

Citizens Property Insurance Corporation

Financial Statements

December 31, 2006 and 2005

Citizens Property Insurance Corporation

Table of Contents

December 31, 2006 and 2005

Report of Independent Certified Public Accountants	1 – 2
Management’s Discussion and Analysis	3 – 9
Financial Statements	
Statements of Net Assets (Deficit)	10 – 11
Statements of Revenues, Expenses, and Changes in Net Assets (Deficit)	12
Statements of Cash Flows	13 – 14
Notes to Financial Statements	15 – 38
Supplementary Information	
Supplemental Statement of Net Assets	39
Supplemental Statement of Revenues, Expenses and Changes in Net Assets (Deficit)	40
Supplemental Revenues, Expenses and Claim Development Information	41
Other Reports	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements in Accordance with <i>Government Auditing Standards</i>	42 – 43

Report of Independent Certified Public Accountants

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 year ended December 31, 2006. These financial statements are the responsibility of Citizens' management. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements of Citizens as of December 31, 2005, were audited by other auditors whose report dated May 17, 2006, expressed an unqualified opinion as to conformity with accounting principles generally accepted in the United States of America.

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

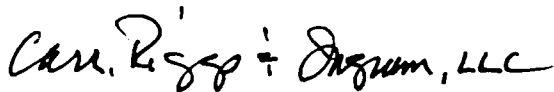
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citizens Property Insurance Corporation as of December 31, 2006, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2007 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 9, 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 statement of net assets, 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.

A handwritten signature in black ink that reads "Carr, Riggs & Ingram, LLC". The signature is written in a cursive, flowing style.

Carr, Riggs & Ingram, LLC
April 18, 2007

Citizens Property Insurance Corporation

Management's Discussion & Analysis

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

Financial Highlights

- The assets of Citizens exceeded its liabilities at the close of the most recent year by \$1.4 billion, creating a net surplus position as compared to the net deficit in 2005 which resulted from the 2005 hurricane season losses.
- The Company's total net assets increased by \$3.1 billion. This increase is primarily attributable to an increase in funds generated from operations due to decreased claims expenses, as well as revenues recognized from an increase in assessment income.
- Operating revenues increased 95% primarily due to a significant increase in new business, including the transition of policies from Poe Financial Group, as well as an increase in premium rates.
- Operating expenses were reduced by 67% as losses and loss adjustment expenses decreased resulting from a decline in catastrophic events as compared to the previous year.
- Nonoperating revenues increased 272% due to an increase in assessment income to recover prior year deficits and net investment income from the investment of bond proceeds for the bonds issued in June 2006.

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 (deficit), 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.

The *statements of net assets (deficit)* presents information on all of the Company's assets and liabilities, with the difference between the two reported as net assets (deficit). Over time, increases or decreases in net assets (deficit) 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)* presents 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 event giving rise to the change occurs, regardless of the timing of related cash flows.

Citizens Property Insurance Corporation Management's Discussion & Analysis

Overview of Financial Statements (Continued)

The *statements of cash flows* presents information about the cash receipts and cash payments during the year. The statement shows the cash effect 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 15 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' Statement of Net Assets (Deficit) is presented below (in thousands):

	2006	2005	% Change
Assets			
Current assets	\$ 6,467,604	\$ 889,552	627%
Fixed assets, net	17,216	11,633	48%
Other long-term assets	2,530,567	2,087,726	21%
Total assets	<u>\$ 9,015,387</u>	<u>\$ 2,988,911</u>	202%
Liabilities			
Current liabilities	\$ 2,898,997	\$ 2,546,235	14%
Long-term liabilities	4,729,234	2,118,277	(123%)
Total liabilities	<u>7,628,231</u>	<u>4,664,512</u>	(64%)
Net assets (deficit)			
Invested in capital assets	17,216	11,633	48%
Unrestricted	1,369,940	(1,687,234)	181%
Total net assets (deficit)	<u>1,387,156</u>	<u>(1,675,601)</u>	183%
Total liabilities and net assets (deficit)	<u>\$ 9,015,387</u>	<u>\$ 2,988,911</u>	(202%)

Citizens Property Insurance Corporation

Management's Discussion & Analysis

Financial Analysis (Continued)

Assets

As shown above, total assets increased \$6.0 billion, or 202%, during 2006 primarily due to the investment of the proceeds of the \$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. During 2005, total assets decreased \$1.4 billion, or 31%, compared to 2004 primarily due to the payment of claims associated with the 2004 and 2005 hurricane seasons.

Current assets include cash, cash equivalents, and short-term investments of \$4.7 million and \$618 million for the years ended 2006 and 2005. Current assets for the year ended 2006 also includes assessment receivables of \$972 million. Long-term investments totaled \$2.5 billion and \$2.0 billion for the years ended 2006 and 2005. These increases are due to the pre-event bond issuance and cash generated from operations described above. During 2005, cash and invested assets decreased as hurricane claims were paid and debt service payments were made.

During the year, Citizens had no significant capital assets activity.

Liabilities

Total liabilities increased \$3.0 billion, or 64%, during 2006. The increase is due primarily to the increase in long-term debt relating to the 2006 \$3.05 billion pre-event bond issuance. The debt credit rating for the High Risk Account was upgraded from A to A+ in May, 2006. Unearned premiums increased significantly but were, offset by a decrease in losses and loss adjustment expense (LAE) reserves. During 2005, total liabilities increased \$52.2 million, or 1%. The increase is due to increases in unearned premiums and loss adjustment expense reserves, offset by a decrease in loss reserves.

Current liabilities are comprised primarily of losses and LAE reserves and unearned premium. Loss and LAE reserves decreased \$897 million or 60%, as of the year ended 2006 compared to the prior year ended 2005. Reserves related to the 2004 and 2005 hurricanes were \$212 million as of December 31, 2006, compared to \$1.2 billion as of December 31, 2005. During 2005, loss reserves decreased \$191 million, or 13%, compared to the prior year ended 2004 as hurricane claims were paid out during 2005.

Unpaid losses and LAE reserves not related to hurricanes increased from \$187 million as of December 31, 2004 to \$249 million as of December 31, 2005 to \$376 million as of December 31, 2006. This increase is due largely to an increase in the Company's overall exposure in 2006 compared to 2005 and 2004 caused by growth in new policies.

