Citizens Property Insurance Corporation

Financial Statements

December 31, 2007 and 2006

Citizens Property Insurance Corporation
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December 31, 2007 and 2006

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Independent Auditors' Report

The Board of Governors
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 years ended December 31, 2007 and 2006, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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 audits provide 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, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2008 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 10, 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 statement of net assets, combining statement of revenues, expenses and changes in net assets (deficit), 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.

Carr, Riggs & Ingram, LLC

Carr, Riggs & Ingram, LLC
April 24, 2008

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 $3.1 billion, increasing the net asset position.

- The Company's total net assets increased by $1.7 billion. This increase is primarily attributable to an increase in cash and investments resulting from funds generated from operations as explained below.

- Operating revenues increased 50% from 2006 to 2007 primarily due to significant growth in the number of policies added in the latter part of 2006 as insurers exited the Florida market.

- Operating expenses increased 48% from 2006 to 2007 due to increases in losses and loss adjustment expenses incurred as well as an increase in agent commissions. Losses and loss adjustment expenses increased due mainly to adverse development on hurricane claims as well as an increase in non-hurricane losses from the increased policy counts. Agent commissions increased consistent with the growth in number of policies and premiums earned.

- Nonoperating revenues decreased from 2006 to 2007 by 97% due largely to both a decrease in assessment income which included assessment income from both a regular and an emergency assessment, and a decrease in net investment income. The decrease in net investment income results from the write-down of certain securities in light of the industry-wide sub-prime mortgage and liquidity crisis experienced in the fall and winter of 2007 and costs incurred to refinance some of Citizens' 1997 bonds.

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 (deficit) 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 (deficit)* present information showing how the Company's net assets (deficit) changed during the most recent year. All changes in net assets (deficit) 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:

	2007	2006	% Change
	(in thousands)		
Assets			
Current assets	$ 8,510,561	$ 5,624,477	51%
Capital assets, net	28,802	17,216	67%
Other noncurrent assets	2,804,686	3,373,694	(17%)
Total assets	$ 11,344,049	$ 9,015,387	26%
Liabilities			
Current liabilities	$ 2,691,979	$ 2,898,997	(7%)
Noncurrent liabilities	5,591,976	4,729,234	18%
Total liabilities	8,283,955	7,628,231	9%
Net assets			
Invested in capital assets	28,802	17,216	67%
Restricted	70,585	-	100%
Unrestricted	2,960,707	1,369,940	116%
Total net assets	3,060,094	1,387,156	121%
Total liabilities and net assets	$ 11,344,049	$ 9,015,387	26%

Assets

As shown above. total assets increased $2.3 billion, or 26%, during 2007 primarily due to an increase in cash and investments resulting from the 2007 net income of approximately $1.7 billion. During 2006, total assets increased $6.0 billion, or 202%, compared to 2005 primarily due to the investment of the proceeds of a $3.0 billion pre-event bond issuance in June 2006, receipt of regular assessment funds and an increase in cash from a reduction of claims payments since there were no major catastrophic events in 2006.

Current assets include cash, cash equivalents, and short-term investments of $7.7 billion and $4.7 billion for the years ended 2007 and 2006. Long-term investments totaled $2.1 billion and $2.5 billion for the years ended 2007 and 2006. The decrease is due largely to a change in Citizens' investment policy which resulted in a shift in investments from long term assets to short term assets due to a change in the Company's benchmark. The new benchmark is tied to the 30-day LIBOR rate which is shorter in duration than the benchmark previously used. During 2006, cash

Financial Analysis (Continued)

Assets (Continued)

and invested assets increased due to a pre-event bond issuance discussed above and cash generated from operations.

Capital assets increased $11.6 million from 2006 to 2007 largely due to the addition and expansion of office space in Tampa and Jacksonville during 2007.

Liabilities

Total liabilities increased $656 million, or 9%, during 2007. This increase is due primarily to an increase in long-term liabilities resulting from the issuance of $1.1 billion in tax-exempt post-event refunding bonds and $950 million in pre-event bonds offset by the maturity and redemption of the 1997 pre-event bonds. During 2006, total liabilities increased $3.0 billion, or 64%. That increase was due to a 2006 $3.05 billion pre-event bond issuance.

Current liabilities are comprised primarily of loss reserves, loss adjustment expense (LAE) reserves, and unearned premium. Loss and LAE reserves increased $138 million or 23%, from 2006 to 2007 and decreased $897 million, or 60%, compared to 2005. The increase in 2007 is attributable to both hurricane and non-hurricane claims. The decrease in 2006 is primarily attributable to hurricane claims. As of December 31, 2007, reserves related to the 2004 and 2005 hurricanes were $290 million as, compared to $212 million as of December 31, 2006 and $1.2 billion as of December 31, 2005. The increase in hurricane claims reserves in 2007 has resulted from adverse legal proceedings with regard to Citizens liability for storm damage. The decrease in 2006 was due to the payout of claims for the storms of 2004 and 2005.

Unpaid losses and LAE reserves not related to hurricanes increased from $249 million as of December 31, 2005 to $376 million as of December 31, 2006 to $435 million as of December 31, 2007. This increase is due largely to a continued increase in the Company's overall exposure as it has added more policies to its book of business, which increased dramatically from 2005 to 2006 as a result of approximately 300,000 policies assumed from the insolvent Poe insurance group.

Unearned premiums increased $19 million, or 1% from 2006 to 2007, primarily due to an increase in direct written premium. The total impact of the increase in direct written premium was largely offset by the depopulation of over 116,000 policies during the last two months of 2007 as insurers began to come back into the state. This had the effect of reducing unearned premium directly. During 2006, unearned premiums increased $850 million, or 112%, which correlated to a 111% increase in direct written premiums caused by increases in premium rates and growth in new policies as business was assumed from the insolvent Poe insurance group.

Financial Analysis (Continued)

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

	2007	2006	% Change
	(in thousands)		
Operating revenue:			
Earned premiums	$ 3,074,754	$ 2,054,285	50%
Operating expenses:			
Losses and LAE incurred	882,925	659,853	34%
Other underwriting expenses	569,661	321,522	77%
	1,452,586	981,375	48%
Operating income	1,622,168	1,072,910	51%
Nonoperating revenues	49,274	1,769,313	(97%)
Gain from operations	1,671,442	2,842,223	(41%)
Federal income tax benefit	2,744	220,459	(99%)
Change in net assets	$ 1,674,186	$ 3,062,682	(45%)
Policies in force	1,304,949	1,298,922	0.5%
Underwriting ratios			
Loss and LAE ratio (calendar year)	29%	32%	(9%)
Expense ratio	19%	16%	18%
Combined ratio	48%	48%	-

Operating Revenue

Direct written premiums increased $317.6 million, or 9%, in 2007 as compared to 2006. Earned premiums increased $1 billion, or 50%, in 2007 as compared to 2006. Policy growth leveled out in 2007, however due to the large policy growth that occurred in the latter part of 2006, a significant part of the premium written in 2006 was earned in 2007. This increase is partially offset by refunds issued in early 2007 resulting from legislative changes as well as an increase in premiums ceded to the Florida Hurricane Catastrophe Fund (FHCF) and to companies assuming Citizens' policies. During 2006, earned premiums increased $999 million, or 95% as compared to 2005, primarily due to growth of new business and premium rate increases. The increase was partially offset by an increase in premiums ceded to the FHCF.

