (871,530)	$ 4,855,790	$ 535,275
Premium, net	182,996	-	(43,748)	139,248	39,127
Bonds payable	$ 5,910,316	$ -	$ (915,278)	$ 4,995,038	$ 574,402

Sources and uses of investment expense for the years ended December 31, were as follows *(in thousands)*:

	2013	2012
Interest expense		
2007A Bond Series	$ (21,494)	$ (25,889)
2009A Bond Series	(49,827)	(51,832)
2010A Bond Series	(59,832)	(67,817)
2011A Bond Series	(30,184)	(30,723)
2012A Bond Series	(39,374)	(21,431)
Change in deferral - loss on refunding of 1999 bonds	(16,721)	(16,721)
Total interest expense	$ (217,432)	$ (214,413)

NOTE 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 $238.7 million and $266.4 million during 2013 and 2012, respectively.

Additionally, Citizens renewed 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 $50.00, depending on the complexity and volume of each transaction. Servicing company fees included in other underwriting expenses incurred were $9.4 million and $10.6 million, during 2013 and 2012, respectively.

NOTE 10 – 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 2013 or 2012.

NOTE 11 – RETIREMENT PLAN

Deferred Compensation 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 $3.8 million and $3.4 million for the years ended December 31, 2013 and 2012, respectively.

NOTE 12 – 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 (Assumption Agreement). In an assumption, the 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 2013 and 2012, Citizens ceded $387.6 million and $262.1 million in premiums to Takeout Companies pursuant to Assumption Agreements.

Citizens provides policy administration services with respect to the assumed policies. All agreements provide for the Takeout Company to adjust losses. The Takeout Company pays a ceding commission to Citizens to compensate Citizens for policy acquisition costs, which includes servicing company fees, agent commissions, and premium taxes. However, during

NOTE 12 – DEPOPULATION (CONTINUED)

February 2012, Citizens Board of Governors eliminated the ceding commission for all assumption agreements effective after October 1, 2011. 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, 2013 and 2012, assumed premiums recoverable in the amount of $27.1 million and $18.4 million, respectively, were due from certain Takeout Companies.

NOTE 13 – OPERATING LEASES

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to $8.5 million and $7.0 million for the years ended December 31, 2013 and 2012, 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 *(in thousands)*:

2014	$ 5,324
2015	3,452
2016	1,456
2017	913
Total	**$ 11,145**

NOTE 14 – 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.

A summary of potentially significant litigation follows:

Schirmer v. Citizens. This case was presented as a putative class action where the potential class members are Citizens' policyholders who made wind damage claims. At issue is whether

NOTE 14 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Citizens appropriately calculated and paid overhead and profit policy benefits. On February 15, 2012, the trial court declined to certify a class in this matter. While the 30 day timeframe for the Plaintiff to pursue an interlocutory appeal of the court's decision has passed, the underlying claim of the named Plaintiff is pending. Should the Plaintiff choose to litigate his remaining claim, he could seek appellate review at the conclusion of the matter in its entirety.

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 v. Perdido Sun. Citizens is currently involved in a case before the Florida Supreme Court, Citizens v. Perdido Sun Condominium, which raises the issue of whether Citizens has immunity against a cause of action asserting statutory bad faith pursuant to Section 624.155 Florida Statute. An appellate court in Florida recently ruled that a statutory bad faith claim can be brought against Citizens. In 2010, another Florida appellate court had concluded that Citizens has immunity from such claims. The Florida Supreme Court has accepted jurisdiction of the Citizens v. Perdido Sun case to resolve this conflict among the lower Florida appellate courts. A decision which rules that Citizens was subject to bad faith claims could have a material adverse impact on Citizens.

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. As of the end of 2013, Citizens 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 reviews the limits of coverage and believes that current coverage is adequate. There were no significant reductions in insurance coverage from the previous year.

NOTE 15 – RECONCILIATION OF SAP TO GAAP

Reconciliation of Citizens' 2013 and 2012 statutory basis net income and accumulated surplus to its GAAP basis (as determined by the Governmental Accounting Standards Board) net assets is as follows *(in thousands)*:

	2013	2012
Net income - statutory basis	$ 665,346	$ 664,816
Adjustments:		
Deferred policy acquisition costs	(30,810)	(766)
Line of credit fees and note issuance costs	(23,295)	(15,852)
Allowance for doubtful accounts	1,814	(1,456)
Unearned assessment income	14,230	17,218
FIGA assessment income	16,046	(27,759)
Net unrealized (loss) gain on investments	(68,937)	87,268
Change in net assets - GAAP basis	$ 574,394	$ 723,469

	2013	2012
Accumulated surplus - statutory basis	$ 7,008,208	$ 6,295,157
Adjustments:		
Deferred policy acquisition costs	113,371	144,181
Nonadmitted assets	74,590	104,071
Provision for reinsurance	1,881	2,047
Deferred note issuance costs	67,432	90,728
Unearned assessment income	(23,712)	(22,658)
FIGA assessment recoverable	(11,714)	(27,759)
Net unrealized gain on investments	103,222	172,158
Change in net assets - GAAP basis	$ 7,333,278	$ 6,757,925

NOTE 16 – 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 accordingly levied separately, for each of the three accounts. The Plan provides for deficits to be determined in accordance with GAAP, 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

NOTE 16 – ASSESSMENTS (CONTINUED)

premium. If the Citizens Policyholder Surcharge is insufficient to eliminate the deficit in an Account, Citizens would then levy a Regular Assessment on Assessable Insurers and Assessable Insureds, each as defined herein. The Regular Assessment is applied as a uniform percentage of the premium of the policy up to 2% of such premium of the Coastal account only. Effective July 1, 2012, the Regular Assessment was eliminated for the PLA and CLA accounts and was reduced from 6% to 2% for the Coastal Account.

