Date of Notice: Monday, August 13, 2012

PUBLIC NOTICE

A PUBLIC MEETING OF THE GOVERNING BOARD OF THE CALIFORNIA EARTHQUAKE AUTHORITY

NOTICE IS HEREBY GIVEN that the Governing Board of the California Earthquake Authority ("CEA") will meet in West Sacramento, California. Pursuant to California Insurance Code §10089.7, subdivision (j), the Bagley-Keene Open Meeting Act applies generally to meetings of the Board, and the meeting is open to the public—public participation, comments, and questions will be welcome for each agenda item. All items are appropriate for action if the Governing Board wishes to take action. Agenda items may be taken out of order.

LOCATION: **CalSTRS Headquarters Building**
Boardroom – Lobby, E-124
100 Waterfront Place
West Sacramento, California

DATE: **Thursday, August 23, 2012**

TIME: **1:00 p.m.**

AGENDA:

1. Call to order and member roll call:

   Governor
   Treasurer
   Insurance Commissioner
   Speaker of the Assembly
   Chair of the Senate Rules Committee

   Establishment of a quorum

This CEA Governing Board meeting will be broadcast live on the Internet. Please wait until the official start time of the meeting before clicking on either icon:

Audio **Video (with audio)**

If you are unable to log into the meeting please call the CEA at (916) 325-3800 for assistance.

2. Consideration and approval of the minutes of the June 21, 2012, Governing Board meeting.

3. Executive report by Chief Executive Officer Glenn Pomeroy; assisted by CEA executive staff, Mr. Pomeroy's report will include an update for the Board on federal and state legislative activities of interest to the CEA.

4. Chief Financial Officer Tim Richison will present a CEA financial report.

5. Mr. Richison will propose and seek Board approval of the CEA 2013 financial structure.

6. Mr. Richison will present and seek Board approval of a three-year risk transfer contract.

7. CEA Advisory Panel member Brian Deephouse will provide a summary of the proceedings at the July 19, 2012, Panel meeting.

8. Mr. Pomeroy will seek Board authorization to begin recruitment process to hire a CEA Chief Information Officer.

9. Chief Operations Officer Bob Stewart will propose lease modifications and a related CEA budget expense to permit CEA to bring its computer-server room to appropriate insurance-industry standards and to lease limited additional space on a CEA-occupied floor, to better accommodate CEA staff; Mr. Stewart will request the Board to authorize CEO Glenn Pomeroy to negotiate and execute a related amendment to the CEA's office lease.

10. Assistant Chief Financial Officer Mark Dawson will brief the Board on the completed CEA calendar-year-2011 audit by the CEA's independent auditors, Larson & Rosenberger LLP; representatives of that firm will address the Board to elaborate on the written audit report.

11. Mr. Dawson will present to the Board for its consideration and approval the annual transfer to the CEA Mitigation Fund of a statutorily directed portion of CEA investment income.

12. Chief Mitigation Officer Janiele Maffei will update the Board on the CEA's mitigation programming, including its participation in the California Residential Mitigation Program.

13. Senior Counsel Joe Zuber will brief the Board on the renewal of the CEA's Directors and Officers and Employment Practices Liability Insurance coverages and request the Board's approval to renew the policy and pay the annual policy premium.

14. The Board will meet in closed session to discuss personnel matters and litigation matters, as permitted by California Government Code section 11126, subdivisions (a) and (e), respectively.

15. Public comment on items that do not appear on this agenda and public requests that those matters be placed on a future agenda.

16. Adjournment.

For further information about this notice or its contents:

General Information:
Susan Pitton
(916) 325-3800
Toll free (877) 797-4300

California Earthquake Authority
801 K Street, Suite 1000
Sacramento, CA 95814-3518
Toll free (877) 797-4300

Media Contact:
Chris Nance
Chief Communications Officer
(916) 325-3827 (Direct)
nancec@calquake.com

To view this notice on the CEA Web site or to learn more about the CEA, please visit www.EarthquakeAuthority.com

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Persons with disabilities may request special accommodations at this or any future Governing Board meeting or may request the accommodation necessary to receive agendas or materials the CEA prepares for its Board meetings.

Please contact Susan Pitton by telephone, toll free, at (877) 797-4300 or by email at pittons@calquake.com. We would appreciate hearing from you at least five days before the meeting date to best allow us to meet your needs.

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Draft Meeting Minutes are not available.

Please see CEA Governing Board Meeting Approved Minutes.

Governing Board Memorandum

August 23, 2012

Agenda Item 3: Executive Report by Chief Executive Officer Glenn Pomeroy

Recommended Action: No action required – information only

Chief Executive Officer Glenn Pomeroy will present his Executive Report to the Board; assisted by CEA executive staff, Mr. Pomeroy will update the Board on federal and state legislative activities of interest to the CEA.

FINANCIAL REPORT

GOVERNING BOARD MEETING
THURSDAY, August 23, 2012
1:00 P.M.

California Earthquake Authority
Available Capital Report

Capital as of June 30, 2012

Cash & Investments (includes capital contributions and premiums)	$ 4,667,670,492	*
Interest, Securities & Restricted Securities Receivable	75,469,656	
Premium Receivable	38,950,554	
Risk Capital Surcharge & Capital Contributions Receivable	6,924,000	
Other Assets	512,741	
Investments from Revenue Bond Proceeds	(317,136,401)	
Debt Service (Interest, Principal & Debt Service (Min. Bal.))	(42,482,749)	
Unearned Premium Collected	(210,367,141)	
Accrued Reinsurance Premium Expense	(3,517,617)	
Accounts and Securities Payable, and Accrued Expenses	(51,120,269)	
CEA Available Capital	**$ 4,164,903,265**	

** Does not include Earthquake Loss Mitigation Fund cash and investments of $23,284,586*

California Earthquake Authority
Claim-paying Capacity
as of June 30, 2012

Total Capacity $9,697M

California Earthquake Authority
2012 Risk-Transfer Program

Traditional Reinsurance Contracts	Contract Period	Reinsurance Limit	12-Month Rate-on-Line	12-Month Premium
Contract A	January 1, 2012 - December 31, 2012	655,220,000	7.00%	45,865,400
Contract A1	January 1, 2012 - December 31, 2012	400,000,000	7.30%	29,200,000
Contract A2	January 1, 2012 - December 31, 2012	200,000,000	7.15%	14,300,000
Contract A3	January 1, 2012 - December 31, 2012	250,000,000	7.20%	18,000,000
Total Traditional Reinsurance January 1, 2012 - December 31, 2012		**1,505,220,000**		
Contract B	April 1, 2012 - March 31, 2013	1,251,464,950	6.20%	77,590,827
Total Traditional Reinsurance April 1, 2012 - March 31, 2013		**2,756,684,950**		
Contract C	May 1, 2012 - April 30, 2013	100,000,000	4.50%	4,500,000
Total Traditional Reinsurance May 1, 2012 - April 30, 2013		**2,856,684,950**		

Transformer Reinsurance Contracts	Contract Period	Reinsurance Limit	12-Month Rate-on-Line	12-Month Premium
Contract 1	August 2, 2011 – August 1, 2014	150,000,000	7.78%	11,670,000
Contract 2	February 7, 2012 – February 6, 2015	150,000,000	8.39%	12,585,000
Contract 3	August 2, 2012 – August 8, 2015	300,000,000	5.64%	16,923,000
Total Transformer Reinsurance		**600,000,000**		

California Earthquake Authority
Balance Sheet
As of June 30, 2012

Assets

Cash and investments:	
Cash and cash equivalents	51,362,112
Restricted cash & equivalents	65,766,903
Restricted investments	311,844,315
Investments	4,261,981,747
Total cash and investments	4,690,955,078
Premiums receivable, net of allowance for doubtful accounts of $12,282,537	38,950,554
Capital contributions receivable	6,924,000
Risk Capital Surcharge	-
Interest receivable	13,772,822
Securities receivable	56,403,891
Restricted securities receivable	5,292,943
Prepaid reinsurance premium	375,001
Transformer reinsurance premium deposit	10,432,787
Prepaid transformer maintenance premium	2,804,649
Equipment, net	513,881
Deferred policy acquisition costs	38,261,223
Other assets	512,741
Total assets	$ 4,865,199,570

Liabilities and Net Assets

Unearned premiums	$ 284,893,696
Accounts payable and accrued expenses	2,285,511
Accrued Reinsurance Premium Expense	3,517,617
Claim and claim expense reserves	-
Securities payable	48,834,758
Revenue bond payable	157,500,000
Revenue bond interest payable	4,858,088
Total liabilities	501,889,669
Net assets:	
Restricted, expendable	227,584,794
Unrestricted*	4,135,725,107
Total net assets	4,363,309,901
Total liabilities and net assets	$ 4,865,199,570

* Includes Cumulative Participating Insurer Contributed Captial of $777,384,796
and State of California Contributed Capital of $175,226,707

Unaudited

California Earthquake Authority
Statement of Revenues, Expenses and Changes in Net Assets
For the Year-to-Date Ended June 30, 2012

Underwriting income:	
Premiums written	$ 273,772,270
Less premiums ceded - reinsurance	(104,648,939)
Less Risk Capital Surcharge	-
Net premiums written	169,123,331
Change in unearned premiums	25,005,636
Net unearned premiums	25,005,636
Net premiums earned	194,128,967
Expenses:	
Loss and loss adjustment expenses	7,231
Participating insurer commissions	29,886,229
Participating insurer operating costs	9,314,968
Reinsurance broker commissions	2,400,000
Pro forma premium taxes	6,176,629
Financing expenses, net	2,883,014
Mitigation Fund expenses	260,791
Other underwriting expenses	12,007,795
Total expenses	62,936,657
Underwriting profit	131,192,310
Net investment income	5,201,012
Other income	204,547
Participating Insurer Contributed Capital	-
State of California premium tax contribution	6,176,629
Increase in net assets	142,774,498
Net assets, beginning of year	4,220,535,403
Net assets, end of year	$ 4,363,309,901

California Earthquake Authority
Insurance Services
Budgeted Expenditures and Actual Expenditures
2012 Budget Year