Financial Analysis (Continued)

Operating Revenue (Continued)

Policies in force stayed fairly level during 2007 with an increase of 6,027 policies, or .05%. during 2007 as compared to an increase of 488,905, or 60% during 2006. The 2006 increase in policies was due to the following factors;

- Private insurers reducing hurricane exposure,
- Continued growth in Florida's population,
- Private insurers reducing sinkhole exposure
- Insolvency of Poe insurers which resulted in the transfer of approximately 309,700 policies to Citizens

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 were deemed to remain in effect through December 31, 2008, except for any rates which were lowered. Additionally, Citizens and other insurers were required to make rate filings to reflect the savings associated with purchasing additional coverage from the FHCF. As a result of this legislation, Citizens implemented rate decreases and refunds. During 2007, Citizens' premium rates decreased on average 5.8% and 18.1% for residential policies written in its Personal Lines Accounts (PLA) and High Risk Accounts (HRA), respectively. In addition, the Commercial Lines Accounts (CLA) rates decreased an average of 12.0%. During 2006, Citizens' premium rates increased on average 20.1% and 17.4% for residential policies written in the PLA and HRA, respectively. In addition, the CLA increased an average of 27.4%.

Premiums ceded to the FHCF totaled $488.3 million and $390.1 million during 2007 and 2006, respectively, and are included in net earned premiums. The increase in FHCF premium is attributed to both an increase in exposure and the additional insurance coverage provided by the FHCF as a result of legislative changes. The Company entered into excess of loss reinsurance agreements with private reinsurers in 2005, but not in 2007 or 2006, for both the PLA and HRA. The ceded excess of loss premiums in 2006 were $6.7 million.

During 2007 and 2006, premiums ceded to certain Takeout Companies totaled $269.3 million and $52.9 million, respectively. A significant portion of the additional premium ceded to takeout companies occurred during the last quarter of 2007.

Financial Analysis (Continued)

Operating Expenses

Losses and LAE incurred increased $223 million, or 34%, in 2007 as compared to 2006, due mainly to adverse development in claims related to the 2004 and 2005 hurricanes as well as an increase in the non-catastrophe claims costs. Losses and LAE decreased $2.1 billion, or 76%, as of December 31, 2006, due mainly to the lack of catastrophic events in 2006, as compared to 2005.

Other underwriting expenses increased $248 million, or 77%, in 2007. Certain underwriting expenses such as agent commissions and premium taxes, are determined based on written premiums and will increase proportionately. During 2007, commission and premium and other tax expenses consisted of 52% and 23% of other underwriting expenses, respectively. During 2006, other underwriting expenses increased $94 million, or 41%, and commission and premium and other tax expenses consisted of 57% and 4% of total underwriting expenses, respectively. The increase in the ratio of premium and other taxes to other operating expenses from 2007 to 2006 relates to a Florida Insurance Guaranty Association (FIGA) assessment levied during 2007 coupled with the recognition of a state income tax refund in 2006, which had the effect of reducing taxes recognized in that year.

Non-operating Income (Expenses)

Non-operating income/expenses consist mainly of assessment income, net investment income, and interest expense. Non-operating income decreased $1.7 billion, or 97% in 2007 as compared to 2006 which corresponds to the decrease in assessment income of $1.7 billion, or 96%. Assessment income of $68 million was recognized in 2007 which is related to a FIGA emergency assessment recoupment. In 2006, assessment income of $1.8 billion was levied by Citizens for both a regular and an emergency assessment which resulted in a $1.3 billion, or 272%, increase in non-operating income.

Economic Factors

Citizens management continues to evaluate the best sources of liquidity as it prepares for the 2008 hurricane season. Subsequent to yearend, management determined that its 2004, 2006, and 2007 auction rate securities were not providing the best source of 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. Consequently, management determined that the best course of action was to redeem these securities and pursue other sources of liquidity. Management is currently negotiating lines of credit and is considering a new bond issue that would be tied to a fixed floating rate.

Economic Factors (Continued)

Citizens High Risk Account bond ratings were upgraded from A3 to A2 by Moody's Investor Service on April 4. 2008. This indicates that the financial community has favorably evaluated Citizens financial stability.

During 2007, management continued to administer programs designed to reduce the number of polices written by Citizens. As a residual market mechanism, the mission of Citizens is to provide property insurance to applicants who are in good faith entitled to obtain insurance through the voluntary market but are unable to do so. Citizens' depopulation program is designed to return policies to the voluntary market. Takeout activity has increased in 2007 as compared to 2006. The private market has responded by removing policies from both the Personal Lines Account and the High-Risk Account. During 2007, 247,923 PLA policies and no HRA policies were assumed by private insurers, as compared to 26,225 PLA policies and 41,628 HRA policies assumed during 2006 and 218,128 PLA policies and 75,556 HRA policies assumed during 2005.

Legislation in 2007 significantly changed the standards Citizens uses to set rates. Citizens' is now allowed to set actuarially sound but competitive rates.

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

Financial Statements

Citizens Property Insurance Corporation
Statements of Net Assets

	December 31 2007	2006
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ **3,251,622**	$ 2,873,260
Short-term investments	**4,453,493**	1,880,518
Restricted cash and cash equivalents	**70,585**	-
Deferred policy acquisition costs	**149,921**	152,829
Investment income due and accrued	**29,400**	37,349
Prepaid reinsurance premiums	**144,733**	11,338
Reinsurance recoverable	**122,405**	129,044
Premiums receivable, net	**126,630**	229,622
Premiums receivable from assuming companies	**10,989**	13,599
Income tax recoverable	**-**	168,060
Current portion of assessment receivables	**150,783**	128,858
Total current assets	**8,510,561**	5,624,477
Noncurrent assets:		
Long-term investments	**2,098,685**	2,493,102
Deferred takeout bonus	**14,775**	32,875
Capital assets, net	**28,802**	17,216
Assessment receivables	**686,243**	843,127
Other assets	**4,983**	4,590
Total noncurrent assets	**2,833,488**	3,390,910
Total assets	$ **11,344,049**	$ 9,015,387

See accompanying notes to financial statements.

	December 31 2007	December 31 2006
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Loss reserves	$ 569,747	$ 506,438
Loss adjustment expense reserves	155,653	81,168
Unearned premiums	1,631,878	1,612,914
Reinsurance premiums payable	42,348	7
Advance premiums and suspended cash	130,535	175,357
Interest payable	27,200	43,340
Taxes and fees payable	11,856	15,767
Current portion of long-term debt	49,906	398,845
Other current liabilities	72,856	65,161
Total current liabilities	2,691,979	2,898,997
Noncurrent liabilities:		
Long-term debt	5,591,976	4,729,234
Total noncurrent liabilities	5,591,976	4,729,234
Total liabilities	8,283,955	7,628,231
Net assets:		
Invested in capital assets	28,802	17,216
Restricted	70,585	-
Unrestricted	2,960,707	1,369,940
Total net assets	3,060,094	1,387,156
Total liabilities and net assets	$ 11,344,049	$ 9,015,387

See accompanying notes to financial statements.

