JOHNSON LAMBERT & CO. LLP
CPAs AND CONSULTANTS

Citizens Property Insurance Corporation

Financial Statements

December 31, 2010 and 2009

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December 31, 2010 and 2009

Independent Auditors' Report

The Board of Governors and Management
Citizens Property Insurance Corporation

We have audited the accompanying 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, 2010, as listed in the table of contents. These financial statements are the responsibility of Citizens' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Citizens as of December 31, 2009 were audited by other auditors whose report, dated April 16, 2010 expressed an unqualified opinion on these statements in accordance with the basis of accounting described in Note 2.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citizens Property Insurance Corporation as of December 31, 2010, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2011 on our consideration of Citizens Property Insurance Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental combining statements of net assets, combining statement of revenues, expenses and changes in net assets, 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. Such supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Johnson Lambert & Co. LLP

Jacksonville, Florida
April 28, 2011

Citizens Property Insurance Corporation
Management's Discussion & Analysis

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

Financial Highlights

- The assets of Citizens exceeded its liabilities at the close of the most recent year by $5.5 billion, increasing the net asset position.

- The Company's total net assets increased by $1.1 billion. This increase is primarily attributable to net income generated as explained below.

- Operating revenues increased 15% from 2009 to 2010 primarily due to an increase in the number of policies in force, coupled with the implementation of the glide path rate increase during 2010.

- Operating expenses were increased by 21% from 2009 to 2010. As written premiums have increased, so have certain operating expenses that are percentages of written premiums, such as producer commissions, premium taxes and assessments. Non-catastrophic losses and loss adjustment expenses usually increase as written premiums grow but the non-catastrophe losses and LAE also increased as a percent of premium earned as discussed in the Operating Expense section. The catastrophic losses and loss adjustment expenses incurred increased due primarily to adverse development related to prior year storms, as compared to favorable development in 2009 related to prior year storms.

- Nonoperating expenses decreased from 2009 to 2010 by 64% due largely to an increase in assessment income. The increase in assessment income results from the earning of a portion of the unearned post event financing costs related to the 2005 HRA emergency assessment.

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 assets, statements of revenues, expenses and changes in net assets and the statements of cash flows. This report also contains other supplementary information in addition to the basic financial statements.

Overview of Financial Statements (Continued)

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

The *statements of revenues, expenses and changes in net assets* present information showing how the Company's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying events giving rise to the changes occur, regardless of the timing of related cash flows.

The *statements of cash flows* present information about the cash receipts and cash payments during the year. The statements show the cash effects of operating, investing and financing transactions during a given period.

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 16 of this report.

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

Financial Analysis

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

	20010	2009	% Change
	(in thousands)		
Assets			
Current assets	**$ 6,216,756**	**$ 6,929,508**	(10%)
Capital assets, net	**10,809**	**18,671**	(42%)
Other noncurrent assets	**6,399,103**	**2,336,058**	174%
Total assets	**$ 12,626,668**	**$ 9,284,237**	36%
Liabilities			
Current liabilities	**$ 3,224,403**	**$ 2,693,366**	20%
Noncurrent liabilities	**3,902,595**	**2,143,333**	52%
Total liabilities	**7,126,998**	**4,836,699**	47%
Net assets			
Invested in capital assets	**10,809**	**18,671**	(42%)
Restricted	**13,651**	**14,409**	(5%)
Unrestricted	**5,475,210**	**4,414,458**	24%
Total net assets	**5,499,670**	**4,447,538**	24%
Total liabilities and net assets	**$ 12,626,668**	**$ 9,284,237**	36%

Assets

As shown above, total assets increased $3.3 billion, or 36%, during 2010 primarily due to the increase in cash and invested assets resulting from the $2.4 billion pre-event bond issuance and a considerable increase in premiums collected offset by the $96.2 million debt service payment on the 2007A HRA Refunding Bonds in March 2010 and the $625.0 million debt maturity on the 2009A-2 HRA Bonds in June 2010. Certain investments, representing less than 2% of the portfolio continue to be in defaulted Structured Investment Vehicles. Principal and interest payments are being received on these investments., Citizens undertook a thorough analysis of all remaining loan back and structured securities to determine if any other-than-temporary impairment should be recognized in 2010 for GAAP financial statement purposes. After careful consideration, Citizens' management has concluded that pricing fluctuations in 2010 do not appear to qualify as other-than-temporary impairments. Citizens did not recognize any other-than-temporary impairment for the year ended December 31, 2010. However, reductions totaling $294 million were recorded during 2007 and 2008. Ultimate full realization of the entire principal value is not readily determinable. During 2009, total assets increased $432.6 million, or 5%, primarily due to the increase in cash and invested assets resulting from the $1.65 billion

Financial Analysis (Continued)

Assets (Continued)

pre-event bond issuance and net income from 2009 offset by the maturity of the $1.5 billion bonds in June 2009 and the $91.6 million debt service payment in March 2009.

Current assets include cash, cash equivalents, and short-term investments of $5.7 billion and $6.5 billion for the years ended 2010 and 2009. Long-term investments totaled $5.7 billion and $1.9 billion for the years ended 2010 and 2009. The increase in invested assets is due to the $2.4 billion bond issuance, net cash flow from 2010 operations, the collection of emergency assessment funds, and Florida Hurricane Catastrophe Fund (FHCF) reimbursements received during 2010 offset by the maturity of the $625.0 million bonds and the $96.2 million debt service payment made in 2010. During 2009, invested assets increased $844 million, or 11%, due to the $1.65 billion bond issuance, net cash flow from 2009 operations, the collection of emergency assessment funds, and FHCF reimbursements received during 2009 offset by the maturity of the $1.5 billion bonds and the $91.6 million debt service payment made in 2009.

During 2010, Citizens had no significant capital assets activity. During 2009, capital assets decreased $10.6 million, or 36%, from 2008 to 2009 largely due to the increase in the capitalization threshold for assets purchased during 2008 to $2,500 from $1,000

Liabilities

Total liabilities increased $2.3 billion, or 47%, during 2010. This increase is due primarily to an increase in unearned premiums, unearned assessment income and long-term debt. During 2009, total liabilities decreased $316.0 million, or 6%. This decrease is due primarily to a decrease in unearned premiums and loss reserves offset by an increase in long-term debt.

Current liabilities are comprised primarily of loss reserves, loss adjustment expense (LAE) reserves, unearned premium, the current portion of unearned assessment income and the current portion of long-term debt. Loss and LAE reserves increased $114.1 million, or 15%, from 2009 to 2010. The increase in 2010 is attributable to non-hurricane claims. The decrease in 2009 is attributable to hurricane claims. As of December 31, 2010, reserves related to the 2004 and 2005 hurricanes were $102 million, as compared to $158 million as of December 31, 2009 and $293 million as of December 31, 2008.

Unpaid losses and LAE reserves not related to hurricanes increased from $568 million as of December 31, 2008 to $584 million as of December 31, 2009 to $754 million as of December 31, 2010. The increase in both 2010 and 2009 is due largely to an increase in frequency and severity of sinkhole, fire, theft and water claims.

Financial Analysis (Continued)

Liabilities (Continued)

Unearned premiums increased $211.1 million, or 21% from 2009 to 2010, which is primarily due to an increase in premium written. During 2009 unearned premiums decreased $229.0 million, or 19%, primarily due to a reduction in premium written.

Unearned assessment income increased $152.0 million, or 100% at December 31, 21010 when compared to year end 2009. This increase is due to a prior period correction to record the unearned portion of the financing cost for the post event bonds related to the 2005 HRA emergency assessment.