Citizens Property Insurance Corporation Management's Discussion & Analysis

Financial Analysis (Continued)

Liabilities (Continued)

Unearned premiums increased \$850 million, or 112%, which correlates to a 111% increase in direct written premiums caused by increases in premium rates and growth in new policies as of year-end 2006. During 2005, unearned premiums increased \$95 million, or 14%, which correlates to a 15% increase in direct written premiums caused by increases in premium rates.

Long-term liabilities increased \$2.6 billion, or 123%, during 2006. This increase is due to the 2006 \$3.05 billion pre-event bond issuance. Long-term liabilities stayed substantially the same at \$2.1 billion during 2005.

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

	2006	2005	% Change
Operating revenue:			
Net earned premiums	\$ 2,054,285	\$ 1,055,746	95%
Operating expenses:			
Losses and LAE incurred	659,853	2,728,171	(76)%
Other underwriting exp	321,522	227,592	41%
	<u>981,375</u>	<u>2,955,763</u>	<u>(67)%</u>
Operating income (loss)	1,072,910	(1,900,017)	156%
Nonoperating revenues	<u>1,769,313</u>	<u>475,524</u>	<u>272%</u>
Gain (loss) from operations	2,842,223	(1,424,493)	300%
Federal income tax benefit	<u>220,459</u>	<u>-</u>	<u>100%</u>
Change in net assets (deficit)	<u>\$ 3,062,682</u>	<u>\$ (1,424,493)</u>	<u>315%</u>
Policies in force	<u>1,298,922</u>	<u>810,017</u>	<u>60%</u>
Underwriting ratios			
Loss and LAE ratio (calendar year)	32%	258%	88%
Expense ratio	16%	22%	27%
Combined ratio	48%	280%	83%

Citizens Property Insurance Corporation Management's Discussion & Analysis

Financial Analysis (Continued)

Earned premiums increased \$999 million, or 95%, during 2006 primarily due to growth of new business and premium rate increases. This increase is partially offset by an increase in premiums ceded to the Florida Hurricane Catastrophe Fund (FHCF). During 2005, earned premiums increased \$33 million, or 3%. This increase was mainly due to premium rate increases and growth of new business, offset by an increase in Premiums ceded to the FHCF and Takeout Companies.

Policies in force increased 488,905, or 60%, during 2006 compared to an increase of 102,440, or 10% during 2005. The increases in policies are 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 2006, Citizens' premium rates increased on average 20.1% and 17.4% for residential policies written in the Personal Lines Account and High Risk Account, respectively. In addition, the Commercial Lines Account increased an average of 27.4%. During 2005, Citizens' premium rates increased on average 19.7% and 11.8% for residential policies written in the Personnel Line Account and High Risk Account, respectively. In addition, the Commercial Lines Account increased an average of 26.1%.

Premiums ceded to the FHCF totaled \$390.1 million, \$193.9 million and \$177.1 million during 2006, 2005 and 2004, respectively, and are included in net earned premiums. The increase in FHCF premium is attributed to both an increase in exposure caused by growth in policies in force as well as an increase in the FHCF premium rates. The Company entered into excess of loss reinsurance agreements with private reinsurers in 2005, but not in 2006 or 2004, for both the PLA and HRA. The ceded excess of loss premiums in 2006 were \$6.7 million, compared to \$52.9 million in 2005.

During 2006, 2005 and 2004, premiums ceded to certain Takeout Companies totaled \$52.9 million, \$232.5 million and \$136 million, respectively.

Citizens Property Insurance Corporation

Management's Discussion & Analysis

Financial Analysis (Continued)

Losses and LAE incurred decreased \$2.1 billion, or 76%, as of December 31, 2006, due mainly to the lack of catastrophic events in 2006. Losses and LAE incurred increased by \$22 million, or 1%, at December 31, 2005 primarily due to the four hurricanes during 2005 combined with increasing reserves during the year for 2004 hurricane losses.

Other underwriting expenses increased \$94 million, or 41%, in 2006 primary due to an increase in policies in force. Certain underwriting expenses, such as producer commissions and premium taxes, are determined based on written premiums and will increase proportionately. During 2006, commission and premium tax expenses consisted of 57% and 4% of total underwriting expenses, respectively. During 2005, other underwriting expenses increased \$36.3 million, or 19%, and commission and premium tax expenses consisted of 48% and 11% of total underwriting expenses, respectively.

Non-operating income/expenses consist mainly of assessment income, net investment income, and interest expense. During 2006, net non-operating revenues increased \$1.3 billion, or 272%. This increase is due mainly to an increase in assessment income of \$1.3 billion.

Economic Factors

During 2006, management continued to administer programs designed to reduce the number of policies written by Citizens. However, takeout activity declined from 2005 and 2004. 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 reduce exposure by providing incentives to private insurers to remove policies from Citizens and to write these policies for their own account. The private market has responded by removing policies from the both the Personal Lines Account and the High-Risk Account. During 2006, 26,225 PLA policies and 41,628 HRA policies have been assumed by private insurers, as compared to 218,128 PLA policies and 75,556 HRA policies assumed during 2005.

Citizens' rate development methodology is based on the highest average premium (calculated for each county in Florida) charged by other residential insurers. This method ensures that Citizens rates are among the highest for each county within Florida. During 2006, Citizens increased homeowner multiperil rates and residential fire/dwelling rates 12.8% and 21.1% respectively, and increased residential wind-only rates for the High-Risk Account 17.4%. Commercial Lines Account rate were also increased 27.4%. During 2005, Citizens increased homeowner multiperil rates and residential fire/dwelling rates 23.2% and 5.1% respectively, and increased residential wind-only rates for the High-Risk Account 11.8%. Commercial Lines Account rate were also increased 26.1%.

Citizens Property Insurance Corporation Management's Discussion & Analysis

Economic Factors (Continued)

Citizens enabling legislation and Plan of operations established a process by which Citizens may levy assessments to recover 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.

In January of 2007, the Florida legislature held a special session to address the lack of availability and increased cost of property insurance. Changes included the following: Citizens rates were frozen at 2006 levels, and its eligibility standards were relaxed. Citizens is authorized to offer commercial non-residential coverage in the Commercial Lines Account territories, which it plans to do as of June 1, 2007. Citizens is now able to offer multi-peril policies in the High Risk Account, which it plans to do as of September 1, 2007. It is the opinion of management that the number of policies and exposure will increase as a result of the new legislation.