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

	Years Ended December 31 2007	2006
	(In Thousands)	
Operating revenue:		
Premiums earned, net	$ 3,074,754	$ 2,054,285
Operating expenses:		
Losses incurred	711,238	589,744
Loss adjustment expenses incurred	171,687	70,109
Service company fees	13,075	7,819
Agent commissions, net	294,310	182,727
Taxes and fees	130,673	13,818
Processing and other fees	4,469	3,662
Other underwriting expenses	104,504	94,259
Takeout bonus expense	22,630	19,237
	1,452,586	981,375
Operating income	1,622,168	1,072,910
Nonoperating revenues (expenses):		
Net investment income	342,523	235,475
Interest expense	(337,630)	(224,299)
Assessment income	68,008	1,765,581
Line of credit fees and note issuance costs	(23,627)	(7,444)
Total nonoperating revenues	49,274	1,769,313
Gain from operations	1,671,442	2,842,223
Federal income tax benefit	2,744	220,459
Change in net assets	1,674,186	3,062,682
Net assets (deficit), beginning of year	1,387,156	(1,675,601)
Accumulated other comprehensive income (loss)	(1,248)	75
Net assets, end of year	$ 3,060,094	$ 1,387,156

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Cash Flows

	Years Ended December 31 2007	2006
	(In Thousands)	
Operating activities		
Premiums collected, net of reinsurance	$ 3,027,742	$ 2,710,499
Losses and loss adjustment expenses paid	(745,131)	(1,557,263)
Payments to employees for services	(41,900)	(28,354)
Payments for underwriting expenses	(455,342)	(400,566)
Other operating receipts (payments)	170,804	(2,500)
Net cash provided by operating activities	1,956,173	721,816
Noncapital financing activities		
Debt issuance	672,577	3,050,000
Interest paid	(357,266)	(217,702)
Assessment income received	202,967	890,240
Financing costs paid	(178,906)	(48,076)
Net cash provided by noncapital financing activities	339,372	3,674,462
Capital and related financing activities		
Capital assets acquired	(20,197)	(14,336)
Net cash used in capital and related financing activities	(20,197)	(14,336)
Investing activities		
Proceeds from investments sold, matured or repaid	15,578,511	23,138,646
Investments acquired	(15,627,637)	(25,014,122)
Net investment income (paid) received	(1,777,275)	211,263
Net cash used in investing activities	(1,826,401)	(1,664,213)
Net increase in cash and cash equivalents	448,947	2,717,729
Cash and cash equivalents:		
Beginning of year	2,873,260	155,531
End of year	$ 3,322,207	$ 2,873,260
Classified as:		
Cash and cash equivalents	$ 3,251,622	$ 2,873,260
Restricted cash and cash equivalents	70,585	–
	$ 3,322,207	$ 2,873,260

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Cash Flows
(Continued)

	Years Ended December 31	
	2007	**2006**
	(In Thousands)	
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 1,622,168**	$ 1,072,910
Depreciation expense	**8,591**	6,663
Loss on disposal of capital assets	**20**	2,090
Adjustments to reconcile net cash provided by operating activities:		
(Increase) decrease in operating assets:		
Deferred policy acquisition costs	**2,908**	(87,498)
Prepaid reinsurance premiums	**(133,395)**	46,047
Reinsurance recoverable	**6,639**	(112,842)
Premiums receivable, net	**105,602**	(226,492)
Income tax benefit	**170,804**	(2,500)
Deferred takeout bonus	**18,100**	22,090
Other assets	**(2,078)**	(1,380)
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	**137,794**	(897,410)
Unearned premiums	**18,964**	850,337
Reinsurance premiums payable	**42,341**	(30,194)
Advance premiums and suspended cash	**(44,822)**	99,164
Taxes and fees payable	**(3,911)**	(15,228)
Other current liabilities	**7,696**	(4,016)
Accumulated other comprehensive income	**(1,248)**	75
Net cash provided by operating activities	**$ 1,956,173**	$ 721,816
Noncash supplementary information		
Net unrealized (gain) loss on investments	**$ (4,240)**	$ 25,282

See accompanying notes to financial statements.

NOTE 1 - GENERAL

Citizens Property Insurance Corporation (Citizens) was established on August 1, 2002, pursuant to Section 627.351(6), Florida Statutes (the Act), to provide certain residential and non-residential property insurance coverage to qualified risks in the State of Florida under circumstances specified in the Act. The original intent of the legislation was that property insurance be provided through Citizens to applicants who are in good faith entitled to procure insurance through the voluntary market but are unable to do so. Citizens results from a combination of the Florida Residential Property and Casualty Joint Underwriting Association (the FRPCJUA) and the Florida Windstorm Underwriting Association (the FWUA). The FRPCJUA was renamed Citizens and the FWUA's rights, obligations, assets, liabilities and all insurance policies were transferred to Citizens. Unlike private insurers offering coverage through the admitted market, Citizens is not required to obtain or to hold a certificate of authority issued by the Florida Office of Insurance Regulation (the Office). For purposes of its tax-exempt status, Citizens is considered a political subdivision and an integral part of the State of Florida. As such, Citizens' operations may be affected by the legislative process. In 2007, the Act was amended to recognize Citizens' status as a governmental entity and 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) which 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 (executive director) is subject to confirmation by the Florida Senate.

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

NOTE 1 - GENERAL (CONTINUED)

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

Citizens has determined that it has no component units that should be included in its separately reported financial statements. However, the Florida Market Assistance Plan (FMAP) is a financially related entity. FMAP is a 501(c)(6) entity created by Section 627.3515, Florida Statutes. FMAP was created for the purpose of assisting in the placement of applicants who are unable to procure property or casualty insurance coverage from authorized insurers when such insurance is otherwise generally available. As provided in FMAP's enabling legislation, each person serving on the Board of Citizens also serves on the Board of FMAP. In addition, Citizens is required to fund any deficit incurred by FMAP in performing its statutory purpose. 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 FRPCJUA began operations on January 21, 1993, after Hurricane Andrew, pursuant to Section 627.351(6), Florida Statutes, to provide certain residential property insurance coverage to qualified risks in the State of Florida (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. These policies excluded windstorm coverage on properties within eligible areas. 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 FWUA, which was a residual market mechanism for windstorm and hail coverage in selected 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.

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 and interpretations, 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, 2007, 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 – 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."

Adoption of New Accounting Standards

On January 1, 2006, Citizens adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109. FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements.

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 statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (revenues) and decreases (expenses) in total net assets. The statement of cash flows provides information about how Citizens finances and meets the cash flow needs of its activities.

Cash, Cash Equivalents, and Investments

Cash consists of demand deposits held with financial institutions, various highly liquid money market funds, and amounts deposited with the State of Florida Chief Financial Officer's Special Purpose Investment Trust Account (the Special Purpose Account). The Special Purpose Account consists of pooled funds invested by the Chief Financial Officer of the State of Florida under the guidelines provided by Section 18.10, Florida Statutes. Deposits whose value exceed the limits of Federal depository insurance are entirely insured or collateralized pursuant to Chapter 280 of the Florida Statutes under the Florida Security for Public Deposits Act. For purposes of the statement of cash flows, highly liquid investments with original maturities of three months or less at the time of acquisition are considered to be cash.

Investments consist of relatively low-risk, highly liquid fixed-maturity securities and amounts deposited with the Local Government Investment Pool administered by the Florida State Board of Administration. Such investments are recorded at market value, which is based on independent quoted market prices. Citizens considers all investments with remaining maturities of one year or less to be short-term.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Policy Acquisition Costs

Costs which vary directly with acquiring, renewing and servicing an insurance policy such as net agent commissions, servicing company fees and other taxes and fees (see Note 7) are deferred and recognized over the term of the related policy. Amortization of deferred policy acquisition costs recognized for the years ended December 31, 2007 and 2006 was $442.5 million and $208.9 million, respectively.

Deferred Takeout Bonus

Takeout bonuses incurred in connection with the depopulation of Citizens (see Note 12) 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.

Capital Assets

Capital assets are stated at cost less related accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of three to seven years. Depreciation expense for fixed assets was $8.6 million and $6.7 million for the years ended December 31, 2007 and 2006.

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 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 are recorded as earned on a daily pro rata basis over the policy period. The portion of premiums not earned at the end of the period 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 was $8.2 million and $8.1 million at December 31, 2007 and 2006, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses

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

Assessments made pursuant to the Act and the Plan are recognized as revenue and recorded as receivable in the period approved by the Board and the Office and levied by Citizens (See Note 15). Assessment receivables are considered to be fully collectible.

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. Premium ceded includes both catastrophic reinsurance purchases and depopulation premiums.