Regular Assessments are levied on Assessable Insurers, as defined in Section 627.351(6), Florida Statutes, 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. Regular Assessments on Assessable Insureds, collectively, are based on the ratio of the amount being assessed for the Coastal Account to the aggregate statewide direct written premiums for the subject lines of business for the preceding year.

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.

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. The Regular Assessment base excludes Citizens policies (while the Emergency Assessment base includes Citizens policies). Prior to the enactment of the 2007 Legislation, the Regular Assessment base for each Account included only property lines of business.

The Legislature, in Section 44 of 2006 SB 1980, appropriated $715 million to reduce Citizens' 2005 plan year deficit. The appropriation first eliminated the deficits in the Personal and Commercial Lines Accounts of $87.2 million and $4.6 million, respectively. The balance of $623.2 million then partially reduced the High Risk Account deficit and Regular Assessment. The remaining $163.1 million High Risk Account Regular Assessment and the $887.5 million Emergency Assessment were approved in 2006. The Emergency Assessment is being collected over a ten year period, which commenced July 1, 2007.

In November 2012, Citizens received a notice of assessment from the Florida Insurance Guaranty Association (FIGA) amounting to $27.8 million. In December 2012, Citizens remitted payment for this assessment and submitted an informational filing with the Office of Insurance Regulation for recoupment.

NOTE 17 - RESTRICTED CASH

This restriction of cash 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 this cash 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.

Citizens Property Insurance Corporation
Supplemental Combining Statement of Net Position

	December 31, 2013			
	Combined	Personal Lines Account	Commercial Lines Account	Coastal Account
		(In Thousands)		
Assets				
Current assets:				
Cash and cash equivalents	$ 1,180,598	$ 265,267	$ 232,570	$ 682,761
Short-term investments	1,690,797	346,344	69,222	1,275,231
Restricted cash and cash equivalents	15,339	-	-	15,339
Deferred policy acquisition costs	113,371	48,694	11,562	53,115
Investment income due and accrued	81,873	24,209	6,314	51,350
Prepaid reinsurance premiums	201,275	159,176	-	42,099
Reinsurance recoverable on paid losses and LAE	2,351	2,108	-	243
Premiums receivable	147,567	65,941	4,989	76,637
Premiums receivable from assuming companies	27,133	21,164	-	5,969
Current portion of deferred financing costs	21,692	1,237	148	20,307
Current portion of assessment receivables	51,987	81	4,540	47,366
Total current assets	3,533,983	934,221	329,345	2,270,417
Noncurrent assets:				
Long-term investments	11,601,585	4,407,702	1,565,106	5,628,777
Capital assets	12,362	12,362	-	-
Deferred financing costs	45,740	3,330	376	42,034
Assessment receivables	113,194	-	-	113,194
Other assets	7,915	7,905	-	10
Inter-account receivable (payable)	-	55,069	(26,898)	(28,171)
Total noncurrent assets	11,780,796	4,486,368	1,538,584	5,755,844
Total assets	$ 15,314,779	$ 5,420,589	$ 1,867,929	$ 8,026,261
Liabilities and net assets				
Current liabilities:				
Net loss reserves	$ 951,703	$ 723,809	$ 106,237	$ 121,657
Net loss adjustment expense reserves	303,444	225,939	29,650	47,855
Unearned premiums	1,295,266	664,285	89,146	541,835
Current portion of unearned assessment income	31,453	-	-	31,453
Reinsurance premiums payable	140,985	-	-	140,985
Advance premiums and suspended cash	70,440	30,864	6,272	33,304
Interest payable	25,846	4,294	493	21,059
Taxes and fees payable	3,143	2,711	586	(154)
Current portion of long-term debt	574,402	17,057	2,039	555,306
Other current liabilities	128,323	94,847	4,073	29,403
Total current liabilities	3,525,005	1,763,806	238,496	1,522,703
Noncurrent liabilities:				
Unearned assessment income	35,860	-	-	35,860
Long-term debt	4,420,636	1,231,157	141,290	3,048,189
Total noncurrent liabilities	4,456,496	1,231,157	141,290	3,084,049
Total liabilities	7,981,501	2,994,963	379,786	4,606,752
Net position:				
Invested in capital assets	12,362	12,362	-	-
Restricted	15,339	-	-	15,339
Unrestricted	7,305,577	2,413,264	1,488,143	3,404,170
Total net positions	7,333,278	2,425,626	1,488,143	3,419,509
Total liabilities and net position	$ 15,314,779	$ 5,420,589	$ 1,867,929	$ 8,026,261