Financial Statements

Citizens Property Insurance Corporation
Statements of Net Assets (Deficit)

	December 31	
	2006	2005
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,873,260	\$ 155,531
Short-term investments	1,880,518	462,312
Deferred policy acquisition costs	152,829	65,331
Investment income due and accrued	37,349	19,418
Prepaid reinsurance premiums	11,338	57,385
Reinsurance recoverable	129,044	16,202
Premiums receivable, net	229,622	9,083
Premiums receivable from assuming companies	13,599	7,646
Income tax recoverable	168,060	-
Assessment receivables	971,985	96,644
Total current assets	6,467,604	889,552
Noncurrent assets:		
Long-term investments	2,493,102	2,031,236
Deferred takeout bonus	32,875	54,965
Fixed assets, net	17,216	11,633
Other assets	4,590	1,525
Total noncurrent assets	2,547,783	2,099,359
Total assets	\$ 9,015,387	\$ 2,988,911

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Net Assets (Deficit)
(Continued)

	December 31	
	2006	2005
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Loss reserves	\$ 506,438	\$ 1,267,635
Loss adjustment expense reserves	81,168	217,381
Unearned premiums	1,612,914	762,577
Reinsurance premiums payable	7	30,201
Advance premiums and suspended cash	175,357	76,193
Federal income taxes payable	-	54,899
Interest payable	43,340	37,178
Taxes and fees payable	15,767	30,995
Current portion of long-term debt	398,845	-
Other current liabilities	65,161	69,176
Total current liabilities	2,898,997	2,546,235
Noncurrent liabilities:		
Long-term debt	4,729,234	2,118,277
Total noncurrent liabilities	4,729,234	2,118,277
Total liabilities	7,628,231	4,664,512
Net assets (deficit):		
Invested in capital assets	17,216	11,633
Unrestricted	1,369,940	(1,687,234)
Total net assets (deficit)	1,387,156	(1,675,601)
Total liabilities and net assets	\$ 9,015,387	\$ 2,988,911

See accompanying notes to financial statements.

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

	Years Ended December 31	
	2006	2005
	<i>(In Thousands)</i>	
Operating revenue:		
Premiums earned	\$ 2,054,285	\$ 1,055,746
Operating expenses:		
Losses incurred	589,744	2,401,939
Loss adjustment expenses incurred	70,109	326,232
Service company fees	7,819	8,086
Agent commissions, net	182,727	108,758
Taxes and fees	13,818	26,007
Processing and other fees	3,662	2,824
Other underwriting expenses	94,259	51,297
Takeout bonus expense	19,237	30,620
	<u>981,375</u>	<u>2,955,763</u>
Operating income (loss)	1,072,910	(1,900,017)
Nonoperating revenues (expenses):		
Net investment income	235,475	88,226
Interest expense	(224,299)	(124,390)
Assessment income	1,765,581	515,514
Line of credit fees and note issuance costs	(7,444)	(3,826)
Total nonoperating revenues (expenses)	<u>1,769,313</u>	<u>475,524</u>
Gain (loss) from operations	2,842,223	(1,424,493)
Federal income tax benefit	220,459	-
Change in net assets (deficit)	<u>3,062,682</u>	<u>(1,424,493)</u>
Net assets (deficit), beginning of year	(1,675,601)	(251,033)
Accumulated other comprehensive income (loss)	75	(75)
Net assets (deficit), end of year	<u>\$ 1,387,156</u>	<u>\$ (1,675,601)</u>

See accompanying notes to financial statements.

Citizens Property Insurance Corporation

Statements of Cash Flows

	Years Ended December 31	
	2006	2005
	<i>(In Thousands)</i>	
Operating activities		
Premiums collected, net of reinsurance	\$ 2,710,499	\$ 1,111,488
Losses and loss adjustment expenses paid	(1,557,263)	(2,850,205)
Payments to employees for services	(28,354)	(17,251)
Payments for underwriting expenses	(400,566)	(159,169)
Other operating expenses	(2,500)	-
Net cash provided by (used in) operating activities	<u>721,816</u>	<u>(1,915,137)</u>
Noncapital financing activities		
Debt issuance	3,050,000	-
Interest expense paid	(217,702)	(123,358)
Tax refunds received	-	-
Assessment income received	890,240	418,870
Financing costs paid	(48,076)	(1,578)
Net cash provided by noncapital financing activities	<u>3,674,462</u>	<u>293,934</u>
Capital and related financing activities		
Fixed assets acquired	(14,336)	(8,863)
Net cash used in capital and related financing activities	<u>(14,336)</u>	<u>(8,863)</u>
Investing activities		
Proceeds from investments sold, matured or repaid	23,138,646	4,384,082
Investments acquired	(25,014,122)	(4,143,358)
Net investment income received	211,263	122,498
Net cash (used in) provided by investing activities	<u>(1,664,213)</u>	<u>363,222</u>
Net increase (decrease) in cash and cash equivalents	2,717,729	(1,266,844)
Cash and cash equivalents:		
Beginning of year	155,531	1,422,375
End of year	<u>\$ 2,873,260</u>	<u>\$ 155,531</u>

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Cash Flows
(Continued)

	Years Ended December 31	
	2006	2005
	<i>(In Thousands)</i>	
Operating activities		
Operating income (loss)	\$ 1,072,910	\$ (1,900,017)
Depreciation expense	6,663	4,027
Loss on disposal of fixed assets	2,090	-
Adjustments to reconcile net cash provided by (used in) operating activities:		
(Increase) decrease in operating assets:		
Deferred policy acquisition costs	(87,498)	(1,350)
Prepaid reinsurance premiums	46,047	(21,085)
Reinsurance recoverable	(112,842)	(16,202)
Premiums receivable, net	(226,492)	(10,702)
Income tax benefit	(2,500)	-
Deferred takeout bonus	22,090	(18,223)
Other assets	(1,380)	(382)
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	(897,410)	(122,033)
Unearned premiums	850,337	95,191
Reinsurance premiums payable	(30,194)	30,201
Advance premiums and suspended cash	99,164	8,540
Taxes and fees payable	(15,228)	23
Other current liabilities	(4,016)	36,950
Additional pension liability	75	(75)
Net cash provided by (used in) operating activities	<u>\$ 721,816</u>	<u>\$ (1,915,137)</u>
Noncash supplementary information		
Net unrealized loss on investments	<u>\$ 25,282</u>	<u>\$ 29,842</u>

See accompanying notes to financial statements.