Note Issuance Costs

Note issuance costs incurred in connection with acquiring notes payable (see Note 6) are deferred and amortized over the life of the note agreements.

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.

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 54.13% of Citizens' insurance coverage exposure lies in the Southeast Florida counties of Miami-Dade, Broward, Monroe and Palm Beach as of December 31, 2007. Approximately 11.12% of Citizens' insurance coverage lies in Pinellas and

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Hillsborough counties as of December 31, 2007. 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.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, premiums receivable, 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, 2007, 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 2006 amounts to conform to the 2007 presentation.

NOTE 3 - INVESTMENTS

The investment of bond proceeds are required by the bond documents to be held in "permitted investments". Permitted investments generally must be rated in one of the two or three highest rating categories of each of the Rating Agencies, depending on the type of investment. Permitted investments include certificates of deposit, money market funds, U.S. Government or Agency obligations, commercial paper, municipal obligations, corporate securities, mortgage backed securities, guaranteed investment contracts, investments in the Local Government Investment Pool, investments in the Special Purpose Investment Account, repurchase agreements collateralized by U.S. Government or Agency obligations, and securities lending agreements.

Citizens has adopted an investment policy which applies to all funds under its control not restricted by the bond documents discussed above. The investment policy provides that a significant portion of Citizens' assets should be in relatively short duration instruments and the majority of Citizens' assets should have a weighted duration consistent with the objectives of maximizing return without exposure to interest rate risk. Citizens may invest in fixed or variable rate instruments that have minimum ratings as specified in the investment policy by one of the Rating Agencies. The minimum ratings differ by security type. Any type of investment security or contract that is not specifically identified in the investment policy is prohibited. All securities in the portfolio should have a maximum maturity of 5 years or an average life of five years for mortgage and asset backed securities. The entire portfolio must be convertible into cash within 15 business days to provide prompt payment of potential claims.

NOTE 3 - INVESTMENTS (CONTINUED)

- *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 one of the three Nationally Recognized Rating Agencies. The table which follows is the Market Value by rating classification as reported by Moody's Rating Agency. This table includes debt securities of the US government and obligations of U.S. government agencies that are explicitly guaranteed, including U.S. Treasury & GNMA investments as well as corporate bonds.

Rating	Market Value *(in thousands)*
A1	$ 407,522
A2	450,443
A3	279,602
AA1	198,437
AA2	105,880
AA3	641,669
AAA	3,379,160
P1	329,083
Not Prime	277,161
Not Rated/Rating Withdrawn	482,103
Agency Mortgage Backed Securities	1,118
	$ 6,552,178

- *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, 2007 and 2006, 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. The State Board of Administration's Local Government Investment Pool held 16% of Citizens assets, or $1.8 billion. Citizens also had 8.4% of total assets invested in the Dreyfus Institutional Cash Fund. No other single issuer 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 company's investment policy requires each investment manager to have an average portfolio rating of AA, while keeping weighted average maturity at 365 days for those investments managed to the 30 Day LIBOR Index Merrill Lynch L4US. The table which follows reflects the duration by security type at December 31, 2007.

NOTE 3 - INVESTMENTS (CONTINUED)

	Market Value *(in thousands)*	Weighted Average Maturity
U.S. Government & Agency	$ 41,173	1,480 Days
Corporate	6,509.814	578 Days
Mortgage Backed Securities	1.191	1,289 Days
	$ 6.552,178	584 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, 2007 and 2006, respectively.

NOTE 4 - FIXED ASSETS

A summary of changes in fixed assets and depreciation for the year ended December 31, 2007 follows:

	Beginning Balance	Additions	Reductions/ Adjustments	Ending Balance
		(in thousands)		
Leasehold improvements	$ 3,656	$ 2,572	$ -	$ 6,228
Furniture and equipment	16.316	10,360	(197)	26,479
Other capital assets	18,488	7,265	-	25,753
Totals at historical cost	38,460	20,197	(197)	58,460
Less accumulated depreciation for:				
Leasehold improvements	(768)	(473)	-	(1,241)
Furniture and equipment	(8,777)	(3,976)	166	(12,587)
Other capital assets	(11,699)	(4,142)	11	(15,830)
	(21.244)	(8,591)	177	(29,658)
	$ 17,216	$ 11,606	$ (20)	$ 28,802

NOTE 4 - FIXED ASSETS (CONTINUED)

A summary of changes in fixed assets and depreciation for the year ended December 31, 2006 follows:

	Beginning Balance	Additions	Reductions/ Adjustments	Ending Balance
		(in thousands)		
Leasehold improvements	$ 1,980	$ 1,676	$ -	$ 3,656
Furniture and equipment	11,819	4,667	(170)	16,316
Other capital assets	12,960	7,993	(2,465)	18,488
Totals at historical cost	26,759	14,336	(2,635)	38,460
Less accumulated depreciation for:				
Leasehold improvements	(422)	(346)	-	(768)
Furniture and equipment	(6,170)	(2,772)	165	(8,777)
Other capital assets	(8,534)	(3,545)	380	(11,699)
	(15,126)	(6,663)	545	(21,244)
	$ 11,633	$ 7,673	$ (2,090)	$ 17,216

NOTE 5 - LIABILITY FOR LOSS RESERVES AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the liability for loss reserves and loss adjustment expense reserves for the years ended December 31, 2007 and 2006 were as follows:

	2007	2006
	(in thousands)	
Loss reserves and loss adjustment expense reserves, beginning of year	$ 587,606	$ 1,485,016
Incurred related to:		
Current year	692,583	339,770
Prior years	190,342	320,083
Total incurred	882,925	659,853
Paid related to:		
Current year	353,312	157,640
Prior years	391,819	1,399,623
Total paid	745,131	1,557,263
Loss reserves and loss adjustment expense reserves, end of year	$ 725,400	$ 587,606

As a result of changes in estimates of insured events in prior years, primarily due to the underestimation of costs relating to prior year hurricane claims, the provision for loss and loss adjustment expenses increased by $190.0 million and $320.0 million in 2007 and 2006, respectively.

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

Citizens has entered into agreements with several outside companies that provide claim adjustment services in its non-catastrophic operations. These agreements provide for compensation to the companies based on a graduated fee schedule. The fee schedule is based on the gross claim amount and type of loss handled by the companies. Compensation for claims services performed during a catastrophe is paid pursuant to a catastrophe specific fee schedule, which may be graduated based upon demand surge following large catastrophic events. The agreements are effective for one year, with provisions for automatic renewal for successive one-year periods. Any additional liability that may ultimately result from unusual loss or loss adjustment expenses is not expected to have a material adverse effect on the financial position or results of operations of Citizens.

NOTE 6 - BONDS PAYABLE

Series 1997A issued August 25, 1997 and Series 1999A issued March 31, 1999 – In August 1997 and March 1999, the pre-merger FWUA issued \$750 million and \$1.0 billion of secured notes, respectively. The bonds were issued for the purpose of funding losses in the event of a future catastrophe. Repayment and annual debt service of the High-Risk Account bonds was facilitated through premium and surcharge revenues, unused proceeds of the bonds, amounts available under the High-Risk Account Line of Credit (See Note 9), Regular Assessments and Emergency Assessments (See Note 15), as necessary.

The bonds stated interest rates ranged from 6.70% to 7.125% per annum. The interest on the bonds was payable semi-annually on February 25th and August 25th. No principal payments were made during 2006. Outstanding maturities on these notes were \$1.3 billion at December 31, 2006. The Series 1997A bonds matured on August 25, 2007 and the Series 1999A bonds were refinanced on February 26, 2007.