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	Approved 2012 Budget	**Adjustments thru 6/30/2012**	**Augmentations thru 6/30/2012**	**2012 Budget after Augmentations and Adjustments**	**Actual Expenditures as of 6/30/12**	**Augmented & Adjusted Approved Budget (d) vs. Actual Expenses (e) at 6/30/12**	**Percentage used of Augmented & Adjusted Approved 2012 Budget**
Salaries & Benefits	$ 8,015,623	-	-	$ 8,015,623	$ 5,136,657	$ 2,878,966	64.08%
Rent	635,593	-	-	$ 635,593	368,954	266,639	58.05%
Travel	335,402	-	-	$ 335,402	175,569	159,833	52.35%
Non-paid Consultant Travel	8,066	-	-	$ 8,066	900	7,166	11.16%
Telecommunications	232,707	-	-	$ 232,707	102,036	130,671	43.85%
Training	161,668	-	-	$ 161,668	80,479	81,189	49.78%
Insurance	143,078	-	-	$ 143,078	90	142,988	0.06%
Board/Panel Services	19,781	-	-	$ 19,781	12,644	7,137	63.92%
Administration & Office	1,037,706	-	-	$ 1,037,706	434,669	603,037	41.89%
(Software Maint & Support, Printing & Stationery, Postage)							
Administrative Contracted Services							
Data Mgmt Services	493,170	-	-	$ 493,170	310,575	182,595	62.98%
Other Administrative Contracted Services	37,780	-	-	$ 37,780	25,184	12,596	66.66%
Furniture/Equipment	41,005	-	-	$ 41,005	21,197	19,808	51.69%
EDP Hardware/Software	215,671	-	-	$ 215,671	186,843	28,828	86.63%
Dept of Insurance Examination	28,954	-	-	$ 28,954	(34,914)	63,868	-120.58%
Total Operating Expenses	**$ 11,406,204**	**-**	**-**	**$ 11,406,204**	**$ 6,820,883**	**$ 4,585,321**	**59.80%**
Consulting Services							
Actuarial	25,000	-	-	25,000	-	25,000	0.00%
Administrative Consulting	-	-	-	-	-	-	0.00%
Executive Recruiting	45,000	-	-	45,000.00	-	45,000	0.00%
Financial Consulting	300,615	-	-	300,615.00	112,013	188,602	37.26%
Government Relations	217,301	-	-	217,301.00	131,101	86,200	60.33%
Information Systems	1,642,708	-	-	1,642,708.00	330,857	1,311,851	20.14%
Information Technology	6,000	-	-	6,000.00	-	6,000	0.00%
Internal Audit	86,843	-	-	86,843.00	(13,483)	100,326	-15.53%
Investment Compliance	20,000	-	-	20,000.00	-	20,000	0.00%
Legal Consulting	5,395	-	-	5,395.00	-	5,395	0.00%
Public Relations	200,000	-	-	200,000.00	-	200,000	0.00%
Other Consulting Services	296,859	-	-	296,859.00	27,846	269,013	9.38%
Total Consulting Services	$ 2,845,721	$ -	$ -	$ 2,845,721	$ 588,334	$ 2,257,387	20.67%

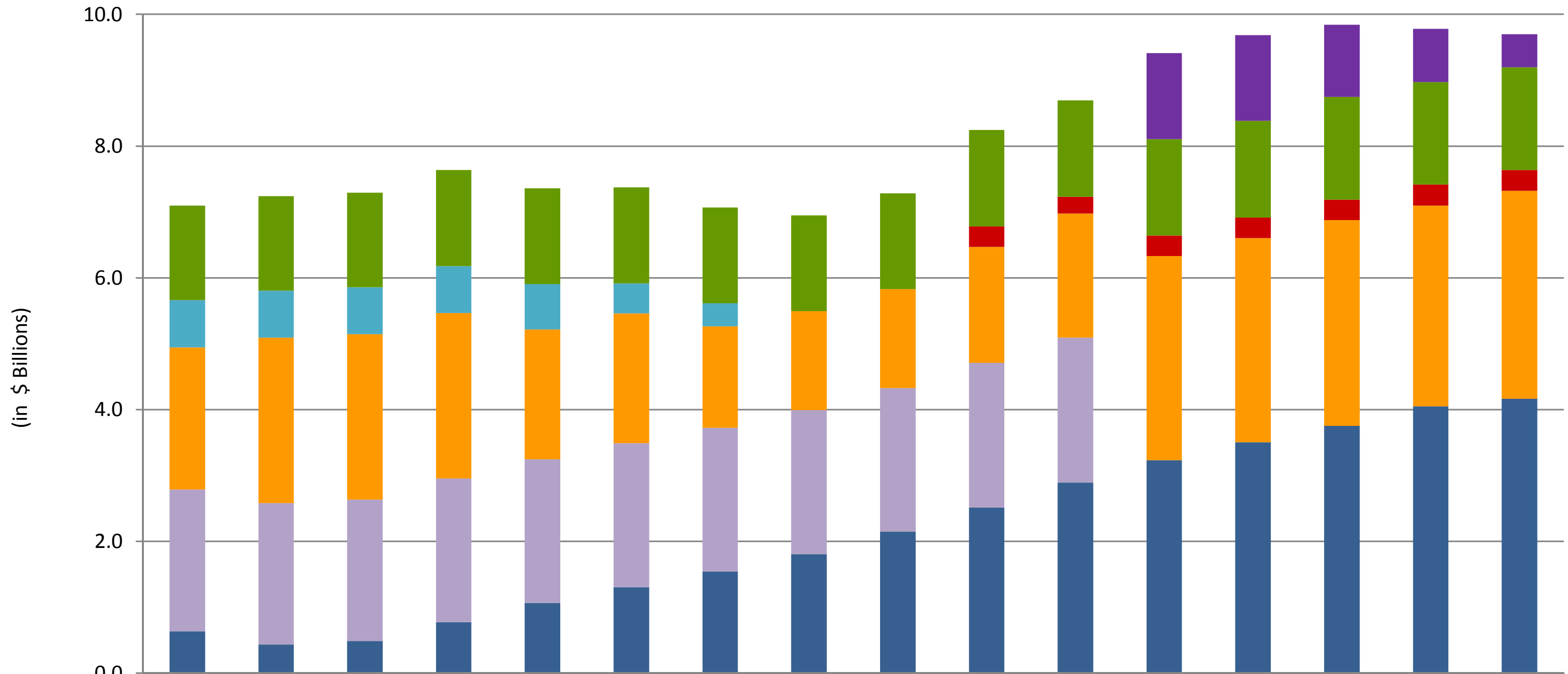
California Earthquake Authority
Insurance Services
Budgeted Expenditures and Actual Expenditures
2012 Budget Year

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	Approved 2012 Budget	**Adjustments thru 6/30/2012**	**Augmentations thru 6/30/2012**	**2012 Budget after Augmentations and Adjustments**	**Actual Expenditures as of 6/30/12**	**Augmented & Adjusted Approved Budget (d) vs. Actual Expenses (e) at 6/30/12**	**Percentage used of Augmented & Adjusted Approved 2012 Budget**
Research	1,018,000	-	-	1,018,000	559,000	459,000	54.91%
Contracted Services							
Agent Services	-	-	-	-	-	-	0.00%
Audit Services	160,000	-	-	160,000	-	160,000	0.00%
Brochure/Information Products	175	-	-	175	-	175	0.00%
Consumer Services	-	-	-	-	35,211	(35,211)	0.00%
Contracted Marketing & Outreach	348,065	-	-	348,065	20,435	327,630	5.87%
Investment Compliance	-	-	-	-	-	-	0.00%
Legal Services-Claims Counsel	200,000	-	-	200,000	-	200,000	0.00%
Legal Services-Claims Counsel-PI	-	-	-	-	-	-	0.00%
Legal Service - Non-Claims	2,685,698	-	-	2,685,698	1,023,709	1,661,989	38.12%
Marketing Services	9,239,714	-	-	9,239,714	1,242,654	7,997,060	13.45%
Media Services	137,000	-	-	137,000	-	137,000	0.00%
Modeling Services	666,470	-	-	666,470	363,000	303,470	54.47%
Web Development/Maintenance	-	-	-	-	-	-	0.00%
Other Contracted Services	675,758	-	-	675,758	80,711	595,047	11.94%
Total Contracted Services	$ 14,112,880	$ -	-	$ 14,112,880	$ 2,765,720	$ 11,347,160	19.60%
Participating Insurer Operating Costs	68,573,084	-	-	68,573,084	27,385,665	41,187,419	39.94%
Participating Insurer Commissions	21,189,083	-	-	21,189,083	8,457,275	12,731,808	39.91%
Investment Expenses	2,077,067	-	-	2,077,067	1,001,312	1,075,755	48.21%
Financing Expenses	8,864,057	-	-	8,864,057	5,010,323	3,853,734	56.52%
Reinsurance	200,453,436	-	-	200,453,436	107,048,939	93,404,497	53.40%
Total Expenditures	**$ 330,539,532**	**$ -**	**$ -**	**$ 330,539,532**	**$ 159,637,451**	**$ 170,902,081**	**48.30%**

California Earthquake Authority
Mitigation
Budgeted Expenditures and Actual Expenditures
2012 Budget Year

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	Approved 2012 Budget	**Adjustments thru 6/30/2012**	**Augmentations thru 6/30/2012**	**2012 Budget after Augmentations and Adjustments**	**Actual Expenditures as of 6/30/12**	**Augmented & Adjusted Approved Budget (d) vs. Actual Expenses (e) at 6/30/12**	**Percentage used of Augmented & Adjusted Approved 2012 Budget**
Salaries & Benefits	$ 271,500	-	-	$ 271,500	$ 135,054	$ 136,446	49.74%
Rent	21,000	-	-	$ 21,000	11,325	9,675	53.93%
Travel	30,000	-	-	$ 30,000	6,495	23,505	21.65%
Non-paid Consultant Travel	-	-	-	$ -	-	-	0.00%
Telecommunications	7,000	-	-	$ 7,000	2,377	4,623	33.96%
Training	15,000	-	-	$ 15,000	5,786	9,214	38.57%
Insurance	5,000	-	-	$ 5,000	-	5,000	0.00%
Board/Panel Services	-	-	-	$ -	-	-	0.00%
Administration & Office	32,000	-	-	$ 32,000	2,990	29,010	9.34%
(Software Maint & Support, Printing & Stationery, Postage)							
Administrative Contracted Services							
Data Mgmt Services	-	-	-	$ -	-	-	0.00%
Other Administrative Contracted Services	-	-	-	$ -	-	-	0.00%
Furniture/Equipment	900	-	-	$ 900	339	561	37.67%
EDP Hardware/Software	-	-	-	$ -	-	-	0.00%
Dept of Insurance Examination	-	-	-	$ -	-	-	0.00%
Total Operating Expenses	**$ 382,400**	**$ -**	**$ -**	**$ 382,400**	**$ 164,366**	**$ 218,034**	**42.98%**
Consulting Services							
Other Consulting Services	50,000	-	-	50,000	-	50,000	0.00%
Total Consulting Services	$ 50,000	$ -	$ -	$ 50,000	$ -	$ 50,000	0.00%
Research	-	-	-	-	-	-	0.00%
Contracted Services							
Marketing Services	100,000	-	-	100,000	96,682	3,318	96.68%
Other Contracted Services	-	-	-	-	-	-	0.00%
Total Contracted Services	$ 100,000	$ -	$ -	$ 100,000	$ 96,682	$ 3,318	96.68%
Investment Expenses	25,000	-	-	25,000	9,794	15,206	39.18%
Total Investment Expenses	$ 25,000	$ -	$ -	$ 25,000	$ 9,794	$ 15,206	39.18%
Total Expenditures	**$ 557,400**	**$ -**	**$ -**	**$ 557,400**	**$ 270,842**	**$ 286,558**	**48.59%**

California Earthquake Authority
Total Claim-Paying Capacity (CPC)
as of June 30, 2012