Citizens Property Insurance Corporation

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 property insurance coverage to qualified risks in the State of Florida under circumstances specified in the Act. The intent of the legislation is 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.

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, from different geographical areas of the state. 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 Report by discrete presentation. Citizens has determined that it has no component units that should be included in its separately reported financial statements.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 1 - GENERAL (CONTINUED)

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 are in good faith entitled to procure insurance through the private market but are 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.

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.

Citizens Property Insurance Corporation

Notes to Financial Statements

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 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.

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 Office or the results of its operations or its cash flows.

Prior to January 1, 2003, Citizens prepared its financial statements in accordance with the accounting standards issued by the Financial Accounting Standards Board (FASB). In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "*Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments.*" This standard established financial reporting standards for state and local governments and certain funds of those governmental entities. The State of Florida elected to adopt the provisions of GASB Statement No. 34 for its fiscal year beginning July 1, 2001. During 2003, Citizens adopted the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, GASB Statement No. 34, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. GASB Statement No. 31 establishes accounting and financial reporting for all investments held by governmental entities. GASB Statement Nos. 34 and 37 changed the reporting model for governmental entities and GASB Statement No. 38 modified certain note disclosure requirements for governmental entities.

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:

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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.
- 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.”

The primary impact on Citizens of adopting GASB Statement Nos. 31 and 34 was the requirement to report all investments at fair value and to report the change in the fair value of investments as a component of nonoperating income on the statement of revenues, expenses and changes in net assets. The cumulative effect of this requirement was an immaterial increase in net assets at January 1, 2003. The adoption of GASB Statement Nos. 37 and 38 had no material effect on the financial statements.

Adoption of New Accounting Standards

On January 1, 2005, Citizens adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. This standard enhanced the deposit and investment risk disclosures by updating the custodial credit risk disclosure requirements of GASB Statement No. 3 and addressing other common risks, including concentrations of credit risk, interest rate risk, and foreign currency risk. This Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. It also requires disclosure of deposit and investment policies related to credit risk, interest rate risk and foreign currency risk.

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.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 values exceed the limits of Federal depository insurance are entirely insured or collateralized pursuant to Chapter 280 of the Florida Statutes, "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 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.

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, 2006 and 2005 was \$208,882 and \$145,902, 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.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets

Fixed 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 \$6,663 and \$4,027 for the years ended December 31, 2006 and 2005.

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 \$8,076 and \$2,416 at December 31, 2006 and 2005, respectively.

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.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 over the hurricane season covered by the agreement. 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.

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 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 53.45% of Citizens' insurance coverage exposure lies in the Southeast Florida counties of Miami-Dade, Broward, Monroe and Palm Beach as of December 31, 2006. Approximately 12.36% of Citizens' insurance coverage lies in Pinellas and Hillsborough counties as of December 31, 2006. Severe storm activity in any of these counties could have a significant impact on Citizens' future financial position and results of operations.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2006, management believes the Company had no significant concentrations of credit risk.

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 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.

- **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.

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 3 - INVESTMENTS (CONTINUED)

Rating	Market Value
A1	\$ 215,745
A2	116,448
A3	101,657
AA1	58,851
AA2	107,695
AA3	399,927
AAA	2,749,842
Baa1	3,005
Baa2	625
P-1	214,747
Agency Mortgage Backed Securities	148,880
U.S. Treasury Strips	256,198
	\$ 4,373,620

- ***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, 2006 and 2005, 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 insurer which results in a concentration of credit risk. First American Funds Prime Obligation Money Market Fund was the only issuer to hold more than 5% of the company's invested assets, at 6.04%. 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 duration method. The company's investment policy requires each investment manager to have an average portfolio rating of AA, while keeping duration at 24 months or 1.2 times the benchmark for those investments managed to 100% of Merrill Lynch's 1-3 years Government/Credit A+ Index and keeping duration at five months for those investments managed to the 30 Day LIBOR Index Merrill Lynch LUS1 Index. Currently, the Company uses two benchmarks 1) 30 Day LIBOR and 2) 100% Merrill Lynch 1-3 Government/Credit A+ Index. Cash flow assumptions are obtained from Bloomberg for all mortgage backed and loan backed securities. The table which follows reflects the duration by security type at December 31, 2006.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 3 - INVESTMENTS (CONTINUED)

	Market Value	Modified Duration
U.S. Government & Agency	\$ 1,512,732	1.95 Years
Corporate	2,455,809	2.75 Years
U.S. Treasury Strips	256,198	0.62 Years
Mortgage Backed Securities	148,881	3.28 Years
	<u>\$ 4,373,620</u>	<u>2.37 Years</u>

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, 2006 and 2005, respectively.

NOTE 4 - FIXED ASSETS

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

	Beginning Balance	Additions	Reductions/ Adjustments	Ending Balance
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	<u>26,759</u>	<u>14,336</u>	<u>(2,635)</u>	<u>38,460</u>
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)
	<u>(15,126)</u>	<u>(6,663)</u>	<u>545</u>	<u>(21,244)</u>
	<u>\$ 11,633</u>	<u>\$ 7,673</u>	<u>\$ (2,090)</u>	<u>\$ 17,216</u>

A summary of changes in fixed assets and depreciation for the year ended December 31, 2005 follows:

	Beginning Balance	Additions	Reductions/ Adjustments	Ending Balance
Leasehold improvements	\$ 1,479	\$ 501	\$ -	\$ 1,980
Furniture and equipment	7,134	4,705	(20)	11,819
Other capital assets	9,303	3,657	-	12,960
Totals at historical cost	<u>17,916</u>	<u>8,863</u>	<u>(20)</u>	<u>26,759</u>
Less accumulated depreciation for:				
Leasehold improvements	(349)	(73)	-	(422)
Furniture and equipment	(4,719)	(1,471)	20	(6,170)
Other capital assets	(6,051)	(2,483)	-	(8,534)
	<u>(11,119)</u>	<u>(4,027)</u>	<u>20</u>	<u>(15,126)</u>
	<u>\$ 6,797</u>	<u>\$ 4,836</u>	<u>\$ -</u>	<u>\$ 11,633</u>

Citizens Property Insurance Corporation
Notes to Financial Statements

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, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Loss reserves and loss adjustment expense reserves, beginning of year	\$1,485,016	\$1,607,050
Incurred related to:		
Current year	339,770	2,138,004
Prior years	320,083	590,167
Total incurred	<u>659,853</u>	<u>2,728,171</u>
Paid related to:		
Current year	157,640	1,005,019
Prior years	1,399,623	1,845,186
Total paid	<u>1,557,263</u>	<u>2,850,205</u>
Loss reserves and loss adjustment expense reserves, of year end	<u>\$ 587,606</u>	<u>\$1,485,016</u>

As a result of changes in estimates of insured events in prior years, primarily due to the underestimation of costs relating to multi-causation hurricane claims, the provision for loss and loss adjustment expenses increased by \$320,083 and \$590,167 in 2006 and 2005, respectively.