Operating Revenue

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

	2010	2009	% Change
	(in thousands)		
Operating revenue:			
Earned premiums	**$ 1,971,649**	**$ 1,711,429**	15%
Operating expenses:			
Losses and LAE incurred	**762,934**	**581,129**	31%
Other underwriting expenses	**363,243**	**348,343**	4%
	1,126,177	**929,472**	21%
Operating income	**845,472**	**781,957**	8%
Nonoperating revenues	**(12,053)**	**(33,589)**	(64%)
Change in net assets	**$ 833,419**	**$ 748,368**	11%
Policies in force	**1,283,538**	**1,029,214**	25%
Underwriting ratios			
Loss and LAE ratio (calendar year)	**39%**	**34%**	14%
Expense ratio	**14%**	**16%**	(13%)
Combined ratio	**53%**	**50%**	5%

Financial Analysis (Continued)

Operating Revenue (continued)

Direct premium written increased 19% to $2.6 billion as of December 31, 2010 compared to $2.2 billion as of December 31, 2009 due primarily to the implementation of the glide path rate increase during 2010 as well as an increase in the policies in force. Net earned premiums increased to $2.0 billion at December 31, 2010 as compared to $1.7 billion at December 31, 2009, an increase of 260.2 million, or 15%. The 2010 in force policy count increased 25% as compared to 2009. In addition, the policies serviced during 2010 increased 19% as compared to 2009. This increase in policy count is a result of decreased takeout activity in 2010, coupled with an increase in new business written. A portion of the new business written relates to policies from insolvent insurers that moved to Citizens. The majority of the increase in policies in force relates to the Personal Lines Account.

During the regular and special legislative sessions of 2007, Citizens' rate increases that were put into effect January 1, 2007, were rescinded. The pre-2007 rates for personal residential policies remained in effect through December 31, 2009, except for any rates which were lowered. Therefore, there were no rate changes during 2009 or during 2008.

During the 2009 legislative session Citizens' statute was amended to require that beginning on July 15, 2009 and each year thereafter, the corporation must make a recommended actuarially sound rate filing for each personal and commercial line of business it writes, to be effective no earlier than January 1, 2010. In addition, the new law requires that Citizens implement such rate increases so that the rate increase per policyholder does not exceed 10 percent, excluding coverage changes and surcharges. It should be noted that the change in statute does not apply to Citizens' individually rated risks (commercial residential risks valued over $10 million). These risks are not subject to the legislatively mandated rate caps. In 2010, these rates were increased by an average of 20%.

Under the direction of the new law, Citizens made a series of rate filings beginning in September 2009 for each line of business it writes. The rates for the corporation were approved by the Florida Office of Insurance Regulation in late 2009 and were implemented in January and February of 2010. The rates changes approved for each line of business are as follows: personal residential multiperil: 5.6%; personal residential wind-only: 5.1%; commercial residential multiperil: 10.2%; commercial residential wind-only: 9.4%; commercial nonresidential wind-only: 9.3%.

During 2010, Citizens made a series of rate filings beginning in July 2010 for each line of business it writes. The rates for the corporation were approved by the Florida Office of Insurance Regulation in late 2010 and were implemented in January and February of 2011. The rates changes approved for each line of business are as follows: personal residential: 9.5%;

Financial Analysis (Continued)

Operating Revenue (continued)

commercial residential multiperil: 6.5%; commercial residential wind-only: 11.1%; commercial nonresidential wind-only: 10.0%.

Premiums ceded to the FHCF totaled $368.1 million and $509.2 million during 2010 and 2009, respectively, and are included in net earned premiums. The decrease in FHCF premium is attributed to purchasing only the mandatory layer in 2010 as compared to the purchase of the mandatory layer and the TICL layer in 2009. The Corporation did not enter into excess of loss reinsurance agreements with private reinsurers in 2010 or 2009.

Ceded premiums to takeout companies decreased $79.0 million, or 78%, during 2010. $21.7 million was ceded to takeout companies during the year ended December 31, 2010 compared to $100.8 million ceded during the same period in 2009. Ceded premiums to takeout companies decreased $268.4 million, or 73%, for 2009. $100.8 million was ceded to takeout companies during the year ended December 31, 2009 compared to $369.7 million ceded during the same period in 2008.

Operating Expenses

Losses and LAE incurred increased $181.8 million, or 31%, in 2010 as compared to 2009, due mainly to the non-catastrophic claims costs that relate to water, sinkhole and fire claims. The frequency and severity of such claims has increased over time. This is coupled by a minor amount of adverse development during 2010 related to prior year storms, as well as an increase in policy and claim counts. Losses and LAE incurred decreased $350.5 million, or 38%, in 2009 as compared to 2008, due mainly to favorable development during 2009 related to prior year storms, increased in-house claims processing as well as a decrease in policy and claim counts offset by an increase in the non-catastrophic claims costs that relate to water, sinkhole and fire claims. The frequency and severity of such claims has increased in 2009, as compared to 2008.

Other underwriting expenses increased $14.9 million, or 4%, in 2010. Certain underwriting expenses such as agent commissions and premium taxes, are determined based on written premiums and will increase proportionately. During 2010, commission and premium and other tax expenses consisted of 53% and 10% of other underwriting expenses, respectively. During 2009, other underwriting expenses decreased $98.6 million, or 22%, and commission and premium and other tax expenses consisted of 53% and 10% of other underwriting expenses, respectively.

Financial Analysis (Continued)

Non-operating Income (Expenses)

Non-operating income/expenses consist mainly of assessment income, net investment income, and interest expense. Non-operating expense decreased $21.5 million, or 64% in 2010 as compared to 2009 which corresponds with the increase in assessment income of $64.6 million, or 100%. The increase in assessment income is due to the earning of the portion of the unearned post event financing costs related to the 2005 HRA emergency assessment. In addition, net investment income increased $5.8 million, or 5%, offset by an increase in interest expense of $56.2 million, or 43% due primarily to the issuance of the $2.4 billion bonds during 2010. Non-operating expense decreased $206.7 million, or 86% in 2009 as compared to 2008 which corresponds with the increase in net investment income of $99.1 million, or 844%. The increase in net investment income is due primarily to the increase in overall cash and invested assets as well as pricing of the investments. In 2008, a permanent decline in market value was taken on certain assets, which adversely impacted net investment income that year. In addition, interest expense decreased $47.7 million, or 27%, due primarily to the maturity of the $1.5 billion bonds and the $91.6 million debt service payment during 2009. Interest expense was also higher in 2008 related to the auction rate securities outstanding for the first five months of the year and the financial market conditions which results in high yields for that type of structure.

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 6 and 9 Citizens issued fixed rate tax-exempt debt in 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' High Risk Account bond ratings were upgraded from A3 to A2 by Moody's Investor Service, Inc. ("Moody's") on April 4, 2008. In 2009, both Moody's and Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") changed the outlook of Citizens' PLA/CLA and HRA ratings to negative from stable. In 2010, Moody's changed the ratings from negative to stable. Such 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 and S&P, 55 Water Street, New York, New

Financial Analysis (Continued)

Economic Factors (continued)

York, 10041. 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 2010, 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 High-Risk Account; depopulation tends to be most significant for the Personal Lines Account. During 2010, 57,561 PLA policies and 2,231 HRA policies were assumed by private insurers, as compared to 132,803 PLA policies and 16,842 HRA policies assumed during 2009 and 362,964 PLA policies, 601 CLA policies and 21,519 HRA policies assumed during 2008 and 247,923 PLA policies assumed during 2007 and 26,225 PLA policies and 41,628 HRA policies assumed during 2006. Takeout activity decreased in 2010 as compared to 2009 largely due to Florida property insurance market conditions.