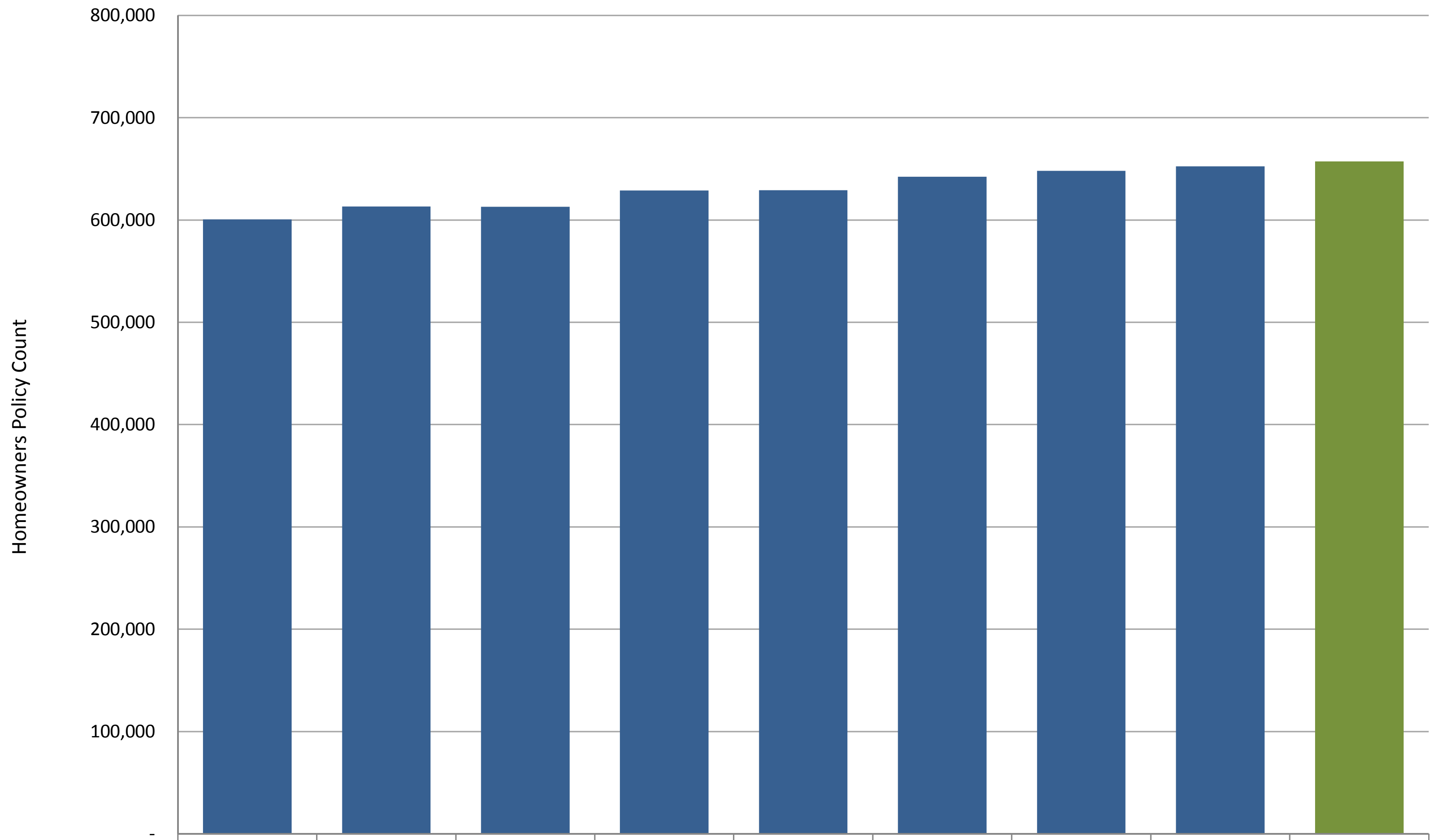


	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Total CPC	$7.095	$7.240	$7.293	$7.635	$7.360	$7.373	$7.069	$6.948	$7.284	$8.244	$8.695	$9.411	$9.685	$9.840	$9.777	$9.697
New Industry Assessment	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.304	1.304	1.095	0.804	0.500
2nd Industry Assessment	1.434	1.434	1.434	1.456	1.456	1.456	1.456	1.456	1.456	1.465	1.465	1.465	1.465	1.558	1.558	1.558
Revenue Bonds	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.311	0.254	0.311	0.311	0.311	0.317	0.317
Line of Credit	0.716	0.715	0.715	0.715	0.686	0.456	0.348	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Risk Transfer	2.160	2.509	2.509	2.509	1.971	1.971	1.538	1.500	1.500	1.756	1.885	3.100	3.100	3.123	3.050	3.157
1st Industry Assessment	2.150	2.150	2.150	2.183	2.183	2.183	2.183	2.183	2.183	2.197	2.197	0.000	0.000	0.000	0.000	0.000
CEA Available Capital	0.635	0.432	0.485	0.772	1.064	1.307	1.544	1.809	2.145	2.515	2.894	3.231	3.505	3.753	4.048	4.165

NOTE: In 2007 Revenue Bond proceeds were split between the Base and Supplement programs.

*as of June 30, 2012

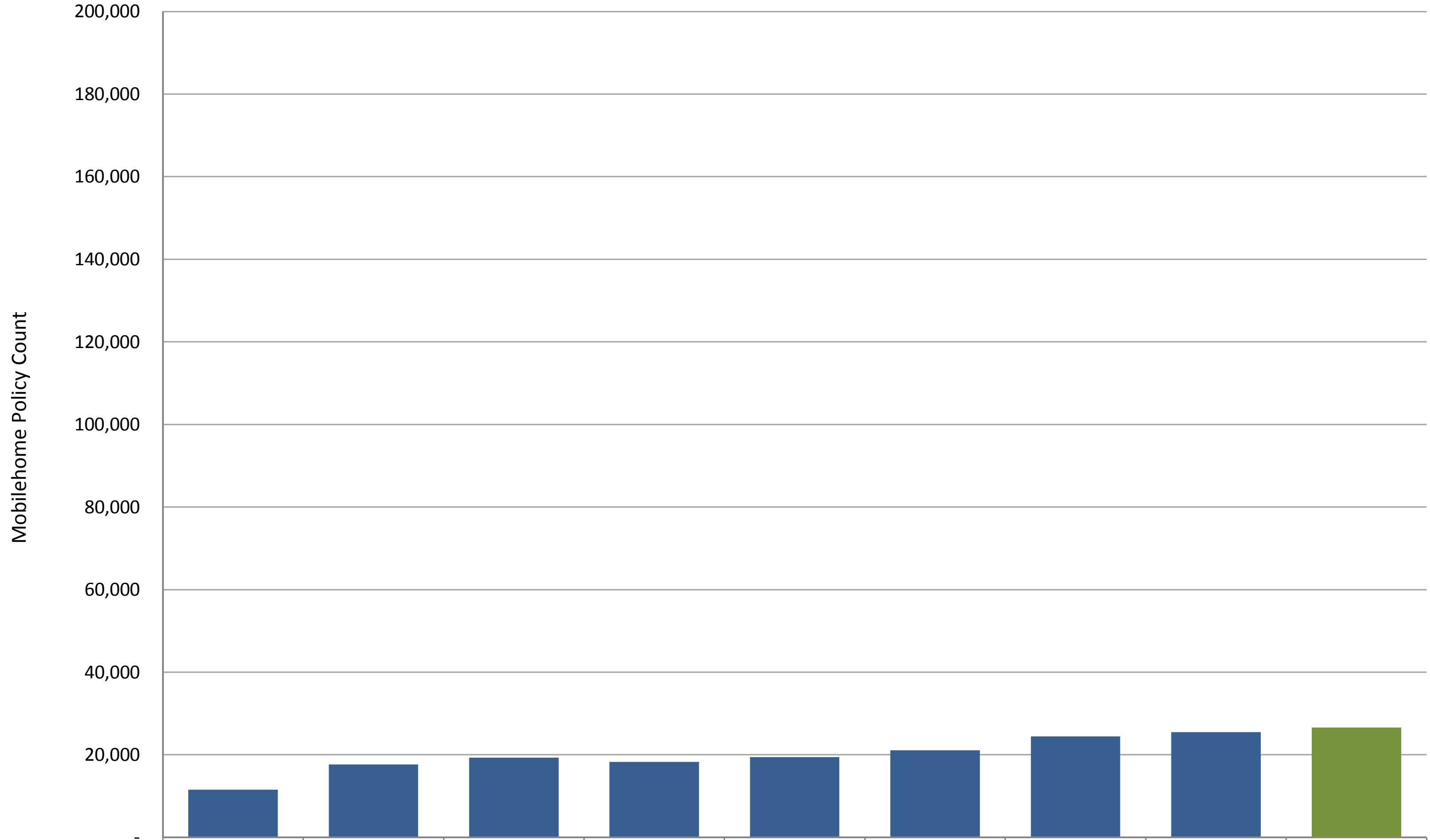
California Earthquake Authority
Homeowners Policy Count
as of June 30, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Policy Count	600,673	613,266	612,941	628,802	629,138	642,174	647,947	652,394	657,142
Annual Change in Policy Count	0.0%	2.1%	-0.1%	2.6%	0.1%	2.1%	0.9%	0.7%	0.7%

* as of June 30, 2012

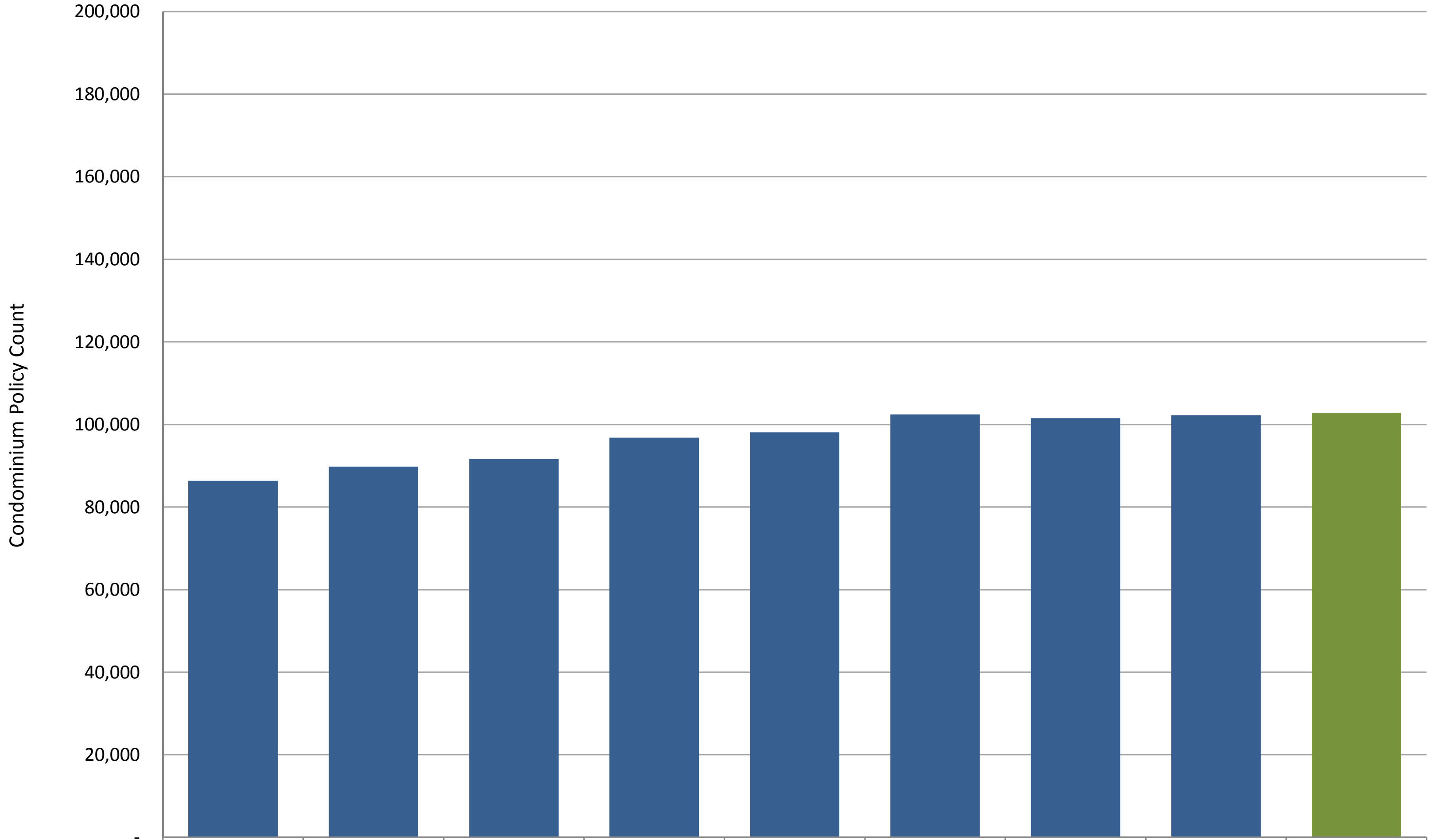
California Earthquake Authority
Mobilehome Policy Count
as of June 30, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Policy Count	11,585	17,631	19,289	18,257	19,437	21,118	24,423	25,518	26,517
Annual Change in Policy Count	0.0%	52.2%	9.4%	-5.4%	6.5%	8.6%	15.7%	4.5%	3.9%