The 2005 increase in prior year estimates from 2004 estimates was primarily due to underestimates of the 2004 storms.

The decrease in loss and loss adjustment expenses incurred and paid is directly related to the lack of catastrophic losses during 2006 compared to catastrophic losses sustained from hurricanes Dennis, Katrina, Rita and Wilma during 2005.

Citizens has entered into agreements with several outside companies that provide claim adjustment services. 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. In the opinion of management, any additional liability that may ultimately result from unusual loss adjustment expenses will not have a material adverse effect on the financial position or results of operations of Citizens.

Citizens Property Insurance Corporation

Notes to Financial Statements

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 \$750,000 and \$1,000,000 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 is 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 bear interest ranging from 6.70% to 7.125% per annum. The interest on the bonds is payable semi-annually on February 25th and August 25th. No principal payments were made during 2006 and 2005. Outstanding maturities on these notes were \$1,300,000 at December 31, 2006 and 2005. The fair market value of these bonds approximates \$1,448,850.

Series 1997A, issued May 13, 1997 – In May 1997, the pre-merger FRPCJUA issued \$500,000 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 are secured by a security interest in emergency assessments (See Note 15). Under certain circumstances the bonds will also be 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 contains covenants that impose restrictions on Citizens' ability to sell, lease, pledge, assign or otherwise encumber or dispose of its security interest. The bonds are a direct and general obligation of Citizens and are secured ratably and without preference with Citizens' Personal Lines Account and Commercial Lines Account line of credit agreement (see Note 9).

The bonds bear interest ranging from 7.45% to 7.625% per annum. The interest on the bonds is payable semi-annually on January 1st and July 1st. No principal payments were made during 2006 and 2005. Outstanding maturities on these notes were \$100,000 at December 31, 2006 and 2005. The fair market value of these bonds approximates \$100,856.

Series 2004A through 2004I Bonds – During May 2004, Citizens issued \$750,000 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, 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 fair market value of the bonds approximates \$750,000.

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 6 - BONDS PAYABLE (CONTINUED)

Series 2006A1 through 2006A22 Bonds – During July 2006, Citizens issued \$3,050,000 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 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. No principal payments were made during 2006. The fair market value of these bonds approximates \$3,050,000.

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 400,000	\$ 319,800	\$ 719,800
2008	-	299,250	299,250
2009	-	299,250	299,250
2010	-	299,250	299,250
2011	-	299,250	299,250
2012-2016	75,000	1,494,000	1,569,000
2017-2021	2,800,000	1,062,750	3,862,750
2022-2026	1,925,000	302,250	2,227,250
Total	<u>\$ 5,200,000</u>	<u>\$ 4,375,800</u>	<u>\$ 9,575,800</u>

The total interest expense on the Bonds for the years ended December 31, 2006 and 2005 was \$226,289 and \$126,419, including discount amortization of \$434 and \$405 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 \$67,513 and \$26,881 at December 31, 2006 and 2005 and is included in "Long term debt" in the Statement of Net Assets. Total bond discount related to all notes was \$4,408 and \$4,842 at December 31, 2006 and 2005 and is also included in "Long term debt" in the Statement of Net Assets.

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 6 - BONDS PAYABLE (CONTINUED)

A summary of changes in long-term liabilities for the year ended December 31, 2006 follows:

	12/31/2005	Additions	Reductions	12/31/2006	Due within one year
Bonds Payable - Face	\$ 2,150,000	\$ 3,050,000	\$ -	\$ 5,200,000	\$ 400,000
Less Deferred Issuance Costs and Bond Discount	(31,723)	(44,569)	4,371	(71,921)	(1,155)
Bonds Payable	\$ 2,118,277	\$ 3,005,431	\$ 4,371	\$ 5,128,079	\$ 398,845

Interest Rate Swap Agreements – Citizens had no interest rate exchange agreements outstanding at December 31, 2006 and 2005. 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 \$500,000. The interest rate exchange agreements were terminated during 1998, 2001 and 2002, for which Citizens received termination payments of \$7,304, \$7,632, and \$10,250, 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, 2006 and 2005 was \$1,990 and \$2,029, respectively.

NOTE 7 - AGENT COMMISSIONS AND SERVICING COMPANY FEES

Citizens has contracted with various licensed insurance agents 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 entered into agreements with servicing companies to provide underwriting and policy management services. These agreements provide for monthly compensation to the companies based on a “Per Transaction Fee” applied to the number of transactions processed in a monthly cycle. Servicing carrier fees expensed were \$7,819 and \$8,086, during 2006 and 2005, respectively.

Citizens Property Insurance Corporation

Notes to Financial Statements

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 \$182,000 related to the transfer. Citizens initially received a refund of approximately \$54,899 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 \$93,000. Given the uncertainty surrounding its tax position, Citizens recorded the \$54,899 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 \$120,000 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 \$220,459, which includes interest of \$45,000. In addition, a gain of \$28,000 was recognized for the expected refund of state income taxes resulting from the federal settlement which is included in Other income (expense) in the accompanying financial statements.

NOTE 9 - LINE OF CREDIT AGREEMENTS

Effective August 30, 2006 Citizens entered into a \$708,000 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 is secured by a security interest in anticipation of Revenues consisting of FHCF reimbursements and/or regular assessments. The expiration of the agreement is 364 days from August 30, 2006. Citizens is required to pay an annual Facility Fee of .25% on the unused portion of the facility. This rate is based on Moody's and S&P ratings of A+ and A2, respectively, on Personal and Commercial Lines Accounts long-term debt. Annual unused facility fees associated with this credit agreement were \$305 and closing fees were \$618 for the year ended December 31, 2006.