Series 1997A, issued May 13, 1997 – In May 1997, the pre-merger FRPCJUA issued \$500 million of Series 1997A Notes for the Personal Lines Account and Commercial Lines Account. The bonds were issued for the purpose of funding losses in the event of a future catastrophe. The bonds were secured by a security interest in emergency assessments (See Note 15). Under certain circumstances the bonds were also secured by and payable by regular assessments or reimbursements received by or on behalf of Citizens from the Florida Hurricane Catastrophe Fund (FHCF - see Note 10). The trust indenture contained covenants that imposed restrictions on Citizens' ability to sell, lease, pledge, assign or otherwise encumber or dispose of its security interest. The bonds were a direct and general obligation of Citizens and were secured ratably and without preference with Citizens' Personal Lines Account and Commercial Lines Account line of credit agreement (see Note 9).

NOTE 6 - BONDS PAYABLE (CONTINUED)

The bonds stated interest rate ranged from 7.45% to 7.625% per annum. The interest on the bonds was payable semi-annually on January 1st and July 1st. No principal payments were made during 2006. Outstanding maturities on these notes were $100 million at December 31, 2006. The bonds matured on July 1, 2007.

Series 2004A through 2004I Bonds – During May 2004, Citizens issued $750 million of senior secured bonds for the purpose of funding losses in the High-Risk account in the event of a future catastrophe. The bonds were issued in multiple series and bear interest at variable, auctioned rates, based on 30-day LIBOR (auctioned at 6.15% at December 31, 2007), for generally successive 28-day auction periods. These bonds are secured by pledged revenues which consist of moneys 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 July 1, 2016 and July 1, 2024. No principal payments were made during 2007 and 2006. The fair market value of the bonds approximates $750 million.

Series 2006A1 through 2006A22 Bonds – During July 2006, Citizens issued $3.05 billion of senior secured bonds for the purpose of funding losses in the High-Risk account in the event of a future catastrophe. The bonds were issued in multiple series and bear interest at variable, auctioned rates (ranging from 5.40% to 6.60% at December 31, 2007) for generally successive 7-day and 28-day auction periods. The bonds are secured by pledged revenues which consist of moneys 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 July1, 2017 to July 1, 2026. No principal payments were made during 2007 and 2006. The fair market value of these bonds approximates $3.05 billion.

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 twelve year treasury note plus 30 basis points. The 2007A bonds bear interest ranging from 3.75% to 5.00% per annum, payable semi-annually on March 1st and September 1st. The bonds are secured by pledged revenues which consist of moneys 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. No principal payments were made during 2007.

NOTE 6 - BONDS PAYABLE (CONTINUED)

Series 2007-1 through 2007-10 Bonds – During July 2007, Citizens issued $950 million of senior secured bonds for the purpose of funding losses in the Personal Lines Account and the Commercial Lines Account in the event of a future catastrophe. The bonds were issued in multiple series and bear interest at variable, auctioned rates (ranging from 4.85% to 6.25% at December 31, 2007) for generally successive 7-day auction periods. The bonds are secured by pledged revenues which consist of moneys 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 July 1, 2018 to July 1, 2022. No principal payments were made during 2007. The fair market value of these bonds approximates $950 million.

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

Year Ending December 31	Principal	Interest	Total
		(in thousands)	
2008	$ 50,000	$ 269,926	$ 319,926
2009	91,580	266,469	358,049
2010	96,160	261,887	358,047
2011	100,995	257,053	358,048
2012	106,125	251,922	358,047
2013-2017	1,042,680	1,159,334	2,202,014
2018-2022	2,750,000	673,670	3,423,670
2023-2027	1,575,000	151,225	1,726,225
Total	$ 5,812,540	$ 3,291,486	$ 9,104,026

Unamortized net premium at December 31, 2007 was $52.1 million.

The total interest expense on the Bonds for the years ended December 31, 2007 and 2006 was $310.8 million and $226.3 million including amortized premium of $3.5 million and discount amortization of $.4 million, respectively, and is included in interest expense in the accompanying statements of revenues, expenses and changes in net assets.

Total deferred issuance costs related to all notes was $222.8 million and $67.5 million at December 31, 2007 and 2006 and is included in "Long term debt" in the Statement of Net Assets. Total bond discount related to all notes was $4.1 million and $4.4 million at December 31, 2007 and 2006 and is also included in "Long term debt" in the Statement of Net Assets.

NOTE 6 - BONDS PAYABLE (CONTINUED)

A summary of changes in long-term liabilities for the year ended December 31, 2007 follows (in thousands):

	12/31/2006	Additions	Reductions	12/31/2007	Due within one year
Bonds Payable - Face	$ 5,200.000	$ 2.012,540	$(1.400.000)	$ 5,812.540	$ 50,000
Less Deferred Issuance Costs and Bond Discount/Premium	(71,921)	38.579	(137.316)	(170.658)	(94)
Bonds Payable	$ 5,128.079	$ 2,051,119	$ (1,537.316)	$ 5,641,882	$ 49.906

Interest Rate Swap Agreements – Citizens had no interest rate exchange agreements outstanding at December 31, 2007 and 2006. However, in connection with the issuance of the Series 1997A Notes issued May 13, 1997, Citizens entered into interest rate exchange agreements with various counterparties for notional amounts of $500 million. The interest rate exchange agreements were terminated during 1998, 2001 and 2002, for which Citizens received termination payments of $7.3 million, $7.6 million, and $10.3 million, respectively. The gain on the terminated interest rate swap agreements has been deferred and is being amortized over the remaining term of the terminated agreements using the effective interest method. The total amount of deferred gain and accrued interest amortized and recognized as a reduction of interest expense for the years ended December 31, 2007 and 2006 was $1.0 million and $2.0 million, respectively.

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.

Additionally, Citizens has entered into agreements with two servicing companies to provide certain services. The first servicing company provides underwriting and policy management services. The agreements related to these services provide for monthly compensation to the companies based on a "Per Transaction Fee" applied to the number of transactions processed in a monthly cycle. The second servicing company provides underwriting, policy management, premium collection, claims administration and claims payment services. These agreements provide for monthly compensation to the company based on a portion decreasing from 15% to

NOTE 7 - AGENT COMMISSIONS AND SERVICING COMPANY FEES (CONTINUED)

6% of the related policies' net written premium as total net written premium increases. In addition, the agreement provides for the servicing company to receive policy issuance fees, as well as inspection fees. Servicing carrier fees included in other underwriting expenses incurred were $13.1 million and $7.8 million, during 2007 and 2006, respectively.

NOTE 8 - INCOME TAXES

Pursuant to a determination letter received from the Internal Revenue Service, Citizens is exempt from federal income tax under Section 501(a) of the Internal Revenue Code and as such, is liable for income taxes only on business income unrelated to the purpose for which it is exempt.

During 2002, the FWUA transferred its assets and liabilities to Citizens in accordance with Florida Statute 627.351(6). At that time, Citizens filed a federal income tax refund claim in excess of $182.0 million related to the transfer. Citizens initially received a refund of approximately $54.9 million from the Internal Revenue Service (the IRS). However, the Internal Revenue Service filed a counterclaim against Citizens seeking payment of past due taxes and interest in the amount of approximately $93.0 million. Given the uncertainty surrounding its tax position, Citizens recorded the $54.9 million refund as a liability. In 2005, Citizens on behalf of the FWUA, filed suit against the IRS asserting that for tax years 1999-2002, the FWUA was a non-taxable entity. In September 2006, Citizens and the IRS mediated a settlement of the suit. Under the settlement, the IRS would relinquish any claim against the FWUA for back taxes and also agreed to pay the FWUA a refund of approximately $120.0 million of previous taxes paid plus accrued interest. Citizens adopted the provisions of FASB Interpretation No. 48, Accounting for Income Taxes, on January 1, 2006. As a result of the implementation of Interpretation 48, Citizens recorded a tax benefit of $220.5 million which included interest of $45.0 million. In addition, a gain of $28.0 million was recognized in 2006 for the expected refund of state income taxes resulting from the federal settlement. In 2007, Citizens recorded a tax benefit of $2.7 million , which was interest earned in 2007 on the income tax recoverable which was received in April 2007 and is included in income tax benefit (expense) in the accompanying financial statements.