* as of June 30, 2012

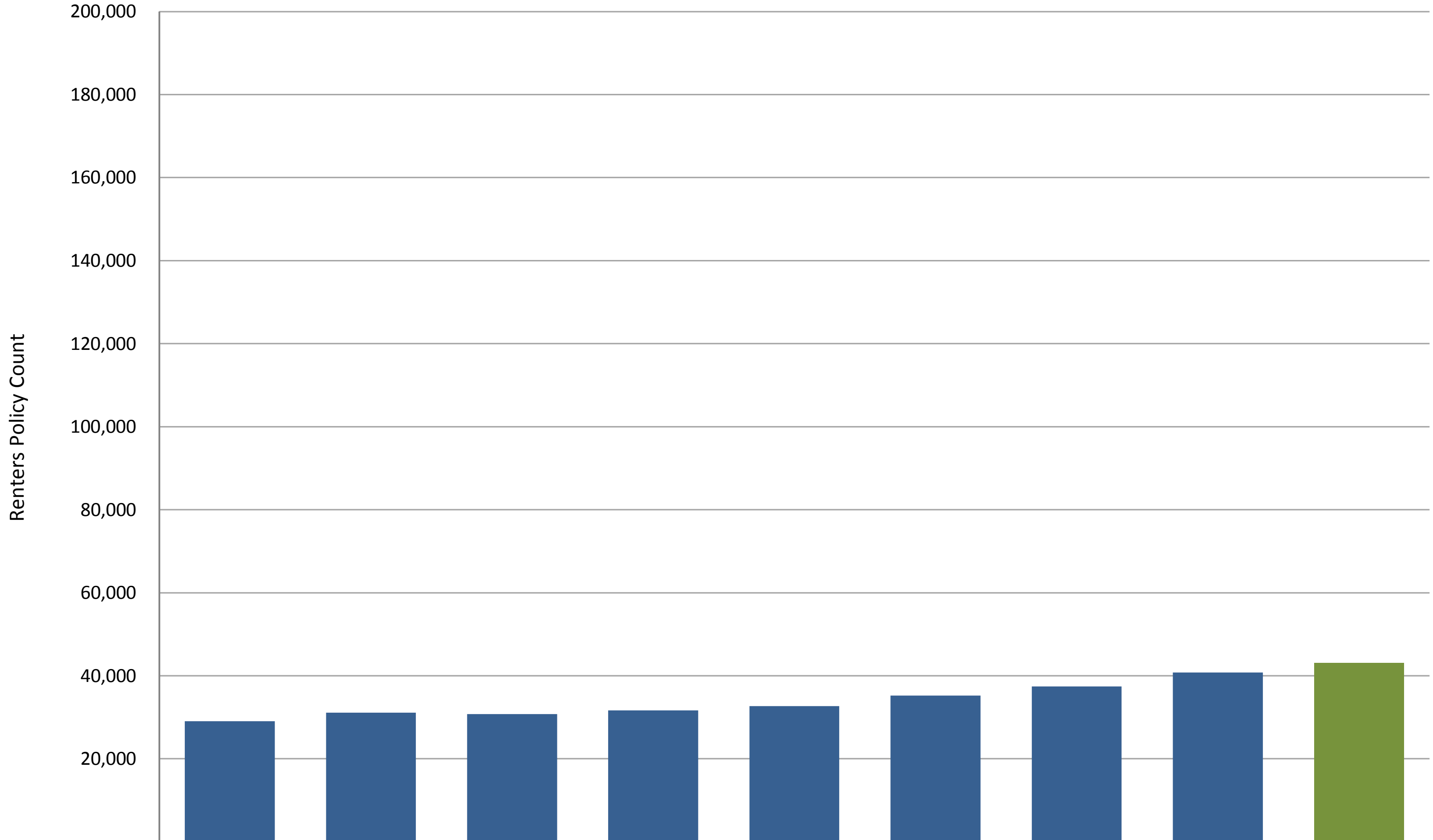
California Earthquake Authority
Condominium Policy Count
as of June 30, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Policy Count	86,359	89,758	91,643	96,758	98,106	102,391	101,553	102,197	102,847
Annual Change in Policy Count	0.0%	3.9%	2.1%	5.6%	1.4%	4.4%	-0.8%	0.6%	0.6%

* as of June 30, 2012

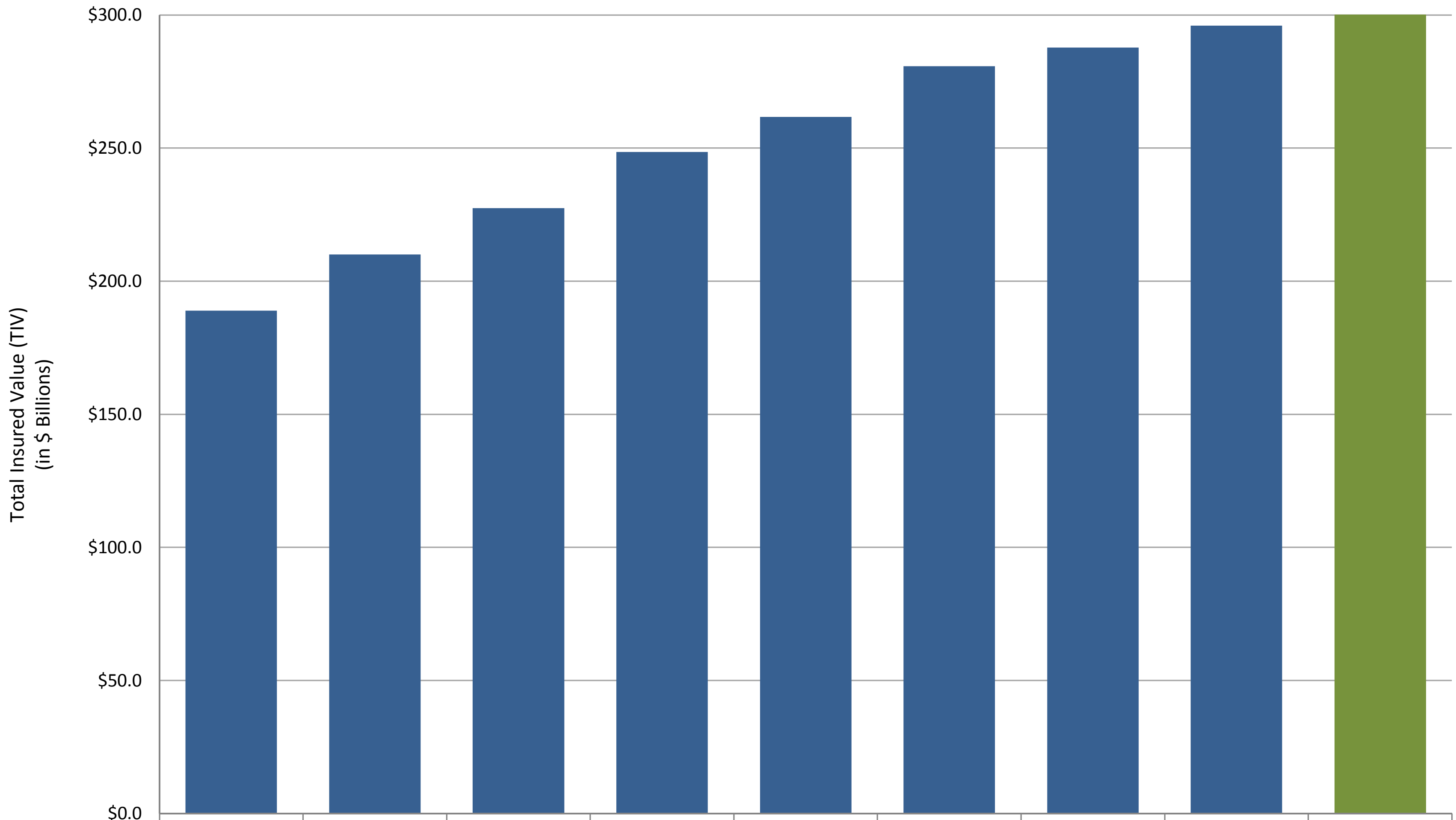
California Earthquake Authority
Renters Policy Count
as of June 30, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Policy Count	29,058	31,112	30,799	31,647	32,681	35,247	37,394	40,823	43,086
Annual Change in Policy Count	0.0%	7.1%	-1.0%	2.8%	3.3%	7.9%	6.1%	9.2%	5.5%