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 Assets

	December 31	
	2010	**2009**
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,877,644**	$ 3,218,519
Short-term investments	**3,837,405**	3,294,534
Restricted cash and cash equivalents	**13,651**	14,409
Deferred policy acquisition costs	**130,647**	97,378
Investment income due and accrued	**43,539**	9,686
Prepaid reinsurance premiums	**16,617**	48,285
Reinsurance recoverable on paid losses and LAE	**11,610**	23,511
Premiums receivable	**153,584**	120,642
Premiums receivable from assuming companies	**3,081**	4,201
Current portion of deferred financing costs	**22,840**	8,047
Current portion of assessment receivable	**106,138**	90,296
Total current assets	**6,216,756**	6,929,508
Noncurrent assets:		
Long-term investments	**5,726,480**	1,872,215
Deferred takeout bonus	**-**	1,722
Capital assets	**10,809**	18,671
Deferred financing costs	**101,368**	126,287
Assessment receivable	**567,640**	332,871
Other assets	**3,615**	2,963
Total noncurrent assets	**6,409,912**	2,354,729
Total assets	**$ 12,626,668**	$ 9,284,237

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Net Assets
(Continued)

	December 31	
	2010	**2009**
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Loss reserves	**$ 680,701**	$ 605,641
Loss adjustment expense reserves	**175,564**	136,506
Unearned premiums	**1,206,443**	995,328
Current portion of unearned assessment income	**56,941**	-
Reinsurance premiums payable	**-**	35,076
Advance premiums and suspended cash	**105,936**	85,536
Interest payable	**34,938**	33,682
Taxes and fees payable	**4,317**	2,822
Current portion of long-term debt	**850,995**	721,160
Other current liabilities	**108,568**	77,615
Total current liabilities	**3,224,403**	2,693,366
Noncurrent liabilities:		
Unearned assessment income	**156,590**	-
Long-term debt	**3,746,005**	2,143,333
Total noncurrent liabilities	**3,902,595**	2,143,333
Total liabilities	**7,126,998**	4,836,699
Net assets:		
Invested in capital assets	**10,809**	18,671
Restricted	**13,651**	14,409
Unrestricted	**5,475,210**	4,414,458
Total net assets	**5,499,670**	4,447,538
Total liabilities and net assets	**$ 12,626,668**	$ 9,284,237

See accompanying notes to financial statements.

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

	Years Ended December 31 2010	2009
	(In Thousands)	
Operating revenue:		
Premiums earned	**$ 1,971,649**	$ 1,711,429
Operating expenses:		
Losses incurred	**603,911**	498,999
Loss adjustment expenses incurred	**159,023**	82,130
Service company fees	**8,305**	7,410
Agent commissions	**193,482**	185,713
Taxes and fees	**35,778**	35,047
Processing and other fees	**1,465**	1,340
Other underwriting expenses	**122,620**	125,922
Takeout bonus expense (income)	**1,593**	(7,089)
	1,126,177	929,472
Operating income	**845,472**	781,957
Nonoperating revenues (expenses):		
Net investment income	**116,644**	110,799
Interest expense	**(188,066)**	(131,881)
Assessment income	**64,570**	-
Line of credit fees and note issuance costs	**(10,828)**	(18,009)
Other income	**5,627**	5,502
Total nonoperating expenses	**(12,053)**	(33,589)
Change in net assets	**833,419**	748,368
Net assets, beginning of year	**4,447,538**	3,698,904
Other changes in net assets	**218,713**	266
Net assets, end of year	**$ 5,499,670**	$ 4,447,538

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Cash Flows

	Years Ended December 31	
	2010	**2009**
	(In Thousands)	
Operating activities		
Premiums collected, net of reinsurance	**$ 2,214,911**	$ 1,666,933
Losses and loss adjustment expenses paid	**(648,816)**	(700,447)
Payments to employees for services	**(66,436)**	(64,733)
Payments for underwriting expenses	**(323,094)**	(261,624)
Net cash provided by operating activities	**1,176,565**	640,129
Noncapital financing activities		
Debt issuance	**2,467,374**	1,663,036
Debt redemption	**(721,760)**	(1,591,580)
Interest paid	**(199,917)**	(171,582)
Assessment income received	**246,293**	196,332
Financing costs paid	**(702)**	(5,297)
Net cash provided by noncapital financing activities	**1,791,288**	90,909
Capital and related financing activities		
Capital assets acquired	**(1,689)**	(1,747)
Net cash used in capital and related financing activities	**(1,689)**	(1,747)
Investing activities		
Proceeds from investments sold, matured or repaid	**21,834,152**	18,837,185
Investments acquired	**(26,141,949)**	(20,587,106)
Change in restricted cash	**758**	9,635
Net cash used in investing activities	**(4,307,039)**	(1,740,286)
Net decrease in cash and cash equivalents	**(1,340,875)**	(1,010,995)
Cash and cash equivalents:		
Beginning of year	**3,218,519**	4,229,514
End of year	**$ 1,877,644**	$ 3,218,519

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Cash Flows
(Continued)

	Years Ended December 31	
	2010	**2009**
Reconciliation of operating income to net cash provided by operating activities:	*(In Thousands)*	
Operating income	**$ 845,472**	$ 787,459
Adjustments to reconcile net cash provided by operating activities:		
Depreciation expense	**9,551**	12,329
(Increase) decrease in operating assets:		
Deferred policy acquisition costs	**(33,269)**	14,804
Prepaid reinsurance premiums	**31,668**	88,869
Reinsurance recoverable	**11,901**	14,091
Premiums receivable, net	**(31,822)**	83,775
Deferred takeout bonus	**1,722**	3,143
Other assets	**4,947**	(514)
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	**114,118**	(119,318)
Unearned premiums	**211,115**	(229,014)
Reinsurance premiums payable	**(35,076)**	(7,046)
Advance premiums and suspended cash	**20,400**	(2,217)
Taxes and fees payable	**1,495**	(1,829)
Other current liabilities	**24,433**	(4,669)
Other changes in net assets	**(90)**	266
Net cash provided by operating activities	**$ 1,176,565**	$ 640,129

See accompanying notes to financial statements.

NOTE 1 - GENERAL

Citizens Property Insurance Corporation (Citizens or the Corporation) 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 the necessity of Citizens to provide insurance that was affordable.

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. Prior to October 1, 2006, the Plan was subject to the approval of the Office.

Citizens is supervised by a Board of Governors (the Board) that consists of eight individuals who reside in the State of Florida. The Governor, 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 (executive director) and senior managers are engaged by and serve at the pleasure of the Board. The president 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. Citizens is not required to include FMAP as component unit in its financial statements because FMAP's total assets and total revenue are not significant to Citizens.

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 High-Risk Account. A brief history of each account follows:

Personal Lines Account History - The Florida Residential Property and Casualty Joint Underwriting Association 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 (on a statewide basis) to 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 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)

High-Risk 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.

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 assets, a statement of revenues, expenses, and changes in net assets, 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 assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds. As of December 31, 2010 and 2009, Citizens did not have any outstanding debt that was attributable to capital assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

- Restricted net assets – This component of net assets 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 assets – This component of net assets consists of net 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 assets. The statements of revenues, expenses and changes in net assets presents increases (revenues) and decreases (expenses) in total net assets. The statements of cash flows provides information about how Citizens finances and meets the cash flow needs of its activities.