Effective December 29, 2005 Citizens entered into a \$600,000 credit agreement (the 2005 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 2005 Line of Credit was secured by a security interest in anticipation of Revenues consisting of FHCF reimbursements and/or regular assessments. The expiration of the agreement was 364 days from December 29, 2005. Citizens

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 9 - LINE OF CREDIT AGREEMENTS (CONTINUED)

was required to pay an annual Facility Fee of .10% 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. Annual unused facility fees associated with this credit agreement were \$458 and closing fees were \$100 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 \$390,130 and \$193,633, respectively, during 2006 and 2005 and are included in "Premiums earned" in the accompanying statements of operations - statutory basis. 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:

	2006		2005	
	Coverage Amounts	Retention Amounts	Coverage Amounts	Retention Amounts
Personal and Commercial Lines Accounts	\$ 2,022 million	\$ 756 million	\$ 578 million	\$ 178 million
High-Risk Account	3,475 million	1,300 million	3,375 million	1,041 million

Citizens did not purchase private reinsurance 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 reinsurance, net of refunds received, totaled \$6,705 during 2006 and \$52,897 during 2005 and are included in "Net written premiums" in the accompanying statements of operations - statutory basis. The private reinsurance coverages and retention amounts by account are as follows:

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 10 - REINSURANCE AGREEMENTS (CONTINUED)

		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:

		2006		2005	
		Premiums		Premiums	
		Written	Earned	Written	Earned
Direct	\$	3,400,400	\$ 2,550,063	\$ 1,609,085	\$ 1,513,894
Ceded		(449,731)	(495,778)	(479,232)	(458,148)
Net premiums	\$	2,950,669	\$ 2,054,285	\$ 1,129,853	\$ 1,055,746

Citizens is entitled to \$697,204 in FHCF reimbursements and to \$34,070 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 \$66,232 in private reinsurance reimbursement in the Personal Lines Account related to losses incurred and paid as a result of all four hurricanes (Dennis, Katrina, Rita and Wilma) in 2005. The losses incurred and the loss adjustment expenses incurred are presented net of these anticipated recoveries in the accompanying statements of operations - statutory basis. FHCF recoveries of \$432,720 and private reinsurance recoveries of \$78,338 were received as of December 31, 2006.

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.

Citizens Property Insurance Corporation

Notes to Financial Statements

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 \$1,273 and \$823 for the years ended December 31, 2006 and 2005, 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.

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 2006 and 2005, Citizens ceded \$52,897 and \$232,472 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, 2006

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 12 - DEPOPULATION (CONTINUED)

and 2005, assumed premiums in the amount of \$12,134 and \$7,646 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 three years, funds placed in escrow will be released to the Takeout Companies in accordance with the policy takeout agreement. During 2006 and 2005, Citizens paid \$19,428 and \$6,470, respectively, out of escrow (net of certain recoveries). During 2006 and 2005, Citizens paid \$8,200 and \$49,512 into escrow in accordance with the policy takeout agreements for policies removed in 2006 and 2005.

At the end of the three-year 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 2006 and 2005, Citizens paid into escrow \$0 for underfunded accounts and received \$11,028 and \$669, 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 \$3,332 and \$3,078 for the years ended December 31, 2006 and 2005. At December 31, 2006, future minimum payments under operating leases are as follows:

2007	\$ 2,484
2008	2,461
2009	2,235
2010	1,592
2011	1,206
After 2011	2,811
Total	<u>\$ 12,789</u>

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Citizens is involved in certain litigation and disputes incidental to its operations, including the potentially material litigation described below. 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.

A summary of significant litigation follows:

Scylla Properties, LLC v. Citizens Property Ins. Corp. This putative class action lawsuit is brought by insureds seeking damages arising from claimed total losses (or constructive total losses) to their residences during the 2004 hurricane season. The plaintiffs' position is that Florida's "Value Policy Law" required Citizens to pay the policy limits for losses caused by a combination of wind and flood (multi-causation) damage; even though flood damage is excluded by Citizens' policies and the wind damage alone would not have caused a total loss. This has been the ruling by the Fourth District Court of Appeal in *Mierzwa v. Florida Windstorm Underwriting Ass'n.*, and by the First District Court of Appeal in *Cox v. Florida Farm Bureau Ins. Co.* There are many other non-class action cases against Citizens that raise the same issue.

In Scylla, a class was previously certified by the trial court to include all persons whose Citizens-insured structures were damaged in the 2004 hurricanes by a combination of wind and flood in an amount giving rise to an actual or constructive total loss of the insured structures, other than those whose Citizens-insured structures were located in the counties of Broward, Indian River, Martin, Okeechobee, Palm Beach or St. Lucie. The trial court denied Citizens' motion for declaratory judgment and entered final partial summary judgments in favor of the two named plaintiffs equal to the amount of their policy limits. Citizens appealed those final orders to the First District Court of Appeal.

On procedural grounds, the First District Court of appeal de-certified the class and reversed the declaratory judgment and the final partial summary judgments on procedural grounds, remanding the case back to the trial court.

The Florida Supreme Court will likely resolve the ultimate merits of this issue. The Cox case was appealed to the Florida Supreme Court and briefing is under way. There is an argument that, even if the Florida Supreme Court agrees with the First District Court of Appeal in the Cox case, Citizens would not be bound by that decision because of unique language in Citizens' enabling legislation. In another case, however, *Ueberschaer v. Citizens Insurance Property Corporation*, the First District Court of Appeal recently held in its majority opinion that the Valued Policy Law does apply to Citizens. However, the court held that the Valued Policy Law does not apply to claims for ordinance and law coverage. The dissenting opinion stated that, because of its enabling statute, Citizens is not subject to the Valued Policy Law and is not liable for flood damage. Citizens is seeking to have the Florida Supreme Court accept an appeal of this decision.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 14 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Poe Financial Group, Inc., et al v. Citizens. This adversarial proceeding is currently pending in the Bankruptcy Court of the Middle District of Florida. In this proceeding, Poe Financial Group, Inc.; Poe Insurance Managers, LLC; Poe & Associates, LLC; and Mariah Claims Services, LLC (the Poe Affiliates) have asserted multiple counts against Citizens under state and federal law. The principal claim is that Citizens unlawfully terminated its Agent Appointment Agreement with Poe & Associates after Citizens was ordered by the Leon County Circuit Court to take over policies of the following insurance companies after they were ordered into liquidation: Southern Family Insurance Company; Florida Preferred Insurance Company; and Atlantic Preferred Insurance Company. All three companies were owned by Poe Financial Group, Inc. and were affiliates of Poe & Associates.