Citizens Property Insurance Corporation
Supplemental Combining Statement of Revenues, Expenses and Changes in Net Position

	Year Ended December 31, 2013			
	Combined	Personal Lines Account	Commercial Lines Account	Coastal Account
		(In Thousands)		
Operating revenue:				
Premiums earned	$ 1,880,761	$ 1,142,449	$ 162,457	$ 575,855
Operating expenses:				
Losses incurred	502,376	414,386	14,892	73,098
Loss adjustment expenses incurred	248,050	187,182	8,988	51,880
Service company fees	9,401	6,502	-	2,899
Agent commissions	238,742	114,135	21,979	102,628
Taxes and fees	44,969	25,048	3,243	16,678
Processing and other fees	1,335	-	1,055	280
Other underwriting expenses	198,045	114,222	9,750	74,073
Total operating expenses	1,242,918	861,475	59,907	321,536
Operating income	637,843	280,974	102,550	254,319
Nonoperating revenues (expenses):				
Net investment income	112,333	31,383	7,706	73,244
Interest expense	(217,432)	(35,318)	(4,055)	(178,059)
Assessment income	56,442	7,871	1,389	47,182
Line of credit fees and note issuance costs	(6,575)	(1,635)	(217)	(4,723)
Other income	(8,217)	(7,674)	(45)	(498)
Total nonoperating revenues (expenses)	(63,449)	(5,373)	4,778	(62,854)
Change in net position	574,394	275,601	107,328	191,465
Net position, beginning of year	6,757,925	2,150,026	1,380,814	3,227,085
Other changes in net position	959	-	-	959
Net position, end of year	$ 7,333,278	$ 2,425,627	$ 1,488,142	$ 3,419,509

See independent auditors report on supplementary information

Citizens Property Insurance Corporation
Supplemental Revenues, Expenses and Claim Development Information
(in Thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net earned premiums and investment revenue	$ 1,129,092	$ 1,143,973	$ 2,289,760	$ 3,417,277	$ 2,268,368	$ 1,822,227	$ 2,088,293	$ 2,452,744	$ 2,526,541	$ 1,993,094
Unallocated expenses	191,333	227,795	321,522	569,661	442,570	342,840	293,047	366,109	507,579	444,267
Estimated incurred claims and expense, end of policy year	2,721,512	2,138,004	339,770	692,583	839,708	674,431	786,223	1,236,012	1,049,647	684,549
Paid (cumulative) as of:										
End of policy year	1,145,602	1,005,020	157,640	353,312	413,175	307,072	330,603	501,310	516,059	352,354
One year later	2,952,024	2,114,174	291,045	555,540	622,104	472,476	553,965	799,332	785,930	
Two years later	3,234,575	2,227,283	326,997	625,868	675,168	532,779	643,424	965,456		
Three years later	3,377,401	2,286,765	341,906	661,758	698,220	553,356	702,357			
Four years later	3,459,449	2,328,746	350,721	677,041	709,550	566,641				
Five years later	3,515,881	2,350,722	355,658	683,229	732,381					
Six years later	3,548,759	2,373,190	357,534	688,043						
Seven years later	3,562,464	2,426,212	358,381							
Eight years later	3,566,951	2,446,868								
Nine years later	3,569,943									
Reestimated incurred claims and expense:										
End of policy year	2,721,512	2,138,004	339,770	692,583	839,708	674,431	786,223	1,236,012	1,049,647	684,549
One year later	3,285,721	2,205,877	354,194	678,130	753,244	651,058	876,415	1,237,713	1,068,384	
Two years later	3,539,287	2,374,726	359,950	693,332	750,380	624,955	886,308	1,259,076		
Three years later	3,546,902	2,406,456	358,122	697,792	738,966	622,057	893,876			
Four years later	3,615,254	2,413,674	360,230	701,651	738,733	622,963				
Five years later	3,588,748	2,406,633	360,996	700,302	747,942					
Six years later	3,593,577	2,476,606	360,694	702,670						
Seven years later	3,584,632	2,494,017	361,555							
Eight years later	3,585,054	2,497,925								
Nine years later	3,586,011									
Increase (decrease) in estimated incurred claims and expense from end of policy year	957	3,908	861	2,368	9,209	906	7,568	21,363	18,737	–

See independent auditors report on supplementary information

JOHNSON LAMBERT LLP

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 Board of Governors
Citizens Property Insurance Corporation

We have audited the basic financial statements of Citizens Property Insurance Corporation (Citizens), a component unit of the State of Florida, as of and for the year ended December 31, 2013 and have issued our report thereon dated May 30, 2014. We conducted our audit in accordance with auditing standards generally accepted in the and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the .

Internal Control over Financial Reporting

Management of Citizens Property Insurance Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Citizens Property Insurance Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Citizens Property Insurance Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Citizens Property Insurance Corporation's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Governors, others within the entity, and Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Johnson Lambert LLP

Jacksonville, Florida
May 30, 2014