NOTE 9 - LINE OF CREDIT AGREEMENTS

Effective July 3, 2007, Citizens entered into a $1.0 billion credit agreement (the 2007 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 2007 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. The expiration of the agreement is July 1, 2008. Citizens is required to pay an annual Facility Fee of .20% on the unused portion of the facility. This rate is based on Moody's and S&P ratings 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. Unused facility fee expense and closing fees associated with this credit agreement were $1.0 million and $.5 million for the year ended December 31, 2007, respectively. As of December 31, 2007, there were no amounts outstanding under this agreement.

Effective August 30, 2006 Citizens entered into a $708.0 million credit agreement (the 2006 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 2006 Line of Credit expired on August 30, 2007. Citizens was required to pay an annual Facility Fee of .25% on the unused portion of the facility. This rate was based on Moody's and S&P ratings of A+ and A2, respectively, on Personal and Commercial Lines Accounts long-term debt. Unused facility fee expense associated with this credit agreement were $.9 million and $.6 million for the years ended December 31, 2007 and 2006, respectively. Closing fees paid for this credit agreement were $.6 million for the year ended December 31, 2006.

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. Premiums ceded to the FHCF, net of refunds received, totaled $488.3 million and $390.1 million, respectively, during 2007 and 2006 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:

NOTE 10 - REINSURANCE AGREEMENTS (CONTINUED)

	2007		2006	
	Coverage Amounts	Retention Amounts	Coverage Amounts	Retention Amounts
Personal and Commercial Lines Accounts	$ 2,628 million	$ 983 million	$ 2,022 million	$ 756 million
High-Risk Account	4,212 million	1,576 million	3,475 million	1,300 million

Citizens did not purchase private reinsurance in 2007 or in 2006. However. Citizens did purchase private reinsurance for the Personal Lines Account and the High Risk Account in 2005. The private reinsurance will reimburse Citizens a specified percentage of losses incurred relating to hurricanes in Florida if a prescribed retention is reached. Reinsurance is on the aggregate level for the Personal Lines Account and on a per occurrence basis in the High Risk Account. Premiums ceded to private reinsurers, net of refunds received, totaled $0 during 2007 and $6.7 million during 2006 and are included in "Net written premiums" in the accompanying statements of revenues, expenses, and changes in net assets. The private reinsurance coverages and retention amounts by account are as follows:

	2005	
	Coverage Amounts	Retention Amounts
Personal Lines Accounts	$ 175 million	$ 225 million
High-Risk Account	282 million	775 million

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

	2007		2006	
	Premiums		Premiums	
	Written	Earned	Written	Earned
	(in thousands)			
Direct	$ 3,717,971	$ 3,699,006	$ 3,400,400	$ 2,550,063
Ceded	(757,646)	(624,252)	(449,731)	(495,778)
Net premiums	$ 2,960,325	$ 3,074,754	$ 2,950,669	$ 2,054,285

Citizens is entitled to $1.1 billion in FHCF reimbursements and to $50.1 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 $90.8 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

NOTE 10 - REINSURANCE AGREEMENTS (CONTINUED)

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 $705.6 million and private reinsurance recoveries of $99.4 million were received as of December 31, 2007.

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 the Company's 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.

Premium ceded above also includes premium ceded to companies that assume policies pursuant to a depopulation program (See Note 12).

NOTE 11 - RETIREMENT PLAN

Deferred Compensation Plan

Citizens sponsors a 457(b)/401(a) deferred 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 $2.0 million and $1.3 million for the years ended December 31, 2007 and 2006, and are included in "Other underwriting expenses" in the accompanying statements of revenues, expenses and changes in net assets (deficit).

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.

NOTE 12 - DEPOPULATION (CONTINUED)

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"). Although the law had been unsettled, Citizens believes that the Florida Insurance Guarantee Association (FIGA), rather than Citizens, is liable for such losses occurring during the assumption period if a Takeout Company were liquidated and unable to meet its obligations to policyholders. In January 2007, Florida law was amended to state that assumed policies are the direct insurance of the Takeout Company, clarifying that FIGA is liable for assumption period losses.

During 2007 and 2006, Citizens ceded \$269.3 million and \$52.9 million in premiums to Takeout Companies pursuant to Assumption Agreements which is included in "Premiums earned" in the accompanying statements of operations.

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. At December 31, 2007 and 2006, assumed premiums in the amount of \$7.0 million and \$12.1 million were due from certain Takeout Companies.

Certain agreements provide for a policy takeout bonus of up to 25% of 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 2007 and 2006, Citizens paid \$15.6 million and \$19.4 million, respectively, out of escrow (net of certain recoveries). During 2007 and 2006, Citizens paid \$6.5 million and \$8.2 million into escrow in accordance with the policy takeout agreements for policies removed in 2007 and 2006. With certain exceptions, Citizens did not have a takeout bonus policy in effect for 2007 depopulation programs. 247,923 policies were removed from Citizens in 2007 pursuant 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. 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 2007 and 2006, Citizens paid into escrow \$0 for underfunded accounts and received \$1.9 million and \$11.0 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 (deficit).

NOTE 13 - OPERATING LEASES

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to $6.0 million and $3.3 million for the years ended December 31, 2007 and 2006. At December 31, 2007, future minimum payments under operating leases are as follows (in thousands):

2008	$ 4,493
2009	4,270
2010	3,661
2011	3,266
2012	1,957
2013 to 2015	3,906
Total	$ 21,553

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Citizens is involved in certain litigation and disputes incidental to its operations. In the opinion of management, after consultation with legal counsel, there are substantial defenses to such litigation and disputes and any ultimate liability, in excess of reserves resulting 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 this litigation, Citizens has not determined the affect, if any, on the financial condition or results of operations.

A summary of potentially significant litigation follows:

Scylla Properties, LLC v. Citizens Property Ins. Corp. This certified class action lawsuit is brought by insureds claiming that Florida's "valued policy law" required Citizens to pay policy limits for 2004 hurricane claimed "total losses" caused by a combination of wind and flood damage, even though flood damage is excluded by Citizens' policies, and the wind damage alone would not have caused the claimed total losses. In September 2007, the Florida Supreme Court ruled favorably to Citizens position in *Florida Farm Bureau Cas. Ins. Co. v. Cox*. As a result, Citizens believes that the *Sylla* class will be decertified.

Poe & Associates, L.L.C. ("Associates") v. Citizens. 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. (See Note 16). Associates seeks significant damages. Its many claims include breach of contract, tortuous interference, equal protection violations, and regulatory taking. Citizens believes it will ultimately prevail on all claims presented.

NOTE 14 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Schirmer v. Citizens. Two related putative class actions seek 2004 and 2005 hurricane damages based on Citizens' alleged failure to pay general contractors' overhead and profit ("O&P") under actual cash value ("ACV") provisions of Citizens' policies. Citizens believes that these cases are not suitable for class treatment. Limited class discovery is underway. Citizens has not determined the potential financial exposure, if any, of this lawsuit.

Jimenez v. Citizens. This putative class action lawsuit filed in February 2007 seeks damages based on Citizens' alleged failure to pay 2005 Hurricane Wilma claims for replacement windows that would meet the high-impact standards of the Florida Building Code and High Velocity Hurricane Zone Standards. Limited class discovery is underway. Citizens has not determined the potential financial exposure, if any, of this lawsuit.