Citizens intends to vigorously contest all causes of action presented in this case. The Poe Affiliates have claimed that they are seeking \$60 million in damages. Citizens believes it will ultimately prevail on all claims presented and that the Poe Affiliates will not be awarded any damages.

Schirmer v. Citizens. This involves two class action suits seeking, in companion cases, damages and declaratory relief for Citizens' alleged failure to pay general contractor's overhead and profit as part of actual cash value claims. Currently this case is in the discovery stage. Citizens intends to vigorously defend the class action claim. Citizens has not been able to determine 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 claims by certain Citizens' policyholders for properties located in Miami-Dade and Broward counties for damage from Hurricane Wilma. Such claims sought replacement windows that would meet the high-impact standards of the Florida Building Code and High Velocity Hurricane Zone Standards. Citizens has not been able to determine the potential financial exposure, if any, of this lawsuit.

Schlegal v. Citizens. This putative class action lawsuit served in March 2007, seeks damages based on Citizens' alleged failure to pay non-incurred construction permitting fees. Citizens has not been able to determine the 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.

Citizens Property Insurance Corporation

Notes to Financial Statements

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.

When a deficit is incurred in any account in a given plan year, regular assessments are levied on assessable insurers (admitted insurers), as defined in Section 627.351(6), Florida Statutes, based upon their 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, as reduced by any credits for voluntary writings for that year. Regular assessments on assessable insureds (surplus lines policyholders), 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.

Citizens may levy an Emergency Assessment when it incurs a deficit exceeding the amount to be collected under the Regular Assessment. An assessable insurer is required to collect the Emergency Assessment from a policyholder with a policy that is issued or renewed at the same time it collects a premium payment.

The legislature, in Section 44 of 2006 SB 1980, appropriated \$715,000 to reduce Citizens' 2005 plan year deficit. The appropriation first eliminated the deficits in the Personal and Commercial Lines Accounts of \$87,181 and \$4,564, respectively. The balance of \$623,255 then partially reduced the High Risk Account deficit and Regular Assessment. The remaining \$163,079 High Risk Account Regular Assessment and the \$887,502 Emergency Assessment were approved in 2006.

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.

Southern Family Insurance Company, Atlantic Preferred Insurance Company, and Florida Preferred Property Insurance Company of Poe Financial Group (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.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 16 - POE FINANCIAL GROUP POLICYHOLDERS (CONTINUED)

A liquidation plan was approved by the Office of Insurance Regulation (OIR) and ordered by the court whereby, effective July 1, 2006, Citizens has been providing 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), are being processed and paid by Citizens. Any losses incurred on policies of the Poe Insurers prior to July 1, 2006 are being 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 \$75,000 for \$1,000,000 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.

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

The Unearned Premium Due to Citizens for providing the transition coverage will be calculated by the Receiver, i.e. the Department of Financial Services, and then paid by FIGA. The Department of Financial Services (DFS), estimates that the unearned premium due Citizens will not exceed \$269,000, but may be less once the final calculation is completed. Once the calculation is finalized, DFS will inform FIGA of the amount. 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 \$49,750 from FIGA through April 2007.

Citizens recorded an estimate of the unearned premium as of July 1, 2006 and has been recognizing 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 \$205,796 and is included in Premiums receivable, net in the accompanying financial statements.

NOTE 17 - SUBSEQUENT EVENTS

On February 26, 2007 Citizens issued \$1,062,540 of High-Risk Account Senior Secured Refunding Bonds, Series 2007A for the purpose of financing the current refunding and redemption of the outstanding 7.125% Series 1999A Senior Secured Insured Notes due 2019 previously issued by the FWUA, a predecessor of Citizens. Unlike previous bond issuances, this pre-event issuance was tax exempt. The 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.

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 17 - SUBSEQUENT EVENTS (CONTINUED)

On April 5, 2007, Citizens' Board of Governors approved a pre-event financing plan to provide additional liquidity for the Personal Lines Account and the Commercial Lines Account prior to the 2007 hurricane season. The financing plan would be accomplished through a bank financing of approximately \$1,000,000 combined with a capital markets component of approximately \$900,000.

Supplementary Information

Citizens Property Insurance Corporation
Supplemental Statement of Net Assets

December 31, 2006

	Consolidated	Personal Lines Account	Commercial Lines Account	High Risk Account
	<i>(In Thousands)</i>			
Assets				
Current assets:				
Cash and cash equivalents	\$ 2,873,260	\$ 1,021,165	\$ 551,124	\$ 1,300,971
Short-term investments	1,880,518	78,953	6,978	1,794,587
Deferred policy acquisition costs	152,829	64,958	29,634	58,237
Investment income due & accrued	37,349	4,620	1,852	30,877
Prepaid reinsurance premiums	11,338	11,029	-	309
Reinsurance recoverable	129,044	25,723	20,598	82,723
Premiums receivable, net	229,622	195,587	8,640	25,395
Premiums receivable from assuming c	13,599	7,756	-	5,843
Income tax recoverable	168,060	-	-	168,060
Assessment receivables	971,985	-	-	971,985
Total current assets	6,467,604	1,409,791	618,826	4,438,987
Noncurrent assets:				
Long-term investments	2,493,102	26,741	2,363	2,463,998
Deferred takeout bonus	32,875	22,112	-	10,763
Fixed assets, net	17,216	17,216	-	-
Other assets	4,590	1,937	-	2,653
Inter-account receivable (payable)	-	343,380	(64,851)	(278,529)
Total noncurrent assets	2,547,783	411,386	(62,488)	2,198,885
Total assets	\$ 9,015,387	\$ 1,821,177	\$ 556,338	\$ 6,637,872
Liabilities and net assets				
Current liabilities:				
Loss reserves	\$ 506,438	\$ 191,522	\$ 13,212	\$ 301,704
Loss adjustment expense reserves	81,168	54,696	1,468	25,004
Unearned premiums	1,612,914	788,873	244,790	579,251
Reinsurance premiums payable	7	7	-	-
Advance premiums and suspended cas	175,357	56,505	57,591	61,261
Federal income taxes payable	-	-	-	-
Interest payable	43,340	3,503	310	39,527
Taxes and fees payable	15,767	9,910	2,335	3,522
Current portion of long-term debt	398,845	90,932	8,036	299,877
Other current liabilities	65,161	44,867	1,449	18,845
Total current liabilities	2,898,997	1,240,815	329,191	1,328,991
Noncurrent liabilities:				
Long-term debt	4,729,234	900	80	4,728,254
Total liabilities	7,628,231	1,241,715	329,271	6,057,245
Net assets:				
Invested in capital assets	17,216	17,216	-	-
Unrestricted	1,369,940	562,246	227,067	580,627
Total net assets	1,387,156	579,462	227,067	580,627
Total liabilities and net assets	\$ 9,015,387	\$ 1,821,177	\$ 556,338	\$ 6,637,872