Correction of an Error

Effective January 1, 2010, Citizens recorded a prior period adjustment relating to previously unrecognized additional financing costs on the 1999 HRA bonds that occurred during the 2007 HRA post event bond issuance. The effect of the entry was as follows *(in thousands)*:

	Pre-correction Balance at January 1, 2010	Correction of Error Adjustment	Post-correction Balance at January 1, 2010
Assessments receivable	$ 423,167	$ 496,903	$ 920,070
Net assets	4,447,538	218,803	4,666,341
Unearned assessment income	-	278,101	278,101

The effect of the correction of the error is included in the Statements of Revenues, Expenses and Changes in Net Assets. The net impact of these corrections on net assets at January 1, 2010 was an increase in the amount of $218,203.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Such investments are recorded at fair value, which is generally based on independent quoted market prices. If quoted market prices are not available, broker quotes or an estimation of the current liquidation values is determined through a collaborative process among various pricing experts and sources in the marketplace. Changes in fair value are reflected as a component of net investment income. 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 3 months to be cash equivalents.

Deferred Policy Acquisition Costs

Costs that vary with and are directly related to acquiring, renewing and servicing an insurance policy such as net agent commissions, servicing company fees and other taxes and fees are deferred and recognized over the term of the related policy. Amortization of deferred policy acquisition costs recognized for the years ended December 31, 2010 and 2009 was $254.4 million and $239.0 million, respectively.

Deferred Takeout Bonus

Takeout bonuses incurred in connection with the depopulation of Citizens are deferred and amortized over the term of the related agreement under which the policy is removed from Citizens, which is generally a three-year period. Recoveries are recorded as a contra expense once it is determined that the assumed policy is no longer bonus eligible.

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 $9.6 million and $12.3 million for the years ended December 31, 2010 and 2009.

Loss Reserves and Loss Adjustment Expense Reserves

Liabilities for loss reserves and loss adjustment expense 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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loss Reserves and Loss Adjustment Expense Reserves (continued)

to cover the expected future payment of losses. However, no assurance can be given that the ultimate settlement of losses may not vary significantly from the reserves provided. Adjustments, if any, 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.

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 $2.5 million and $3.6 million at December 31, 2010 and 2009, 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 carryout 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 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.

Reinsurance

Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums. Reinsurance recoverables on unpaid losses are recorded as a reduction of losses incurred and loss adjustment expenses incurred. 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 catastrophic reinsurance purchases and depopulation premiums.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Note Issuance Costs

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

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 53% of Citizens' insurance coverage exposure lies in the Southeast Florida counties of Miami-Dade, Broward, Monroe and Palm Beach at December 31, 2010. Approximately 12% of Citizens' insurance coverage lies in Pinellas and Hillsborough counties as of December 31, 2010. 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).

Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents, and investments. The Company's cash management and investment policies restrict investments by type, credit and issuer, and the Company performs periodic evaluations of the credit standing of the financial institutions with which it deals. As of December 31, 2010, management believes the Company had no significant concentrations of credit risk other than those disclosed in Note 3.

Reclassifications

Certain reclassifications have been made to the 2009 amounts to conform to the 2010 presentation.

Subsequent Events

Citizens has evaluated subsequent events for disclosure and recognition through April 28, 2011, the date on which these financial statements were available to be issued.

NOTE 3 - INVESTMENTS

Citizens' invested assets are governed by two investment policies, one for taxable operating funds and one for tax-exempt bond proceeds. The 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. The tax-exempt policy requires all securities be invested in tax exempt fixed income securities not subject to the federal alternative minimum tax.

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 and S&P), depending on the type of investment.

Citizens' short-term investments include shares held 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. The entire $42.1 million invested in the SBA Florida Prime at December 31, 2010 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, 2010 of 0.7789. Fund B is not rated by any nationally recognized statistical rating agency. Citizens recognized a decline in value of $30.1 million on its holdings in 2008. 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 S&P. (See discussion of rating agencies in "Economic Factors" under "Management's Discussion & Analysis").

NOTE 3 – INVESTMENTS (CONTINUED)

Credit Risk (Continued)

Rating	Fair Value
	(in thousands)
A1	$ 354,594
A2	301,359
A3	5,078
AA	23,397
AA1	1,533,706
AA2	924,078
AA3	632,797
AAA	4,480,296
MIG1	246,687
P-1	817,966
Default	242,542
Agency Mortgage Backed Securities	1,385
	$ 9,563,885

- ***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, 2010 and 2009, 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 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. Citizen's measures this risk by using the weighted average maturity method. The Corporation's investment policy requires that the weighted average maturity of the portfolio not exceed 365 days. This policy takes interest rate reset dates, primarily related to tax-exempt variable rate demand notes and floating rate notes, into consideration. The table that follows reflects the weighted average maturity, without consideration of resets, by security type at December 31, 2010. 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.

NOTE 3 – INVESTMENTS (CONTINUED)

Interest Rate Risk (continued)

	Amortized Cost		Fair Value	Weighted Average Maturity
			(in thousands)	
U.S. Government & Agency	$	3,677,201	$ 3,679,498	362 Days
Municipal bonds		3,478,382	3,477,354	4,040 Days
Corporate and other bonds		2,389,570	2,405,648	503 Days
Mortgage backed securities		1,402	1,385	1,425 Days
	$	9,546,555	$ 9,563,885	1,735 Days

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

- ***Foreign Currency Risk*** – Citizens had no investments with foreign currency risk at December 31, 2010 and 2009, respectively. All investments are settled in U.S. dollars.

Sources and uses of investment income for the years ended December 31, 2010 and 2009 were as follows *(in thousands)*:

	2010	**2009**
Income Earned:		
U.S. Government Bonds	$ 7,502	$ (2,573)
Bonds Exempt from U.S. Tax	10,718	935
Other Bonds (Unaffiliated)	11,638	16,723
Cash, Cash Equivalents and Short-term Investments	14,322	50,320
Total Gross Investment Income Earned	**44,180**	**65,405**
Capital Gains (Losses):		
U.S. Government Bonds	552	41
Bonds Exempt from U.S. Tax	97	(1)
Other Bonds (Unaffiliated)	3,150	(2,321)
Cash, Cash Equivalents and Short-term Investments	27,088	31,718
Other	(3)	(13)
Total Realized Gain (Loss) on Sales or Maturity	**30,884**	**29,424**
Market Value Adjustment	45,670	17,804
Investment Expenses	(4,090)	(1,834)
Net Investment Income	**$ 116,644**	**$ 110,799**

NOTE 3 – INVESTMENTS (CONTINUED)

Fair Value Measurement

Citizens adopted the accounting guidance for Fair Value Measurements and Disclosures. This statement provides guidance for measuring assets and liabilities at fair value. There were no adjustments required to the fair value of investments as a result of adopting the Fair Value Measurements and Disclosures accounting guidance. The market approach was the valuation technique used to measure fair value of the investment portfolio.

The Corporation's 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 the Company's significant market assumptions. The three levels of the hierarchy are as follows:

Level 1 – Quoted Prices in Active Markets for Identical Assets and Liabilities: Citizens has no assets or liabilities measured at fair value in this category.

Level 2 – Significant Other Observable Inputs: This category, for items measured are fair value on a recurring basis, includes bonds which are not exchange-traded. The estimated fair values of these items were determined by independent pricing services using observable inputs.