* as of June 30, 2012

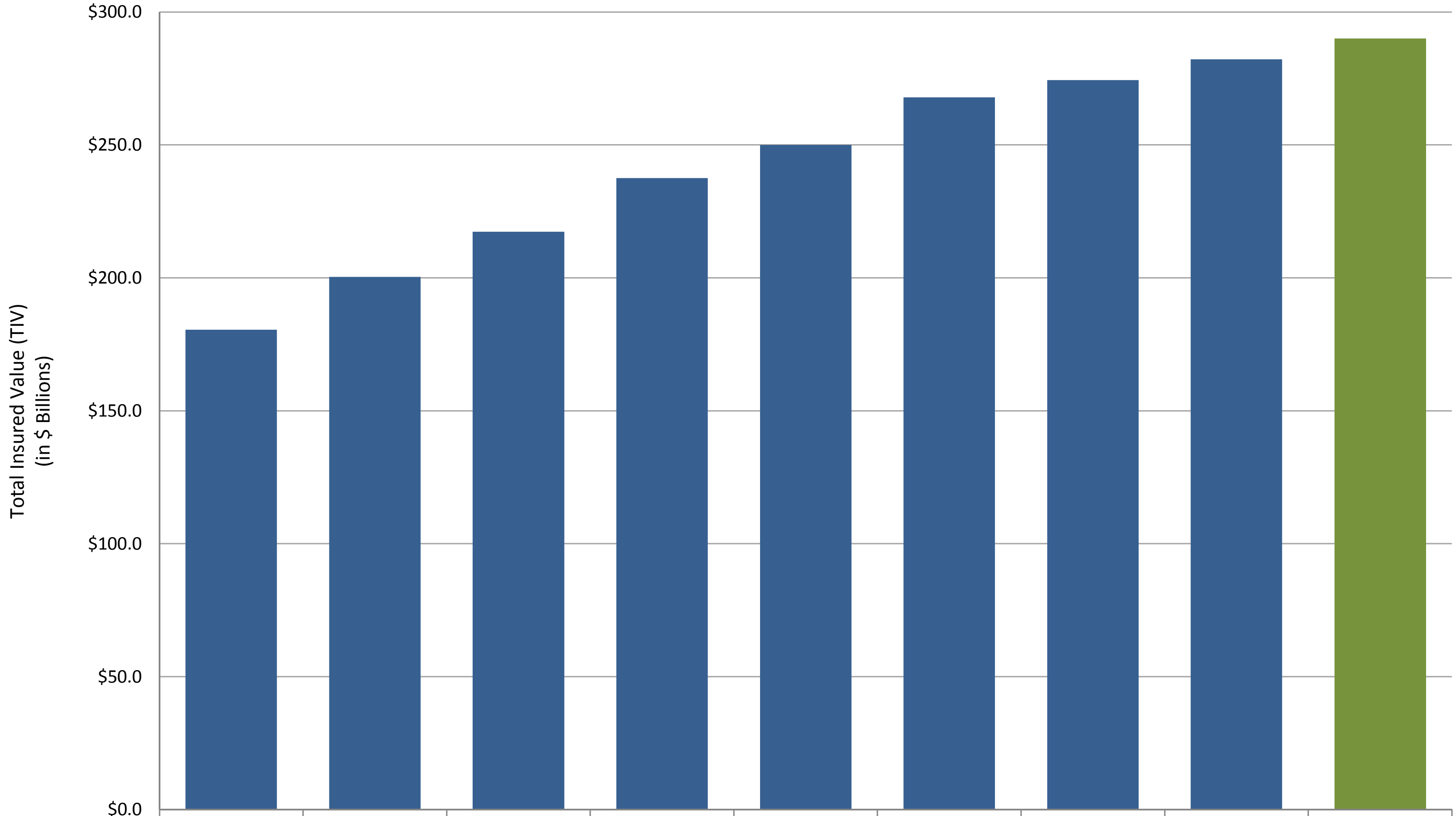
California Earthquake Authority
All Polices Total Insured Value (TIV)
as of June 30, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
TIV (in $ Billions)	$188.9	$210.0	$227.4	$248.6	$261.7	$280.7	$287.7	$296.0	$304.0
Annual Change in TIV	9.6%	11.2%	8.3%	9.3%	5.3%	7.3%	2.5%	2.9%	2.7%

* as of June 30, 2012

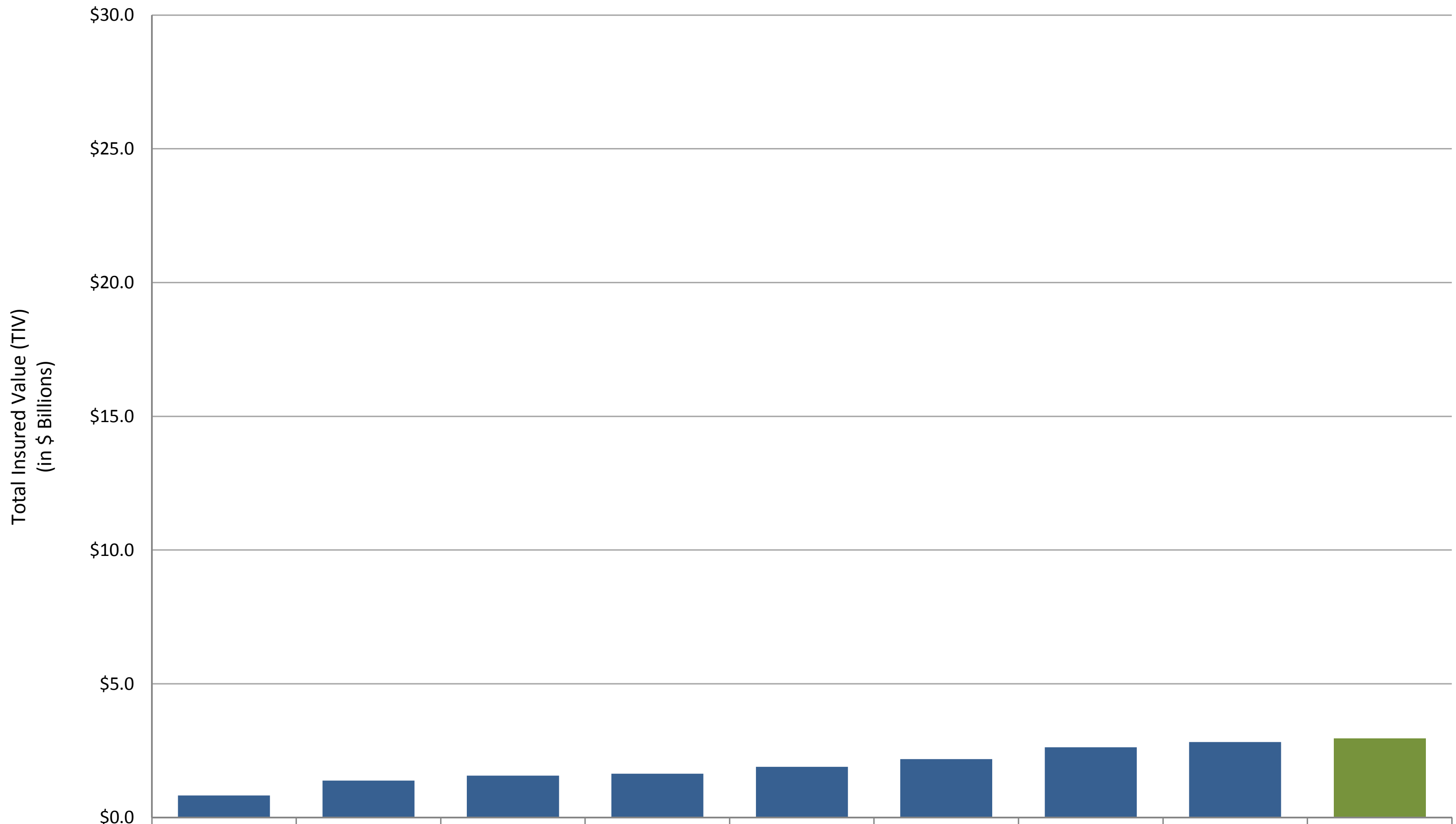
California Earthquake Authority
Homeowners Total Insured Value (TIV)
as of June 30, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
TIV (in $ Billions)	$180.5	$200.3	$217.3	$237.5	$249.9	$267.9	$274.3	$282.2	$289.9
Annual Change in TIV	0.0%	11.0%	8.5%	9.3%	5.2%	7.2%	2.4%	2.9%	2.7%

* as of June 30, 2012

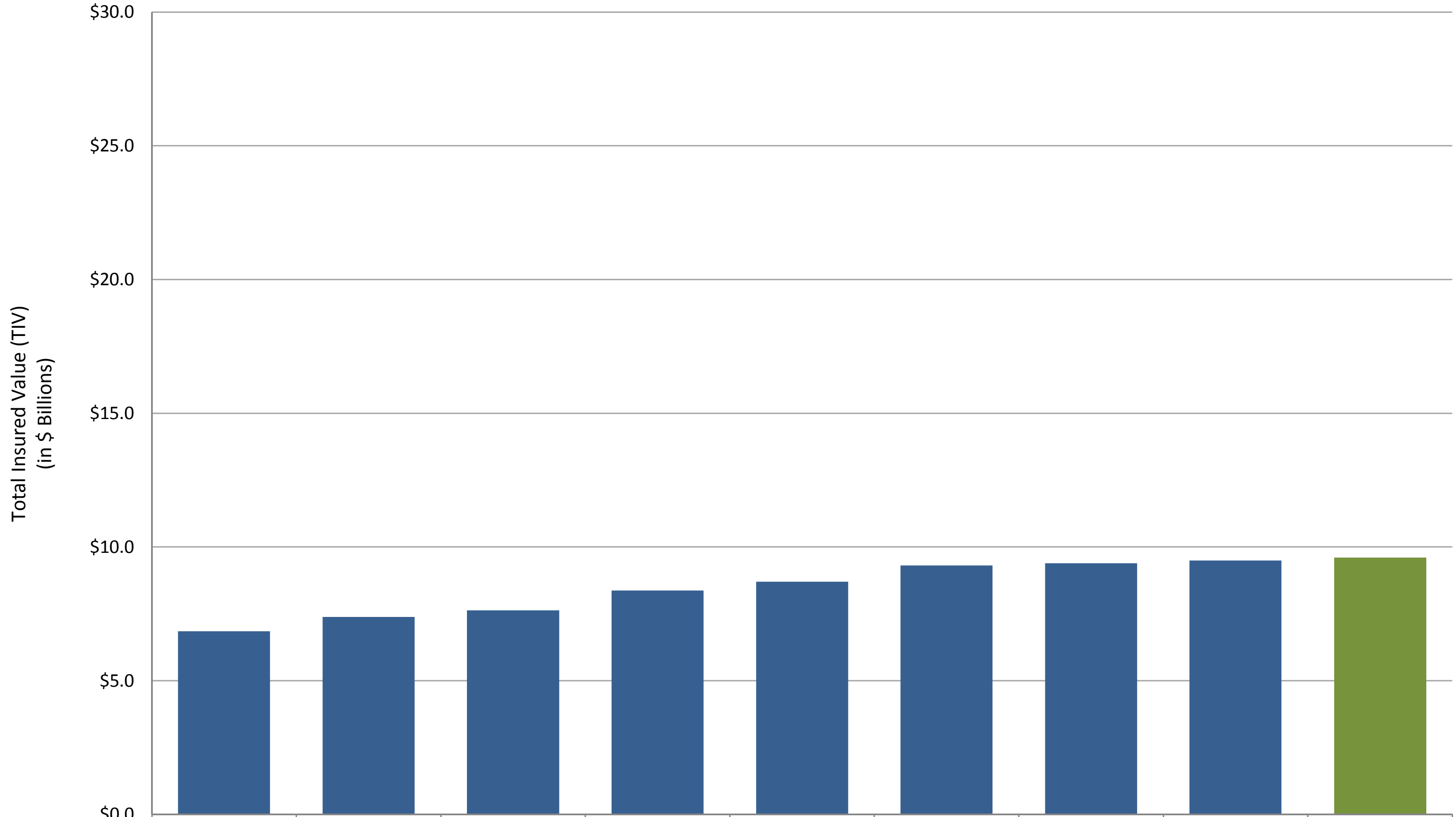
California Earthquake Authority
Mobilehome Total Insured Value (TIV)
as of June 30, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
TIV (in $ Billions)	$0.8	$1.4	$1.6	$1.6	$1.9	$2.2	$2.6	$2.8	$3.0
Annual Change in TIV	0.0%	66.3%	13.4%	5.0%	15.6%	15.0%	20.2%	7.4%	4.8%