Schlegel v. Citizens. This putative class action lawsuit served in March 2007, seeks damages principally for 2005 Hurricane Wilma claims based on Citizens' alleged failure to pay non-incurred construction permitting fees. Citizens is seeking to compel appraisal under the provisions of the insurance policy. Citizens has not determined the potential financial impact, if any, of this lawsuit.

Risk Management Programs

Citizens is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Workers' compensation, property, and general liability coverage are provided through commercial insurance carriers. 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 - ASSESSMENTS

Citizens' enabling legislation and the Plan establish a process by which Citizens may 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 accounting principles generally accepted in the United States adjusted for certain items.

In the event of a Plan Year Deficit in an Account, Citizens must first levy an immediate assessment against the premium of each Citizens nonhomestead policyholder (the "Citizens Nonhomestead Policyholder Assessment") in each of Citizens' Accounts, as a uniform percentage of the premium of the policy of up to 10% of such premium. If the Citizens Nonhomestead Policyholder Assessment is insufficient to eliminate the deficit, Citizens must levy an additional assessment against all of its policyholders (the "Additional Citizens

NOTE 15 - ASSESSMENTS (CONTINUED)

Policyholder Assessment"), which will be collected at the time of issuance or renewal of a policy, as a uniform percentage of the premium for the policy of up to 10% of such premium, which funds must be used to further offset the deficit. If the Citizens Nonhomestead Policyholder Assessment and Additional Citizens Policyholder Assessment are insufficient to eliminate the deficit in an Account, Citizens would then levy a Regular Assessment on Assessable Insurers and Assessable Insureds and a Citizens Policyholder Surcharge, each as defined herein.

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. For deficits incurred in Plan Year 2007 and thereafter the aggregate amount of a Regular Assessment for a deficit incurred in a particular calendar year will be reduced by the estimated amount to be received by Citizens from the Citizens Policyholder Surcharge.

Such Citizens Policyholder Surcharges will be imposed in conjunction with the levy of Regular Assessments. Citizens Policyholder Surcharges are not subject to commissions, fees, premium or taxes; however, failure to pay a Citizens Policyholder Surcharge will be treated as failure to pay premiums. Citizens Policyholder Surcharges replaced Market Equalization Surcharges which were available prior to the 2007 Plan Year.

If the deficit in any year in any Account is greater than the amount that may be recovered through 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.

NOTE 15 - ASSESSMENTS (CONTINUED)

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 S163.1 million High Risk Account Regular Assessment and the $887.5 million Emergency Assessment were approved in 2006. The assessments will be collected over a ten year period.

NOTE 16 - 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, 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 Corporation, 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 of Insurance Regulation (OIR) 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 Florida Hurricane Catastrophe Fund (FHCF), Citizens was able to purchase FHCF coverage for the Transition Policies at a cost of about $75.0 million for $1.0 billion of coverage.

Citizens received approximately 308,000 homeowner and 1,700 commercial residential policies as a result of the 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.

NOTE 16 - POE FINANCIAL GROUP POLICYHOLDERS (CONTINUED)

As the Transition Policies expired, policyholders were required to reapply to Citizens for coverage under Citizens policy forms and eligibility requirements. All transition policies had expired by December 31, 2007.

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 has received payments of $148.6 million from FIGA through December 2007.

Citizens recorded an estimate of the unearned premium as of July 1, 2006 and recognized an estimate of the earned premium each month thereafter. Additionally, Citizens has recorded an estimated receivable due from FIGA. As of December 31, 2006, the estimated receivable due from FIGA was $205.8 million. During 2007, a reconciliation of the FIGA receivable was prepared. As of December 31, 2007, the receivable due from FIGA was $74.3 million and is included in Premiums receivable, net in the accompanying financial statements. This receivable is net of a guaranty fund assessment FIGA levied on Citizens in October 2007 of $68.0 million. Citizens has also recorded a receivable for the recoupment of this assessment from its policyholders. Citizens has twelve months to recoup the assessment beginning from the time Citizens first begins to bill its policyholders.

NOTE 17 - SUBSEQUENT EVENTS

State Board of Administration Local Government Investment Pool

At December 31, 2007, Citizens had $1.8 billion invested in the Florida State Board of Administration's Local Government Surplus Funds Trust Investment Pool (the "LGIP"). On November 29, 2007, the State Board of Administration implemented a freeze on the assets held in the LGIP due to an unprecedented amount of withdrawals from the LGIP coupled with the absence of market liquidity for certain securities within the LGIP. On December 4, 2007 the State Board of Administration restructured the LGIP into two separate pools. Pool A consisted of all money market appropriate assets, which was approximately $12 billion or 86% of LGIP assets. Pool B consisted of assets that either defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk, which was approximately $2 billion or 14% of Pool assets.

Currently, Pool A participants have limits upon the amounts that may be withdrawn without a redemption fee of 2%. These withdrawal limitations are expected to increase based on the maturities of existing investments and the liquidity requirements of the Pool. On December 21, 2007, Standard and Poor's Ratings Services assigned its "AAAM" principal stability fund rating to Pool A.

NOTE 17 - SUBSEQUENT EVENTS (CONTINUED)

State Board of Administration Local Government Investment Pool (Continued)

Currently, Pool B participants are prohibited from withdrawing any amount from Pool B. Full realization of the principal value of Pool B assets is not readily determinable. As securities in Pool B mature and are paid, they are transferred to Pool A and are immediately available without a redemption fee. On February 11, 2008, approximately $518 million was transferred from Pool B to Pool A which represented about 25% of the Fund B balance. Each participant received a proportionate share of that amount.

As of March 31, 2008, Citizens has $1.1 billion and $183.2 million invested in Pool A and B, respectively.

Auction Rate Securities

At December 31, 2007, Citizens had approximately $4.75 billion of auction rate securities (ARS) outstanding which were issued on a pre-event basis to provide liquidity in the event of a catastrophic event. Given the volatility of the financial markets, Citizens' interest costs have increased and this mode of pre-event liquidity financing is currently being restructured. Citizens has been and intends to continue submitting Bids to purchase in Auctions with respect to the Citizens ARS as well as submit Hold Orders in subsequent Auctions with respect to Citizens ARS purchased by it. Citizens Board of Governors has voted to allow Citizens management to pursue a refinancing of Citizens ARS. Citizens' plan to restructure the ARS includes Letter of Credit Lines, Variable Rate Demand Obligations, Fixed-Rate notes, and other sources.

On March 3, 2008 and March 24, 2008, Citizens issued conditional notices of redemptions for the $950.0 million PLA/CLA 2007 ARS issue and the $750.0 million and $3.05 billion HRA 2004 and 2006 ARS issues. The redemptions began on April 3, 2008 and are scheduled to be completed by May 21, 2008. As of April 24, 2008, the Board approved a fixed rate short-term HRA bond issuance not to exceed $2 billion.

Bond Insurer Downgrade

Several of Citizens bond insurers have experienced downgrades in 2008. AMBAC, insurer of some of Citizens HRA ARS was downgraded to AA from AAA by Fitch and is on negative watch for downgrade by Moody's and S&P. CIFG, insurer of some of Citizens HRA ARS was downgraded to A1 from AAA by Moody's, downgraded to A+ from AAA by S&P, and downgraded to A- from AAA. CIFG is also on negative watch by S&P and Fitch. FGIC, insurer of some of Citizens PLA/CLA and HRA ARS, was downgraded to BAA3 from AAA by Moody's, BB from AAA by S&P, and BBB from AAA by Fitch. MBIA, insurer of some of Citizens HRA ARS and tax-exempt bonds, was downgraded to AA from AAA by Fitch. MBIA remains on negative outlook by Moody's and S&P.