Level 3 – Significant Unobservable Inputs: Citizens has no assets or liabilities measured at fair value in this category.

Description	**Level 1**	**Level 2**	**Level 3**	**Total**
		(in thousands)		
Assets at Fair Value				
Bonds & Asset-backed Securities:				
US Governments	$ -	$ 7,156,852	$ -	$ 7,156,852
Industrial & Miscellaneous	-	2,405,648	-	2,405,648
Loan-backed and Structured Securities	-	1,385	-	1,385
Total Bonds & Asset-backed Securities	**$ -**	**$ 9,563,885**	**$ -**	**$ 9,563,885**

NOTE 3 – INVESTMENTS (CONTINUED)

Fair Value Measurement (continued)

At the end of each reporting period, the Company evaluates whether or not any event has occurred or circumstances have changed that would cause an instrument to be transferred into or out of Level 3. During the current year, no transfers into or out of Level 3 were required. The Company has no assets or liabilities measured at fair value in the Level 3 category.

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

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets and depreciation for the year ended December 31, 2010 follows:

	Beginning Balance	Additions	Reductions/ Adjustments	Ending Balance
	(in thousands)			
Leasehold improvements	$ 7,279	$ 146	$ -	$ 7,425
Furniture and equipment	34,088	1,442	(122)	35,408
Other capital assets	31,479	101	(30)	31,550
Totals at historical cost	72,846	1,689	(152)	74,383
Less accumulated depreciation for:				
Leasehold improvements	(2,561)	(694)	-	(3,255)
Furniture and equipment	(24,901)	(5,313)	46	(30,168)
Other capital assets	(26,713)	(3,445)	7	(30,151)
	(54,175)	(9,452)	53	(63,574)
	$ 18,671	$ (7,763)	$ (99)	$ 10,809

NOTE 4 - CAPITAL ASSETS (CONTINUED)

A summary of changes in capital assets and depreciation for the year ended December 31, 2009 follows:

	Beginning Balance	Additions	Reductions/ Adjustments	Ending Balance
		(in thousands)		
Leasehold improvements	$ 7,258	$ 21	$ -	$ 7,279
Furniture and equipment	33,015	1,154	(81)	34,088
Other capital assets	30,907	572	-	31,479
Totals at historical cost	71,180	1,747	(81)	72,846
Less accumulated depreciation for:				
Leasehold improvements	(1,872)	(689)	-	(2,561)
Furniture and equipment	(18,575)	(6,392)	66	(24,901)
Other capital assets	(21,480)	(5,233)	-	(26,713)
	(41,927)	(12,314)	66	(54,175)
	$ 29,253	$ (10,567)	$ (15)	$ 18,671

NOTE 5 - 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, 2010 and 2009 were as follows:

	2010	2009
	(in thousands)	
Loss and loss adjustment expense reserves, beginning of year	$ 742,147	$ 861,465
Incurred related to:		
Current year	786,224	674,431
Prior years	(23,290)	(93,302)
Total incurred	762,934	581,129
Paid related to:		
Current year	330,603	307,072
Prior years	318,213	393,375
Total paid	648,816	700,447
Loss and loss adjustment expense reserves, end of year	$ 856,265	$ 742,147

As a result of changes in estimates of insured events in prior years, primarily due to the estimation of losses and/or related costs relating to prior year hurricane claims, the provision for loss and loss adjustment expenses decreased by approximately $23.3 million and $93.3 million, net of reinsurance, in 2010 and 2009, respectively. Increases or decreases of this nature occur as a result of claim settlements during the current year, and as additional information is received

NOTE 5 - LIABILITY FOR LOSS RESERVES AND LOSS ADJUSTMENT EXPENSE RESERVES (CONTINUED)

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, consistent with industry standard methods of compensation. Such costs are included as loss adjustment expenses.

NOTE 6 – 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 at a premium of $60.1 million 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 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 12 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 bond maturity dates range from March 1, 2008 to March 1, 2017. The principal reduction on these notes was $96.2 million and $91.6 million during 2010 and 2009, respectively. Outstanding maturities, including unamortized premiums and discounts were $849.6 million and $953.7 million, respectively, as of December 31, 2010 and 2009.

Series 2008 Senior Secured Bonds – On June 30, 2008 Citizens issued $250 million of High-Risk Account tax-exempt senior secured bonds, Series 2008A-1 and $1.5 billion of High-Risk Account tax-exempt senior secured bonds, Series 2008A-2 (short-term notes) for the purpose of funding losses in the event of a future catastrophe. The bonds bear interest ranging from 4.50% to 5.00% 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 bond maturity dates range from June 1, 2009 to June 1, 2011. The principal reduction on these notes was $0 and $1.5 billion during 2010 and 2009, respectively. Outstanding maturities, including unamortized premiums were $250.6 million and $252.1 million, respectively, as of December 31, 2010 and 2009.

NOTE 6 – LONG-TERM DEBT (CONTINUED)

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 Series 2009A-2 bonds bear interest of 4.50% per annum, payable on May 1, 2010 and on June 1, 2010. 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 bond maturity dates range from June 1, 2009 to June 1, 2017. The principal reduction on these notes was $625.0 million and $0 during 2010 and 2009, respectively. Outstanding maturities, including unamortized premiums and discounts were $1.03 billion and $1.66 billion, respectively, as of December 31, 2010 and 2009.

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 (Securities Industry and Financial Markets Association (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-2 bonds bear interest of 2.00% per annum, payable at their maturity on April 21, 2011. 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 $0 during 2010. Outstanding maturities, including unamortized premiums and discounts were $2.47 billion, as of December 31, 2010.

NOTE 6 – LONG-TERM DEBT (CONTINUED)

A schedule of bond maturities is as follows:

Year Ending December 31	Series 2007A Refunding Bonds	Series 2008A-1 through 2008A-2 Bonds	Series 2009A-1 through 2009A-2 Bonds	Series 2010A-1 through 2010A-3 Bonds	Total
			(in thousands)		
2011	$ 100,995	$ 250,000	$ -	$ 500,000	$ 850,995
2012	106,125	-	106,360	-	212,485
2013	111,530	-	-	560,000	671,530
2014	117,220	-	168,055	100,000	385,275
2015	123,225	-	-	410,000	533,225
After	265,705	-	746,585	830,000	1,842,290
	$ 824,800	$ 250,000	$ 1,021,000	$ 2,400,000	$ 4,495,800

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

Year Ending December 31	Principal	Interest	Total
		(in thousands)	
2011	$ 850,995	$ 179,157	$ 1,030,152
2012	212,485	163,050	375,535
2013	671,530	148,972	820,502
2014	385,275	130,811	516,086
2015	533,225	106,938	640,163
2016-2020	1,842,290	89,655	1,931,945
Total	$ 4,495,800	$ 818,583	$ 5,314,383

Unamortized premium at December 31, 2010 and 2009 was $101.2 million and $47.5 million, respectively.

The total interest expense on the bonds payable for the years ended December 31, 2010 and 2009 was $188.1 million and $131.9 million, respectively, including amortized net premium of $26.6 million and $21.8 million, respectively.

NOTE 6 – LONG-TERM DEBT (CONTINUED)

Total deferred issuance costs related to all notes was $124.2 million and $134.3 million at December 31, 2010 and 2009 and is included in "Deferred financing costs" in the Statements of Net Assets. Total bond premium related to all notes was $101.2 million and $47.5 million at December 31, 2010 and 2009 and is also included in "Long-term debt" in the Statements of Net Assets.