* as of June 30, 2012

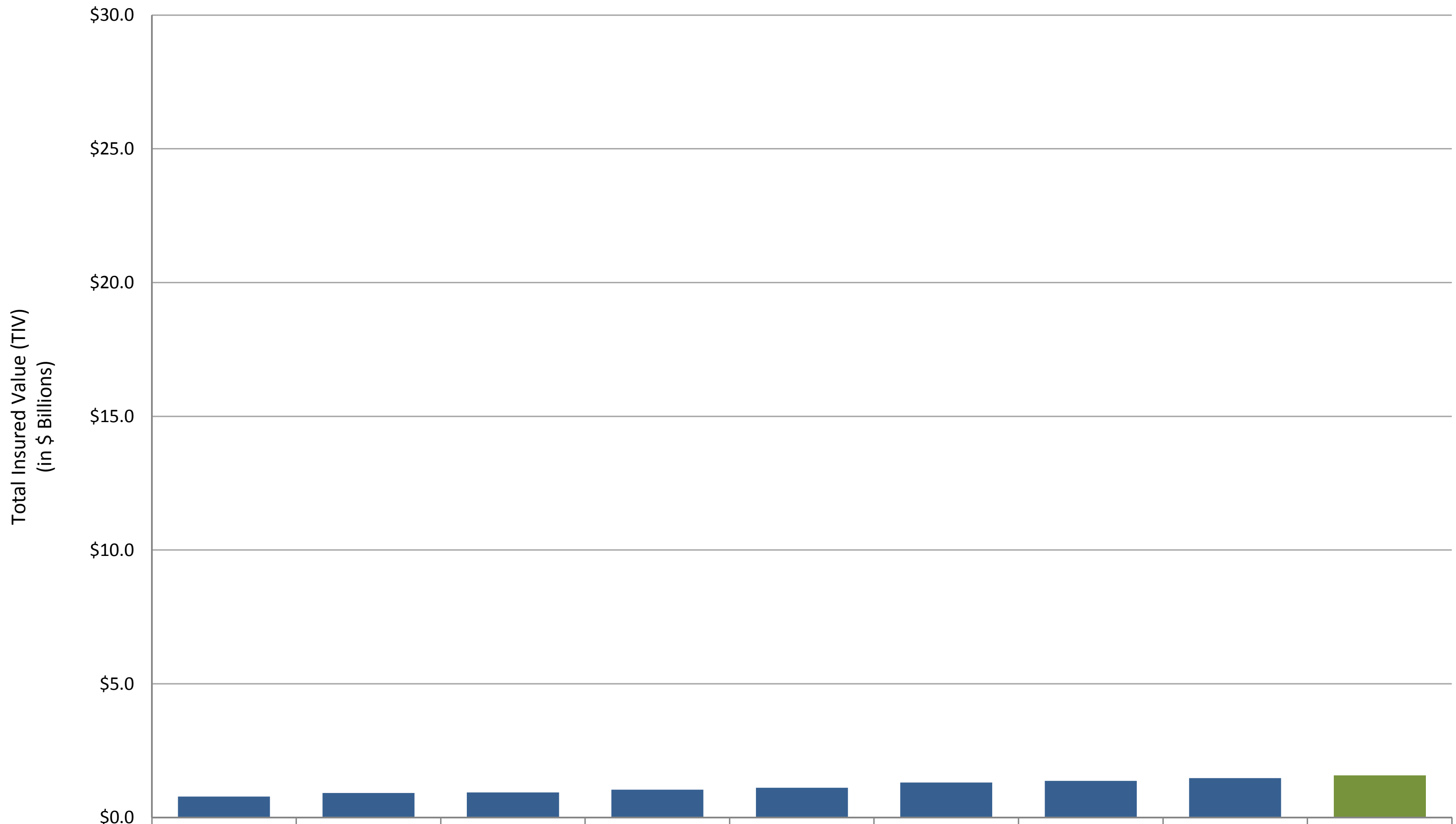
California Earthquake Authority
Condominium Total Insured Value (TIV)
as of June 30, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
TIV (in $ Billions)	$6.8	$7.4	$7.6	$8.4	$8.7	$9.3	$9.4	$9.5	$9.6
Annual Change in TIV	0.0%	7.9%	3.3%	9.7%	3.9%	7.0%	0.9%	1.1%	1.1%

* as of June 30, 2012

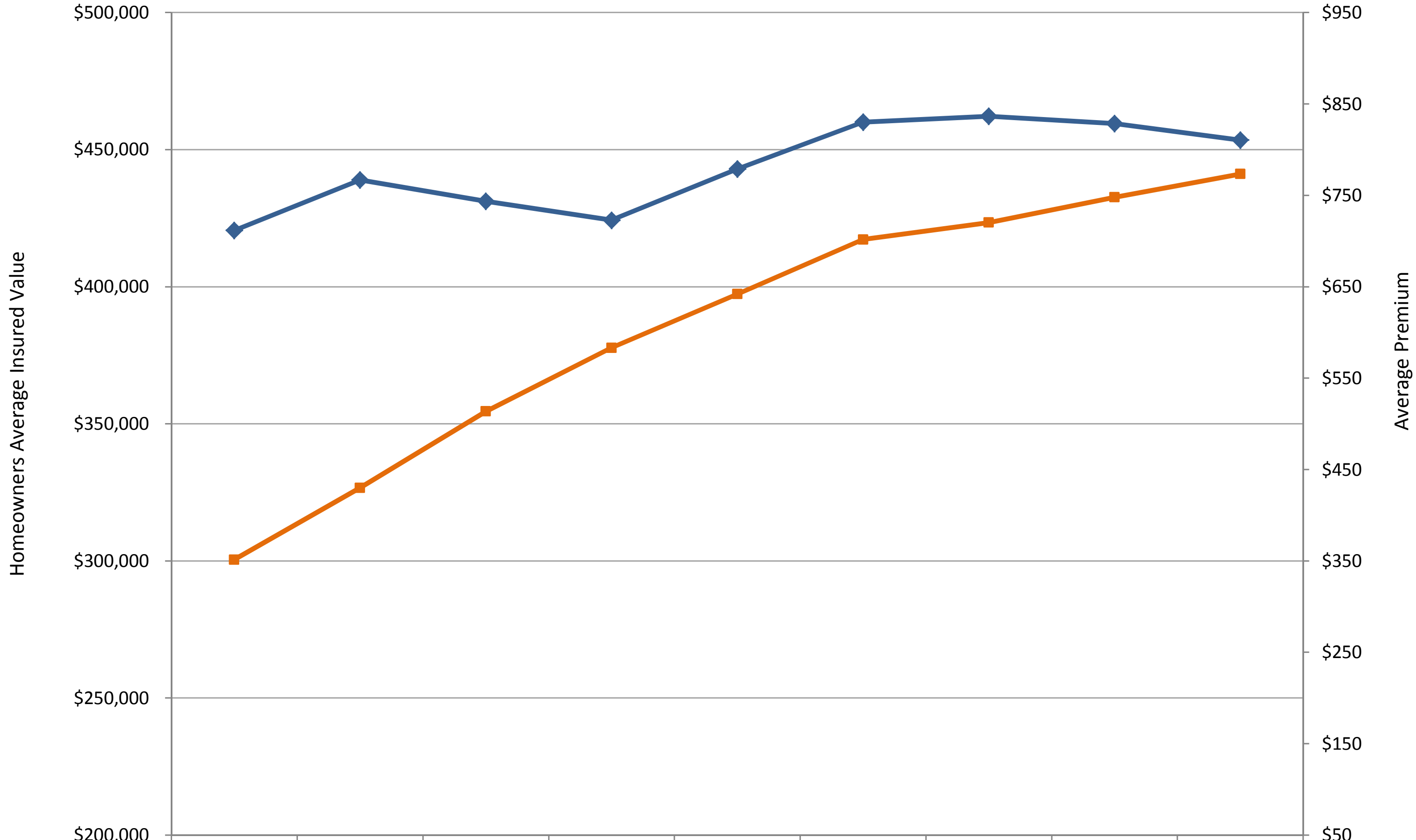
California Earthquake Authority
Rental Total Insured Value (TIV)
as of June 30, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
TIV (in $ Billions)	$0.8	$0.9	$0.9	$1.0	$1.1	$1.3	$1.4	$1.5	$1.6
Annual Change in TIV	0.0%	18.2%	1.6%	10.8%	7.6%	16.9%	5.2%	7.7%	6.8%

* as of June 30, 2012

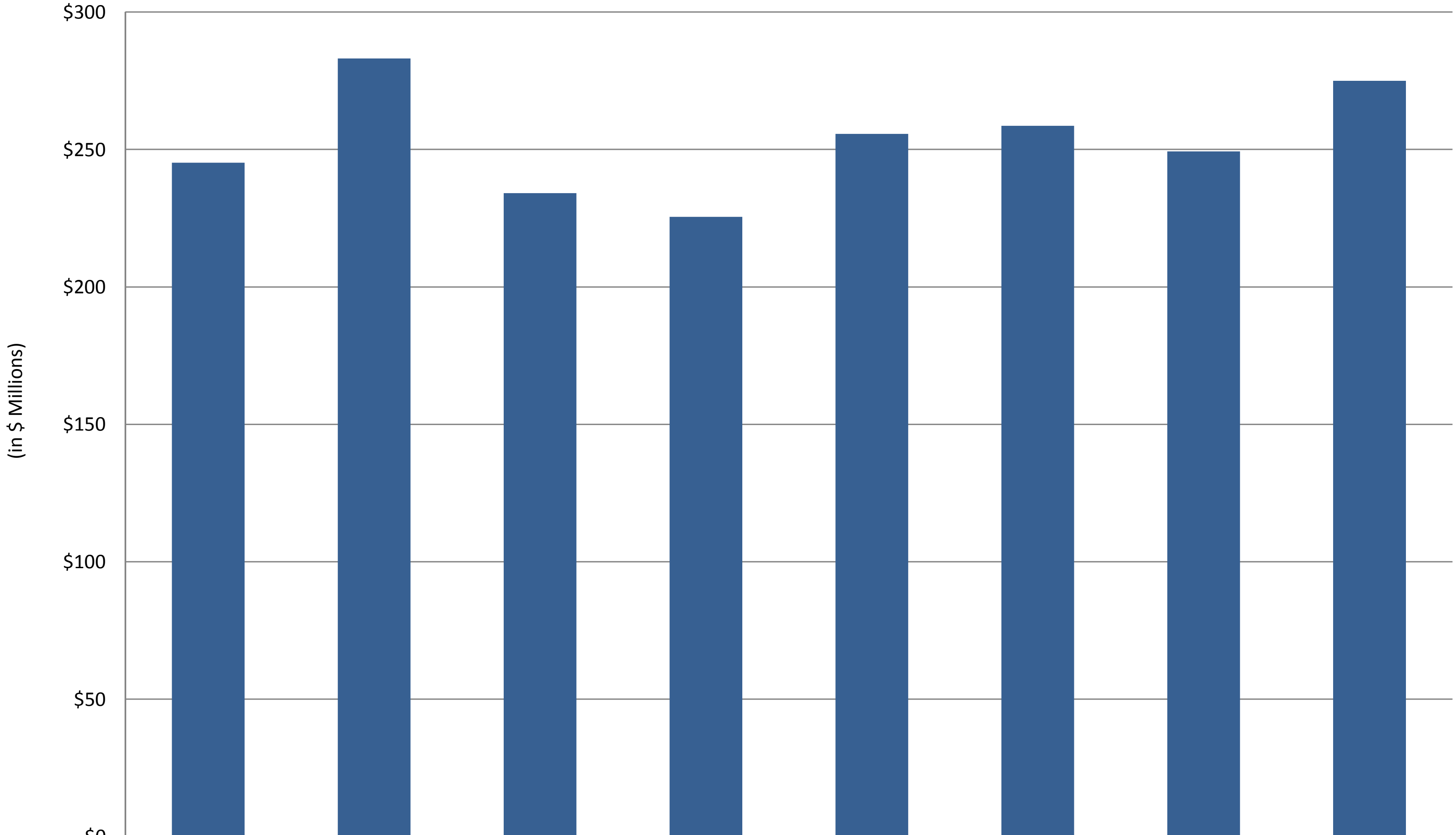
California Earthquake Authority
Average Homeowners Policy Premium and Insured Value
as of June 30, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Average Insured Value	$300,458	$326,668	$354,539	$377,701	$397,284	$417,206	$423,414	$432,633	$441,120
Average Premium	$712	$767	$744	$723	$779	$830	$837	$829	$811