NOTE 18 - RESTRICTED CASH

This restriction of cash represents cash that was prematurely collected by the Florida Surplus Lines Servicing Office (FSLSO) on behalf of Citizens. This cash will be used to offset FSLSO's required future regular and emergency assessments of its insureds. The Florida Office of Insurance Regulation, FSLSO and Citizens agreed that this cash would be included in Citizens restricted surplus until such time as FSLSO would normally bill and collect the assessments due from its insureds. As amounts are approved by FSLSO, Citizens will transfer these funds to unrestricted surplus.

Supplementary Information

Citizens Property Insurance Corporation
Supplemental Combining Statement of Net Assets

December 31, 2007

	Combined	Personal Lines Account	Commercial Lines Account	High Risk Account
		(In Thousands)		
Assets				
Current assets:				
Cash and cash equivalents	$ 3,251,622	$ 428,771	$ 434,375	$ 2,388,476
Short-term investments	4,453,493	1,731,321	623,319	2,098,853
Restricted cash and cash equivalents	70,585	-	-	70,585
Deferred policy acquisition costs	149,921	57,666	28,315	63,940
Investment income due & accrued	29,400	12,581	802	16,017
Prepaid reinsurance premiums	144,733	144,733	-	-
Reinsurance recoverable	122,405	21,837	23,257	77,311
Premiums receivable, net	126,630	99,179	3,468	23,983
Premiums receivable from assuming companies	10,989	8,250	-	2,739
Current portion of assessment receivables	150,783	38,688	11,419	100,676
Total current assets	8,510,561	2,543,026	1,124,955	4,842,580
Noncurrent assets:				
Long-term investments	2,098,685	630,915	196,189	1,271,581
Deferred takeout bonus	14,775	10,027	-	4,748
Capital assets, net	28,802	28,802	-	-
Assessment receivables	686,243	-	-	686,243
Other assets	4,983	4,336	60	587
Inter-account receivable (payable)	-	173,888	(127,917)	(45,971)
Total noncurrent assets	2,833,488	847,968	68,332	1,917,188
Total assets	$ 11,344,049	$ 3,390,994	$ 1,193,287	$ 6,759,768
Liabilities and net assets				
Current liabilities:				
Loss reserves	$ 569,747	$ 305,532	$ 69,229	$ 194,986
Loss adjustment expense reserves	155,653	104,464	13,583	37,606
Unearned premiums	1,631,878	844,215	204,840	582,823
Reinsurance premiums payable	42,348	42,348	-	-
Advance premiums and suspended cash	130,535	42,702	46,479	41,354
Interest payable	27,200	401	124	26,675
Taxes and fees payable	11,856	7,863	2,122	1,871
Current portion of long-term debt	49,906	-	-	49,906
Other current liabilities	72,856	62,636	2,799	7,421
Total current liabilities	2,691,979	1,410,161	339,176	942,642
Noncurrent liabilities:				
Long-term debt	5,591,976	717,749	223,191	4,651,036
Total liabilities	8,283,955	2,127,910	562,367	5,593,678
Net assets:				
Invested in capital assets	28,802	28,802	-	-
Restricted	70,585	-	-	70,585
Unrestricted	2,960,707	1,234,282	630,920	1,095,505
Total net assets	3,060,094	1,263,084	630,920	1,166,090
Total liabilities and net assets	$ 11,344,049	$ 3,390,994	$ 1,193,287	$ 6,759,768

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

	Year Ended December 31, 2007			
	Combined	Personal Lines Account	Commercial Lines Account	High Risk Account
	(In Thousands)			
Operating revenue:				
Premiums earned	$ 3,074,754	$ 1,492,286	$ 577,100	$ 1,005,368
Operating expenses:				
Losses incurred	711,238	543,638	94,299	73,301
Loss adjustment expenses incurred	171,687	115,850	16,606	39,231
Service company fees	13,075	12,191	884	-
Agent commissions, net	294,310	110,375	67,507	116,428
Taxes and fees	130,673	72,940	22,202	35,531
Processing and other fees	4,469	3,617	852	-
Other underwriting expenses	104,504	54,202	12,329	37,973
Takeout bonus expense	22,630	16,616	-	6,014
Total operating expenses	1,452,586	929,429	214,679	308,478
Operating income	1,622,168	562,857	362,421	696,890
Nonoperating revenues (expenses):				
Net investment income	342,523	106,482	36,914	199,127
Interest expense	(337,630)	(22,220)	(6,909)	(308,501)
Assessment income	68,008	38,687	11,420	17,901
Line of credit fees and note issuance costs	(23,627)	(2,187)	(669)	(20,771)
Total nonoperating revenues	49,274	120,762	40,756	(112,244)
Gain from operations	1,671,442	683,619	403,177	584,646
Federal income tax benefit	2,744	-	-	2,744
Change in net assets	1,674,186	683,619	403,177	587,390
Net assets, beginning of year	1,387,156	579,462	227,067	580,627
Accumulated other comprehensive income (loss)	(1,248)	3	676	(1,927)
Net assets, end of year	$ 3,060,094	$ 1,263,084	$ 630,920	$ 1,166,090

Citizens Property Insurance Corporation

Supplemental Revenues, Expenses, and Claim Development Information

(In Thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Net earned premiums and investment revenue	$ 680,546	$ 480,933	$ 462,207	$ 575,853	$ 754,581	$ 929,691	$ 1,129,092	$ 1,143,973	$ 2,289,760	$ 3,417,277
Unallocated expenses	229,694	267,415	258,843	254,407	283,265	150,578	191,333	227,795	321,522	569,661
Estimated incurred claims and expense, end of policy year	326,199	112,544	35,855	64,812	97,373	243,767	2,721,512	2,138,004	339,770	692,583
Paid (cumulative) as of:										
End of policy year	206,255	69,471	19,544	41,602	44,863	123,943	1,145,602	1,005,020	157,640	353,312
One year later	302,455	104,241	27,795	59,874	77,758	200,635	2,952,024	2,114,174	291,045	
Two years later	314,598	111,348	28,941	63,625	82,694	215,997	3,234,575	2,227,283		
Three years later	318,920	113,198	29,830	64,809	85,512	222,743	3,377,401			
Four years later	321,162	112,419	30,089	68,315	86,402	224,527				
Five years later	318,455	112,798	31,186	68,439	86,738					
Six years later	318,921	120,661	30,924	68,547						
Seven years later	328,323	121,034	31,032							
Eight years later	328,350	121,331								
Nine years later	328,391									
Reestimated incurred claims and expense:										
End of policy year	326,199	112,544	35,855	64,812	97,373	243,767	2,721,512	2,138,004	339,770	692,583
One year later	318,084	116,215	31,832	67,838	87,937	222,519	3,285,721	2,205,877	354,194	
Two years later	326,602	118,408	31,698	66,654	87,011	227,916	3,539,287	2,374,726		
Three years later	327,268	119,342	30,932	66,564	88,085	227,956	3,546,902			
Four years later	328,721	117,406	30,652	69,337	87,365	227,454				
Five years later	324,993	114,217	31,648	69,269	87,188					
Six years later	319,452	121,705	31,487	68,770						
Seven years later	328,866	121,435	31,075							
Eight years later	328,802	121,652								
Nine years later	329,884									
Increase (decrease) in estimated incurred claims and expense from end of policy year	1,082	217	(412)	(499)	(177)	(502)	7,615	168,849	14,424	-

Other Reports

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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, 2007 and 2006, and have issued our report thereon dated April 24, 2008. 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 over financial reporting.

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 24, 2008.

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.

Carr, Riggs & Ingram, LLC

Carr, Riggs & Ingram, LLC
April 24, 2008