A summary of changes in long-term liabilities for the year ended December 31, 2010 follows (in thousands):

	12/31/2009	**Additions**	**Reductions**	**12/31/2010**	**Due within one year**
Bonds Payable - Face	$ 2,816,960	$ 2,400,000	$(721,160)	$ 4,495,800	$ 877,051
Premium, net	47,288	80,520	(26,608)	101,200	(26,056)
Bonds Payable	$ 2,864,248	$ 2,480,520	$ (747,768)	$ 4,597,000	$ 850,995

Sources and uses of investment expense for the years ended December 31, 2010 and 2009 were as follows *(in thousands)*:

Interest Expense:		
2007A Bond Series	$ (33,927)	$ (37,597)
2008A Bond Series	(11,006)	(32,057)
2009A Bond Series	(69,517)	(45,315)
2010A Bond Series	(56,895)	-
Other PY Interest Expense	-	(191)
Change in Deferral - Loss on Refunding of 1999 Bonds	(16,721)	(16,721)
Total Interest Expense	**$ (188,066)**	**$ (131,881)**

Interest Rate Swap Agreements **–** Citizens had no interest rate exchange agreements outstanding at December 31, 2010 and 2009.

NOTE 7 - 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 $193.5 million and $185.7 million during 2010 and 2009, respectively.

Additionally, Citizens entered into 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. During 2009, the servicing agreement was extended through September 30, 2010 on the same (or similar) terms. During 2010, Citizens and the servicing company entered a new contract effective October 1, 2010, that continues through September 30, 2013, for services similar to those being performed previously. These services are for both Citizens' Commercial Lines and Personal Lines accounts. The amount per transaction ranges from $3.50 to $50.00, depending on the complexity and volume of each transaction. Service company fees were $8.3 million and $7.4 million, during 2010 and 2009, respectively. In addition, no agents or servicing companies have been paid more than 5% of surplus in 2010.

NOTE 8 - 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 2010 or 2009.

NOTE 9 - LINE OF CREDIT AGREEMENTS

Effective May 7, 2009, Citizens entered into a $400 million credit agreement (the 2009 PLA/CLA Line of Credit) with a syndication of banks to pay claims and liabilities and expenses related to claims under the Personal and Commercial Lines Accounts. The 2009 PLA/CLA Line of Credit is secured by a security interest in anticipation of revenues consisting of FHCF reimbursements and/or regular assessments, including additional surcharges or assessments. Citizens is required to pay an annual facility fee of 1.4% on the unused portion of the facility. This rate is based on ratings by Moody's Investor Service, Inc. (Moody's) and Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (S&P) of A-/A3 or better, on Personal and Commercial Lines Accounts long-term debt. The current PLA/CLA ratings are A2/A+ from Moody's and S&P, respectively. The facility fee associated with this credit agreement was $1.96 million and $3.7 million for the years ended December 31, 2010 and 2009, respectively. Closing fees associated with this credit agreement were $0.53 million for the year ended December 31, 2009. The agreement expired on May 6, 2010.

NOTE 10 - REINSURANCE AGREEMENTS

Citizens participates in the Florida Hurricane Catastrophe Fund (the FHCF). The FHCF will reimburse Citizens a specified percentage of losses incurred relating to a hurricane in Florida if a prescribed retention is reached subject to a maximum limit. Premiums ceded to the FHCF, net of refunds received, totaled $368.1 million and $509.2 million, respectively, during 2010 and 2009 and are included in "Premiums earned" in the accompanying Statements of Revenues, Expenses and Changes in Net Assets. The High-Risk Account is treated for all FHCF purposes as if it were a separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. Likewise, the Personal and Commercial Lines Accounts are viewed together for FHCF purposes, as if the two accounts were one and represent a single, separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. The FHCF coverages and retention amounts by account are as follows:

	2010		**2009**	
	Coverage Amounts	**Retention Amounts**	**Coverage Amounts**	**Retention Amounts**
Personal and Commercial Lines Accounts	**$ 2,143 million**	**$ 867 million**	$ 2,926 million	$ 769 million
High-Risk Account	**3,750 million**	**1,517 million**	5,952 million	1,564 million

Citizens did not purchase private reinsurance in 2010 or in 2009.

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

	2010		**2009**	
	Premiums		**Premiums**	
	Written	**Earned**	**Written**	**Earned**
	(in thousands)			
Direct	**$ 2,604,265**	**$ 2,393,150**	$ 2,181,283	$ 2,410,298
Ceded	**(389,833)**	**(421,501)**	(610,000)	(698,869)
Net premiums	**$ 2,214,432**	**$ 1,971,649**	$ 1,571,283	$ 1,711,429

Premium ceded above also includes premium ceded to companies that assume policies pursuant to a depopulation program (See Note 12). Citizens is entitled to $1.0 billion in FHCF reimbursements and to $45.8 million in private reinsurance reimbursements in the High-Risk Account related to losses incurred and paid as a result of hurricane Wilma in 2005. Citizens is also entitled to $88.1 million in private reinsurance reimbursement in the Personal Lines Account related to losses incurred and paid as a result of all four hurricanes (Dennis, Katrina, Rita and Wilma) in 2005. The losses incurred and the loss adjustment expenses incurred are presented net of these anticipated recoveries in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. FHCF recoveries of $992.1 million and private reinsurance recoveries of $133.5 million were received as of December 31, 2010.

NOTE 10 - REINSURANCE AGREEMENTS (CONTINUED)

Amounts recoverable from reinsurers on unpaid losses and loss adjustment expenses are estimated based on the allocation of estimated unpaid losses and loss adjustment expenses among 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 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 $2.9 million and $2.7 million for the years ended December 31, 2010 and 2009, and are included in "Other underwriting expenses" in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

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. Both of the pre-merger entities, the FRPCJUA and the FWUA, were also authorized to adopt and did enact such programs. However, the FRPCJUA was the only entity authorized to pay bonuses related to such programs. Agreements were entered into with various insurance companies (the Takeout Company or Companies) licensed in the State of Florida to remove policies from the FRPCJUA or the FWUA.

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 and to state that assumed policies are the direct insurance of the Takeout Company, 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.

NOTE 12 – DEPOPULATION (CONTINUED)

During 2010 and 2009, Citizens ceded $21.8 million and $100.8 million in premiums to Takeout Companies pursuant to Assumption Agreements which is included in "Premiums earned, net" in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

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. While Citizens is not liable to cover claims after the assumption (unless it allows the insured to return to Citizens for coverage), 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, 2010 and 2009, assumed premiums in the amount of $3.1 million and $4.2 million were due from certain Takeout Companies.

Certain agreements provide for a policy takeout bonus of up to 25% of annual policy premium to be paid to the Takeout Companies. Such takeout bonuses have been placed into escrow bank accounts pursuant to an escrow agreement. After a specific time period, funds placed in escrow will be released to the Takeout Companies in accordance with the policy takeout agreement.

During 2010 and 2009, Citizens paid $0 and $19.1 million, respectively, out of escrow (net of certain recoveries). During 2010 and 2009, Citizens paid $0 into escrow in accordance with the policy takeout agreements for policies removed. Citizens did not have a takeout bonus policy in effect for 2010, 2009 or 2008 depopulation programs. In 2010 and 2009 respectively, 59,792 and 149,645 policies were removed from Citizens pursuant to its depopulation program.