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

Year Ended December 31, 2006

	Consolidated	Personal Lines Account	Commercial Lines Account	High Risk Account
	<i>(In Thousands)</i>			
Operating revenue:				
Premiums earned	\$ 2,054,285	\$ 979,120	\$ 265,810	\$ 809,355
Operating expenses:				
Losses incurred	589,744	260,477	10,968	318,299
Loss adjustment expenses incurred	70,109	73,459	(8,979)	5,629
Service company fees	7,819	7,819	-	-
Producer commissions, net	182,727	59,963	29,429	93,335
Taxes and fees	13,818	20,154	5,132	(11,468)
Processing and other fees	3,662	2,936	726	-
Other underwriting expenses	94,259	39,939	15,938	38,382
Takeout bonus expense	19,237	13,223	-	6,014
Total operating expenses	<u>981,375</u>	<u>477,970</u>	<u>53,214</u>	<u>450,191</u>
Operating income	1,072,910	501,150	212,596	359,164
Nonoperating revenues (expenses):				
Net investment income	235,475	34,969	14,455	186,051
Interest expense	(224,299)	(5,178)	(457)	(218,664)
Assessment income	1,765,581	87,181	4,564	1,673,836
Line of credit fees and note issuance costs	(7,444)	(1,855)	(163)	(5,426)
Total nonoperating revenues	<u>1,769,313</u>	<u>115,117</u>	<u>18,399</u>	<u>1,635,797</u>
Gain from operations	2,842,223	616,267	230,995	1,994,961
Federal income tax benefit	220,459	-	-	220,459
Change in net assets	<u>3,062,682</u>	<u>616,267</u>	<u>230,995</u>	<u>2,215,420</u>
Net assets (deficit), beginning of year	(1,675,601)	(36,805)	(3,928)	(1,634,868)
Accumulated other comprehensive income	75	-	-	75
Net assets, end of year	<u>\$ 1,387,156</u>	<u>\$ 579,462</u>	<u>\$ 227,067</u>	<u>\$ 580,627</u>

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

	Policy Year Ended									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Net earned premiums and investment revenue	648,109	680,546	480,933	462,207	575,853	754,581	929,691	1,129,092	1,143,973	2,289,760
Unallocated expenses	197,729	229,694	267,415	258,843	254,407	283,265	150,578	191,333	227,795	321,522
Estimated incurred claims and expense, end of policy year	174,388	326,199	112,544	35,855	64,812	97,373	243,767	2,721,512	3,189,084	339,770
Paid (cumulative) as of:										
End of policy year	102,805	206,255	69,471	19,544	41,602	44,863	123,943	1,145,602	1,021,222	157,640
One year later	141,554	302,455	104,241	27,795	59,874	77,758	200,635	2,952,024	2,754,276	
Two years later	149,491	314,598	111,348	28,941	63,625	82,694	215,997	3,234,575		
Three years later	151,905	318,920	113,198	29,830	64,809	85,512	222,743			
Four years later	153,608	321,162	112,419	30,089	68,315	86,402				
Five years later	154,427	318,455	112,798	31,186	68,439					
Six years later	155,088	318,921	120,661	30,924						
Seven years later	155,138	328,323	121,034							
Eight years later	155,730	328,350								
Nine years later	155,722									
Reestimated incurred claims and expense:										
End of policy year	174,388	326,199	112,544	35,855	64,812	97,373	243,767	2,721,512	3,189,084	339,770
One year later	157,638	318,084	116,215	31,832	67,838	87,937	222,519	3,285,721	3,003,383	
Two years later	156,317	326,602	118,408	31,698	66,654	87,011	227,916	3,539,287		
Three years later	159,193	327,268	119,342	30,932	66,564	88,085	227,956			
Four years later	158,343	328,721	117,406	30,652	69,337	87,365				
Five years later	157,470	324,993	114,217	31,648	69,269					
Six years later	155,805	319,452	121,705	31,487						
Seven years later	155,465	328,866	121,435							
Eight years later	156,071	328,802								
Nine years later	155,994									
Increase (decrease) in estimated incurred claims and expense from end of policy year	(77)	(64)	(270)	(161)	(68)	(720)	40	253,566	(185,701)	-

Other Reports



CARR, RIGGS & INGRAM, LLC

1713 Mahan Drive
Tallahassee, FL 32308

P | 850 878 8777

F | 850 878 2344

www.cricpa.com

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 financial statements of Citizens Property Insurance Corporation (Citizens), a component unit of the State of Florida, as of and for the year ended December 31, 2006, and have issued our report thereon dated April 18, 2007. We conducted our audit 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 audit, 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.

American Institute of
Certified Public Accountants

Alabama Society of
Certified Public Accountants

Florida Institute of
Certified Public Accountants

Georgia Society of
Certified Public Accountants

Mississippi Society of
Certified Public Accountants

AICPA Alliance for CPA Firms

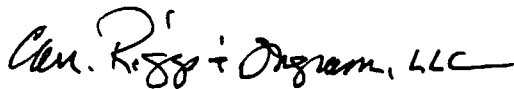
Center for Public
Company Audit Firms

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 18, 2007.

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



Carr, Riggs & Ingram, LLC
April 18, 2007