* as of June 30, 2012

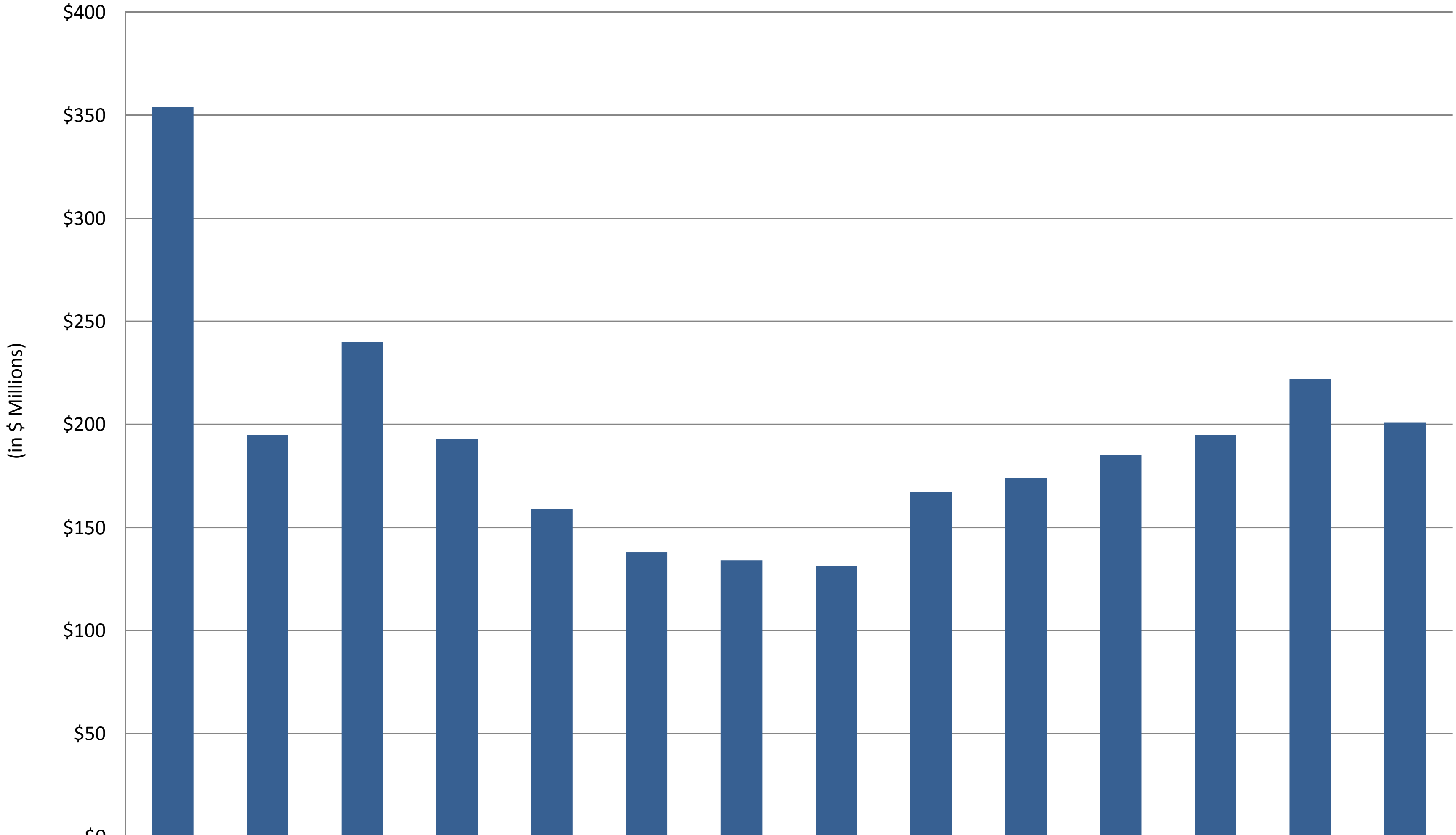
California Earthquake Authority
Annual Capital Accumulated from Premium
as of December 31, 2011



2004	2005	2006	2007	2008	2009	2010	2011
$245.2	$283.1	$234.1	$225.5	$255.7	$258.6	$249.3	$275.0

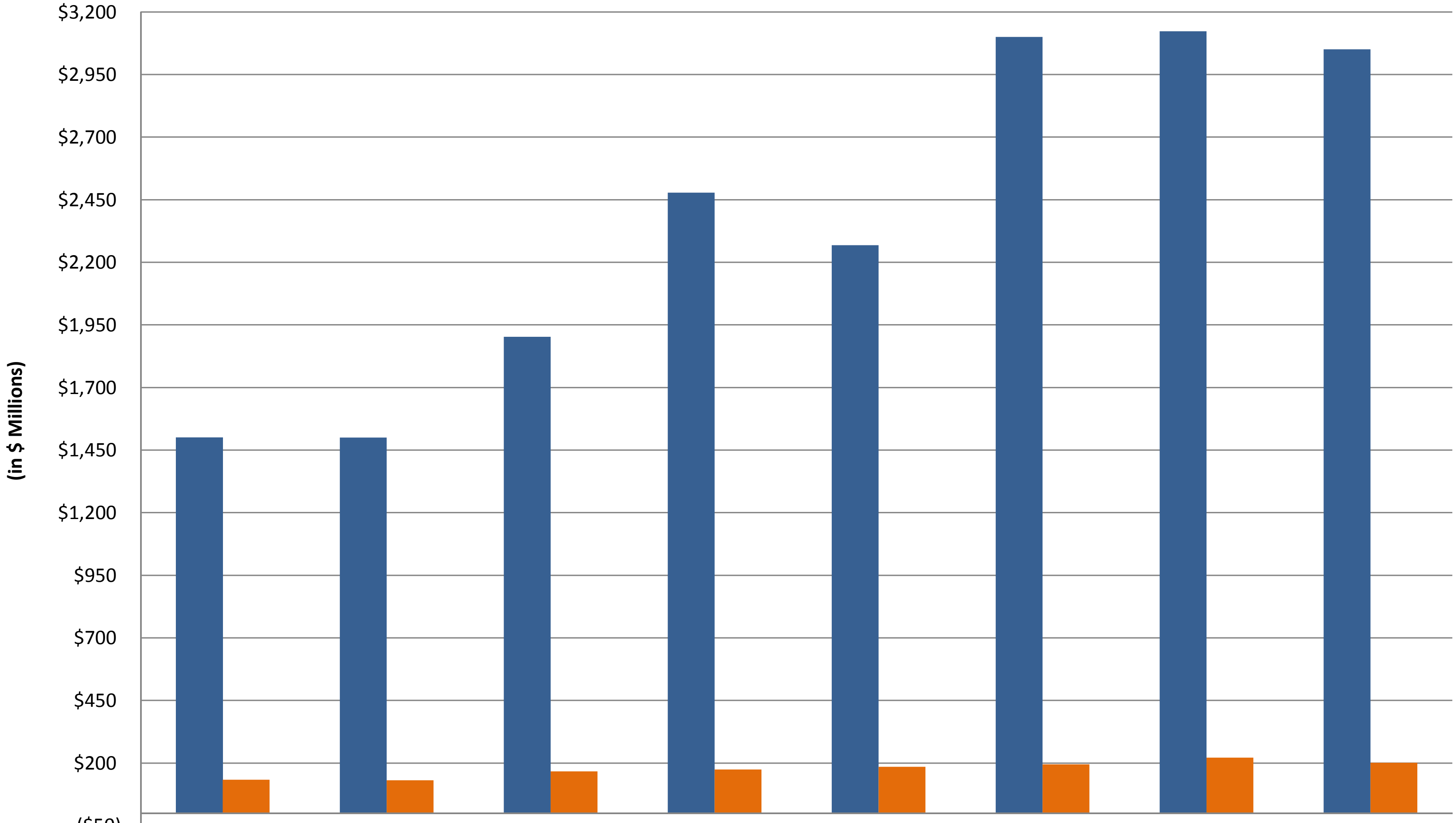
NOTE: From 2009 forward, figure is GASB underwriting profit. Prior to 2009, figure was FASB net premiums written minus total expenses.

California Earthquake Authority
Annual Risk Transfer Premium
as of December 31, 2011



1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
$354	$195	$240	$193	$159	$138	$134	$131	$167	$174	$185	$195	$222	$201

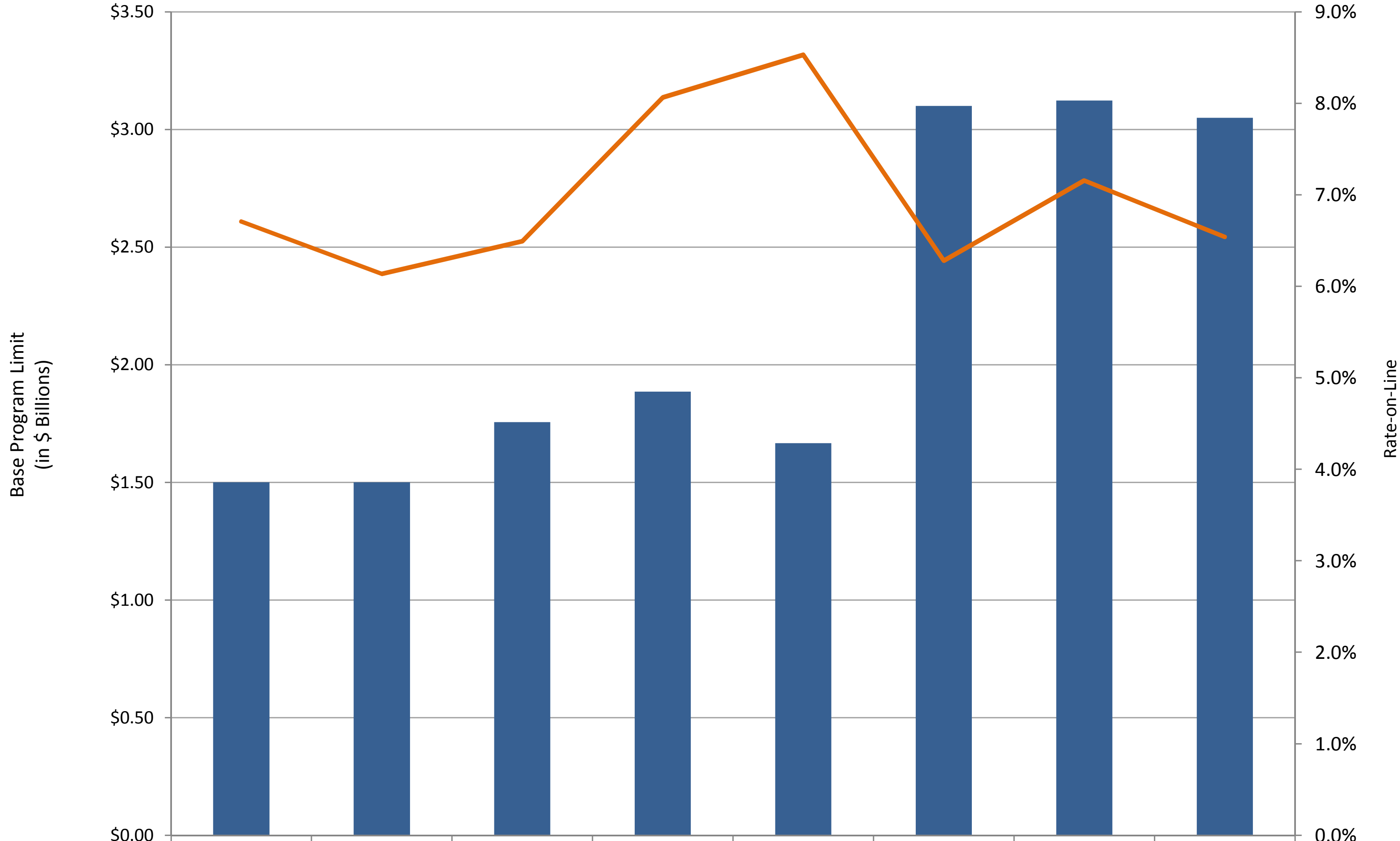
California Earthquake Authority
Annual Risk Transfer Premium and Limit
as of December 31, 2011



	2004	2005	2006	2007	2008	2009	2010	2011
Limit	$1,500	$1,500	$1,902	$2,478	$2,268	$3,100	$3,123	$3,050
Premium	$134	$131	$167	$174	$185	$195	$222	$201

NOTE: Limits through 2005 do not include supplemental coverage while 2006 forward include supplemental coverage.