At the end of the applicable time period, Citizens requires the Takeout Companies to have an independent audit of the policies for which they are claiming a bonus to determine if the policy is properly classified and is eligible for payment of the bonus, if any. Based upon results of that audit, Citizens evaluates the original amounts placed into escrow to determine if the escrow account is over or underfunded. During 2010 and 2009, Citizens paid into escrow $0 for underfunded accounts and recovered $0.129 million and $10.2 million, respectively, for overfunded accounts. These amounts are included in "Takeout bonus (income) expense" in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

NOTE 13 - OPERATING LEASES

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to $7.1 million and $7.2 million for the years ended December 31, 2010 and 2009. At December 31, 2010, future minimum payments under operating leases are as follows (in thousands):

NOTE 13 - OPERATING LEASES (CONTINUED)

2011	$ 4,305
2012	2,618
2013	2,682
2014	1,961
2015	1,312
After	1,154
Total	$ 14,032

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Citizens has been informed that the Securities and Exchange Commission, the Florida Office of Financial Regulation, the State of New York Office of the Attorney General Bureau of Investor Protection and the Texas State Securities Board (collectively, the “Agencies”) have opened inquiries or investigations of Citizens’ purchase of its own auction rate securities in early 2008. Citizens is voluntarily cooperating with the Agencies and is of the belief that any action, if any, by one or more of the Agencies will not materially affect the financial condition of Citizens.

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 therefrom, 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:

<u>Poe & Associates, L.L.C. ("Associates") v. Citizens</u>. This lawsuit relates to Citizens’ June 2006 termination of its agent appointment agreement with Associates, thereby preventing Associates from being able to receive future commissions on policies that Citizens issued to former policyholders of insolvent insurance companies affiliated with Associates and owned by Poe Financial Group, Inc. Associates seeks significant damages. Its many claims include breach of contract, tortuous interference, and regulatory taking. Citizens believes it will ultimately prevail on all claims presented.

<u>Schirmer v Citizens</u>. This is a putative class action although the court has not certified the class. Potential class members are Citizens’ policyholders who made wind damage claims. At issue is whether Citizens appropriately calculated and paid overhead and profit policy benefits.

NOTE 14 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Everhart, individually and on behalf of all others similarly situated v Citizens. This is a putative class action. The court has not certified the class. Potential class members are Citizens' policyholders who made wind damage claims. At issue is whether Citizens appropriately calculated and paid ordinance and law policy benefits.

Hernandez v. Citizens, et al. This is a putative multi-district class action filed in federal court involving over 90 property insurance carriers. The court has not certified the class. Potential class members are Citizens' policyholders who made claims for property damage resulting from tainted dry wall. At issue is whether Citizens improperly denied coverage and/or improperly cancelled policies due to alleged damages resulting from tainted drywall.

Burk v. Citizens. This is a putative class action. The court has not certified the class. Alleged class members include Citizens' current policyholders. At issue is Citizens' compliance with statutorily mandated competitive bid procurement requirements.

Citizens v San Perdido. Citizens appealed the trial court's ruling that Citizens does not have sovereign immunity for a cause of action of statutory bad faith pursuant to Section 624.155, Florida Statutes, to the 1st DCA. The 1st DCA issued an opinion in conflict with the prior favorable ruling from the 5th DCA in *Garfinkel v Citizens, 2009 WL 4874789 (Fla.App. 5 Dist., finding Citizens immune from a statutory bad faith action)*. This matter is currently on appeal to the Florida Supreme Court due to a conflict between the districts courts of appeal.

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 2010, 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' 2010 and 2009 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):

NOTE 15 - RECONCILIATION OF SAP TO GAAP (CONTINUED)

	2010	2009
Net income - Statutory basis	**$ 744,729**	$ 763,768
Adjustments:		
Policy acquisition costs	**33,270**	(14,804)
Line of credit fees and note issuance costs	**(10,126)**	(12,712)
Takeout bonuses	**(1,722)**	(3,143)
Allowance for doubtful accounts	**415**	(2,544)
Unearned assessment income	**21,183**	-
Unrealized gain on investments	**45,670**	17,803
Change in net assets - GAAP basis	**$ 833,419**	$ 748,368

	2010	2009
Accumulated surplus - Statutory basis	**$ 5,101,534**	$ 3,993,006
Adjustments:		
Policy acquisition costs	**130,647**	97,378
Nonadmitted assets	**181,779**	241,979
Provision for reinsurance	**5,665**	7,456
Line of credit fee and deferred note issuance costs	**124,208**	134,334
Takeout bonuses	**-**	1,722
Unearned assessment income	**(61,496)**	-
Cumulative unrealized loss on bonds	**17,333**	(28,337)
Total net assets – GAAP basis	**$ 5,499,670**	$ 4,447,538

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)

premiums. 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 6% of such premium per 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 an 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 was only the 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 $623.3 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.

NOTE 17 - POE FINANCIAL GROUP POLICYHOLDERS

In 2006, the Florida Legislature amended Citizens’ enabling statute to provide that, if ordered by a court of competent jurisdiction, Citizens could "assume policies or otherwise provide coverage for policyholders of an insurer placed in liquidation under Chapter 631 under such forms, rates,

NOTE 17 - POE FINANCIAL GROUP POLICYHOLDERS (CONTINUED)

terms, and conditions as the corporation deems appropriate, subject to approval by the Office and ordered by the liquidation court.

Three insurers affiliated with Poe Financial Group, Inc. - Southern Family Insurance Company, Atlantic Preferred Insurance Company, and Florida Preferred Property Insurance Company (the "Poe Insurers") - were placed into liquidation by court order. The Florida Department of Financial Services, Division of Rehabilitation and Liquidation, was named the Receiver of the Poe Insurers. Under the court order and Florida law, coverage with the Poe Insurers ended on July 1, 2006.

A liquidation plan was approved by the Office and ordered by the court whereby, effective July 1, 2006, Citizens was to provide transition insurance coverage ("Transition Policies") to eligible policyholders of the Poe Insurers who could not obtain private coverage. Policy claims on losses occurring during the transition period (i.e. from July 1, 2006 until the expiration of the original Poe Insurer policy period), were processed and paid by Citizens. Any losses incurred on policies of the Poe Insurers prior to July 1, 2006 were processed and paid by FIGA.

Under a 2006 amendment to the statute governing the FHCF, Citizens was able to purchase FHCF coverage for the Transition Policies at a cost of approximately $75.0 million for $1.0 billion of coverage.

Citizens received approximately 308,000 homeowner and 1,700 commercial residential Transition Policies. To assist with the increased business to Citizens, Citizens hired an additional 160 employees who were formerly employees of affiliates of the Poe Insurers in Tampa.

As the Transition Policies expired, policyholders were required to reapply to Citizens for coverage under Citizens policy forms and eligibility requirements.

The unearned premium due to Citizens for providing the transition coverage was calculated by the Receiver (i.e., the Department of Financial Services) and will be paid by FIGA. Under the Plan of Liquidation, FIGA must pay the unearned premium due to Citizens in six installments over three years. Citizens received all amounts due from FIGA as of December 31, 2009.

NOTE 18 - 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 Assets

	December 31, 2010			
	Combined	**Personal Lines Account**	**Commercial Lines Account**	**High Risk Account**
	(In Thousands)			
Assets				
Current assets:				
Cash and cash equivalents	**$ 1,877,644**	$ 420,207	$ 156,101	$ 1,301,336
Short-term investments	**3,837,405**	1,208,844	285,069	2,343,492
Restricted cash and cash equivalents	**13,651**	-	-	13,651
Deferred policy acquisition costs	**130,647**	60,780	13,501	56,366
Investment income due & accrued	**43,539**	7,917	3,861	31,761
Prepaid reinsurance premiums	**16,617**	16,076	-	541
Reinsurance recoverable on paid losses and LAE	**11,610**	2,230	588	8,792
Premiums receivable	**153,584**	81,954	5,994	65,636
Premiums receivable from assuming companies	**3,081**	2,845	-	236
Current portion of deferred financing costs	**22,840**	-	-	22,840
Current portion of assessment receivables	**106,138**	(811)	5,376	101,573
Total current assets	**6,216,756**	1,800,042	470,490	3,946,224
Noncurrent assets:				
Long-term investments	**5,726,480**	1,272,742	902,128	3,551,610
Deferred takeout bonus	**-**	-	-	-
Capital assets	**10,809**	10,809	-	-
Deferred financing costs	**101,368**	-	-	101,368
Assessment receivables	**567,640**	-	-	567,640
Other assets	**3,615**	3,534	19	62
Inter-account receivable (payable)	**-**	31,638	(14,809)	(16,829)
Total noncurrent assets	**6,409,912**	1,318,723	887,338	4,203,851
Total assets	**$ 12,626,668**	$ 3,118,765	$ 1,357,828	$ 8,150,075
Liabilities and net assets				
Current liabilities:				
Loss reserves	**$ 680,701**	$ 424,655	$ 136,413	$ 119,633
Loss adjustment expense reserves	**175,564**	123,438	26,822	25,304
Unearned premiums	**1,206,443**	628,073	94,301	484,069
Current portion of unearned assessment income	**56,941**	-	-	56,941
Reinsurance premiums payable	**-**	-	-	-
Advance premiums and suspended cash	**105,936**	51,175	8,485	46,276
Interest payable	**34,938**	-	-	34,938
Taxes and fees payable	**4,317**	3,693	598	26
Current portion of long-term debt	**850,995**	-	-	850,995
Other current liabilities	**108,568**	62,150	4,259	42,159
Total current liabilities	**3,224,403**	1,293,184	270,878	1,660,341
Noncurrent liabilities:				
Unearned assessment income	**156,590**	-	-	156,590
Long-term debt	**3,746,005**	-	-	3,746,005
Total noncurrent liabilities	**3,902,595**	-	-	3,902,595
Total liabilities	**7,126,998**	1,293,184	270,878	5,562,936
Net assets:				
Invested in capital assets	**10,809**	10,809	-	-
Restricted	**13,651**	-	-	13,651
Unrestricted	**5,475,210**	1,814,772	1,086,950	2,573,488
Total net assets	**5,499,670**	1,825,581	1,086,950	2,587,139
Total liabilities and net assets	**$ 12,626,668**	$ 3,118,765	$ 1,357,828	$ 8,150,075

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

	Year Ended December 31, 2010			
	Combined	**Personal Lines Account**	**Commercial Lines Account**	**High Risk Account**
	(In Thousands)			
Operating revenue:				
Premiums earned	**$ 1,971,649**	$ 930,646	$ 190,179	$ 850,824
Operating expenses:				
Losses incurred	**603,911**	494,912	32,974	76,025
Loss adjustment expenses incurred	**159,023**	107,533	11,314	40,176
Service company fees	**8,305**	6,247	(7)	2,065
Agent commissions	**193,482**	68,021	25,880	99,581
Taxes and fees	**35,778**	16,713	3,723	15,342
Processing and other fees	**1,465**	-	1,315	150
Other underwriting expenses	**122,620**	60,702	11,095	50,823
Takeout bonus expense (income)	**1,593**	1,595	-	(2)
Total operating expenses	**1,126,177**	755,723	86,294	284,160
Operating income	**845,472**	174,923	103,885	566,664
Nonoperating revenues (expenses):				
Net investment income	**116,644**	30,348	11,288	75,008
Interest expense	**(188,066)**	-	-	(188,066)
Assessment income	**64,570**	-	-	64,570
Line of credit fees and note issuance costs	**(10,828)**	(1,564)	(396)	(8,868)
Other income	**5,627**	3,771	1,071	785
Total nonoperating revenues (expenses)	**(12,053)**	32,555	11,963	(56,571)
Change in net assets	**833,419**	207,478	115,848	510,093
Net assets, beginning of year	**4,447,538**	1,618,104	971,102	1,858,332
Other changes in net assets	**218,713**	-	-	218,713
Net assets, end of year	**$ 5,499,670**	$ 1,825,582	$ 1,086,950	$ 2,587,138

Citizens Property Insurance Corporation

Supplemental Revenues, Expenses, and Claim Development Information

(in Thousands)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net earned premiums and investment revenue	$ 575,853	$ 754,581	$ 929,691	$ 1,129,092	$ 1,143,973	$ 2,289,760	$ 3,417,277	$ 2,268,368	$ 1,822,227	$ 2,088,293
Unallocated expenses	254,407	283,265	150,578	191,333	227,795	321,522	569,661	442,570	342,840	293,047
Estimated incurred claims and expense, end of policy year	64,812	97,373	243,767	2,721,512	2,138,004	339,770	692,583	839,708	674,431	786,223
Paid (cumulative) as of:										
End of policy year	41,602	44,863	123,943	1,145,602	1,005,020	157,640	353,312	413,175	307,072	330,603
One year later	59,874	77,758	200,635	2,952,024	2,114,174	291,045	555,540	622,104	472,476	
Two years later	63,625	82,694	215,997	3,234,575	2,227,283	326,997	625,868	675,168		
Three years later	64,809	85,512	222,743	3,377,401	2,286,765	341,906	661,758			
Four years later	68,315	86,402	224,527	3,459,449	2,328,746	350,721				
Five years later	68,439	86,738	225,999	3,515,881	2,350,722					
Six years later	68,547	87,041	226,467	3,548,759						
Seven years later	68,629	87,140	226,622							
Eight years later	68,644	87,144								
Nine years later	68,653									
Reestimated incurred claims and expense:										
End of policy year	64,812	97,373	243,767	2,721,512	2,138,004	339,770	692,583	839,708	674,431	786,223
One year later	67,838	87,937	222,519	3,285,721	2,205,877	354,194	678,130	753,244	651,058	
Two years later	66,654	87,011	227,916	3,539,287	2,374,726	359,950	693,332	750,380		
Three years later	66,564	88,085	227,956	3,546,902	2,406,456	358,122	697,792			
Four years later	69,337	87,365	227,454	3,615,254	2,413,674	360,230				
Five years later	69,269	87,188	228,178	3,588,748	2,406,633					
Six years later	68,770	87,200	227,770	3,593,577						
Seven years later	68,684	87,225	227,200							
Eight years later	68,649	87,144								
Nine years later	68,653									
Increase (decrease) in estimated incurred claims and expense from end of policy year	4	(81)	(570)	4,829	(7,041)	2,108	4,460	(2,864)	(23,373)	–

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements 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 years ended December 31, 2010 and have issued our report thereon dated April 28, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Citizens' 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' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Citizens' internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects Citizens' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Citizens' financial statements that is more than inconsequential will not be prevented or detected by Citizens' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Citizens' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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' 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Citizens in a separate letter dated April 28, 2011.

This report is intended solely for the information and use of the Board of Governors, management and the 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 & Co. LLP

Jacksonville, Florida
April 28, 2011