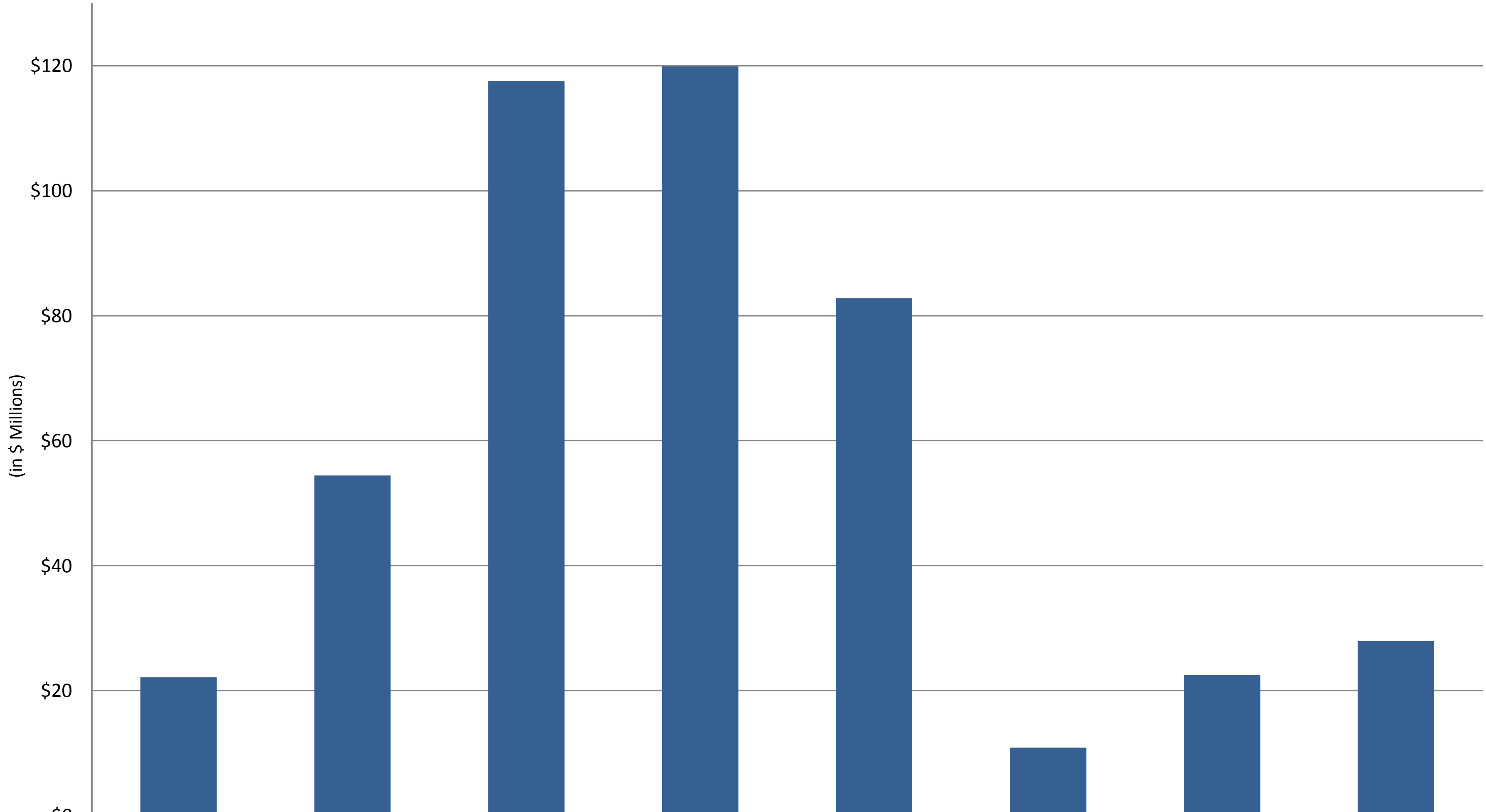
California Earthquake Authority
Annual Risk Transfer Base Program Limits and Rate-on-Line
as of December 31, 2011



	2004	2005	2006	2007	2008	2009	2010	2011
Base Program Limit	$1.50	$1.50	$1.76	$1.89	$1.67	$3.10	$3.12	$3.05
Rate-on-Line	6.7%	6.1%	6.5%	8.1%	8.5%	6.3%	7.2%	6.5%

NOTE: The Rate on Line is an annual weighted average of the individual layers and their respective rates.

California Earthquake Authority
Annual Investment Income
as of December 31, 2011

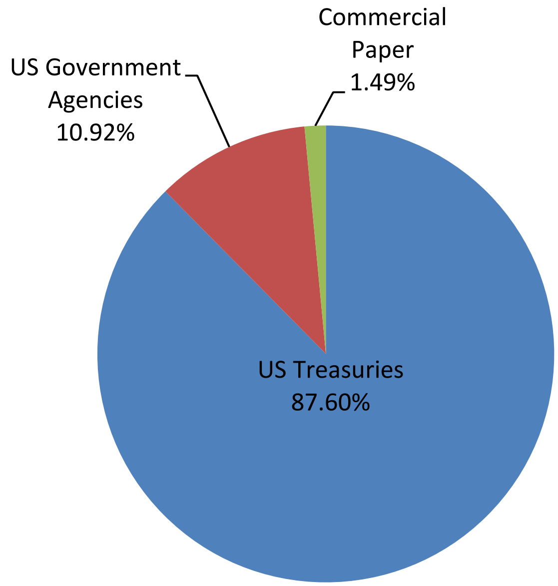


2004	2005	2006	2007	2008	2009	2010	2011
$22.1	$54.4	$117.5	$119.9	$82.8	$10.9	$22.5	$27.9

NOTE: Prior to 2009, investment income was reported from FASB financial statements which did not include unrealized gains or losses and were net of manager fees.

California Earthquake Authority - Investment Portfolio Distribution
as of June 30, 2012

CEA Liquidity and Primary Fund:	$4,362,895,617
Claim-paying Fund:	$316,892,458
Mitigation Fund:	$23,284,077

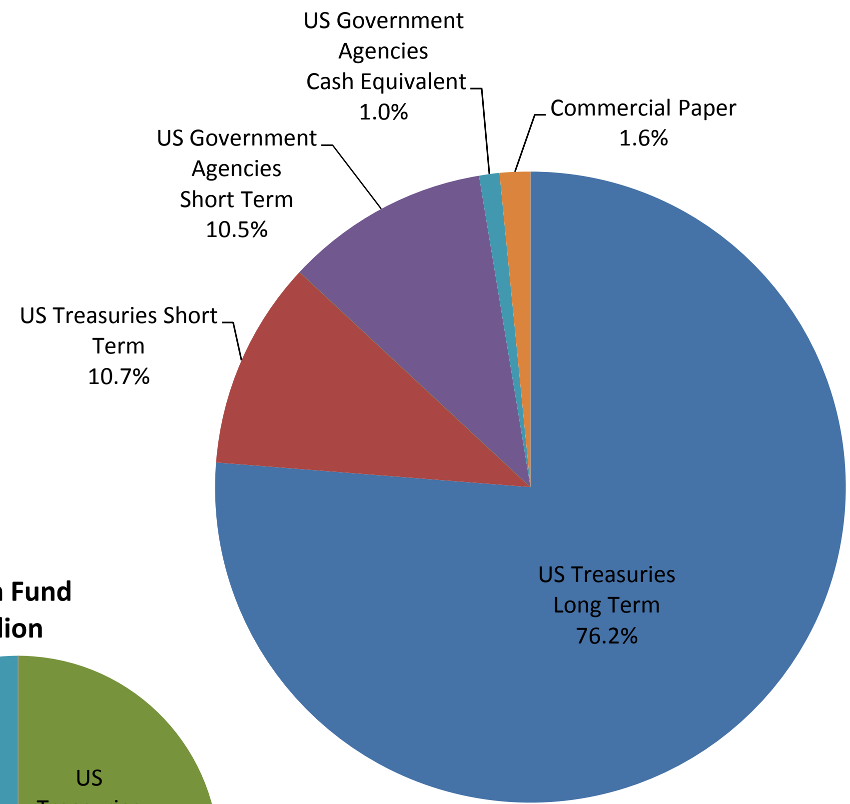


The asset allocation of the three funds are as follows:

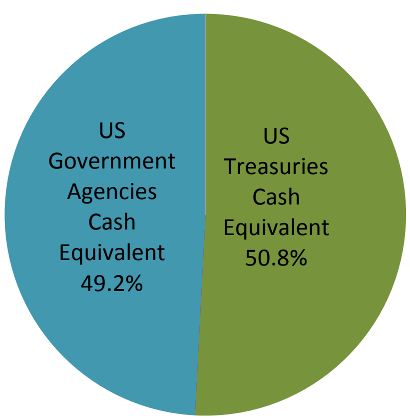
	CEA Liq. & Prim. Fund	Claim-paying Fund	Mitigation Fund
US Treasuries - Long Term	76.2%	99.8%	0.0%
US Treasuries - Short Term	10.7%	0.2%	0.0%
US Treasuries - Cash Equivalent	0.0%	0.0%	50.8%
US Government Agencies - Short Term	10.5%	0.0%	0.0%
US Government Agencies - Cash Equivalent	1.0%	0.0%	49.2%
Commercial Paper	1.6%	0.0%	0.0%
Commercial Paper Cash Equivalent	0.0%	0.0%	0.0%
Totals	**100%**	**100%**	**100%**

California Earthquake Authority - Investment Portfolio Distribution
as of June 30, 2012

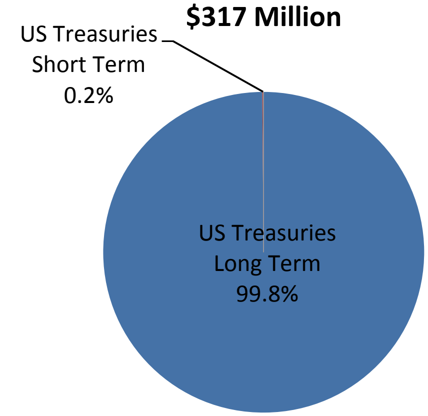
CEA Liquidity & Primary Fund
$4,363 Million



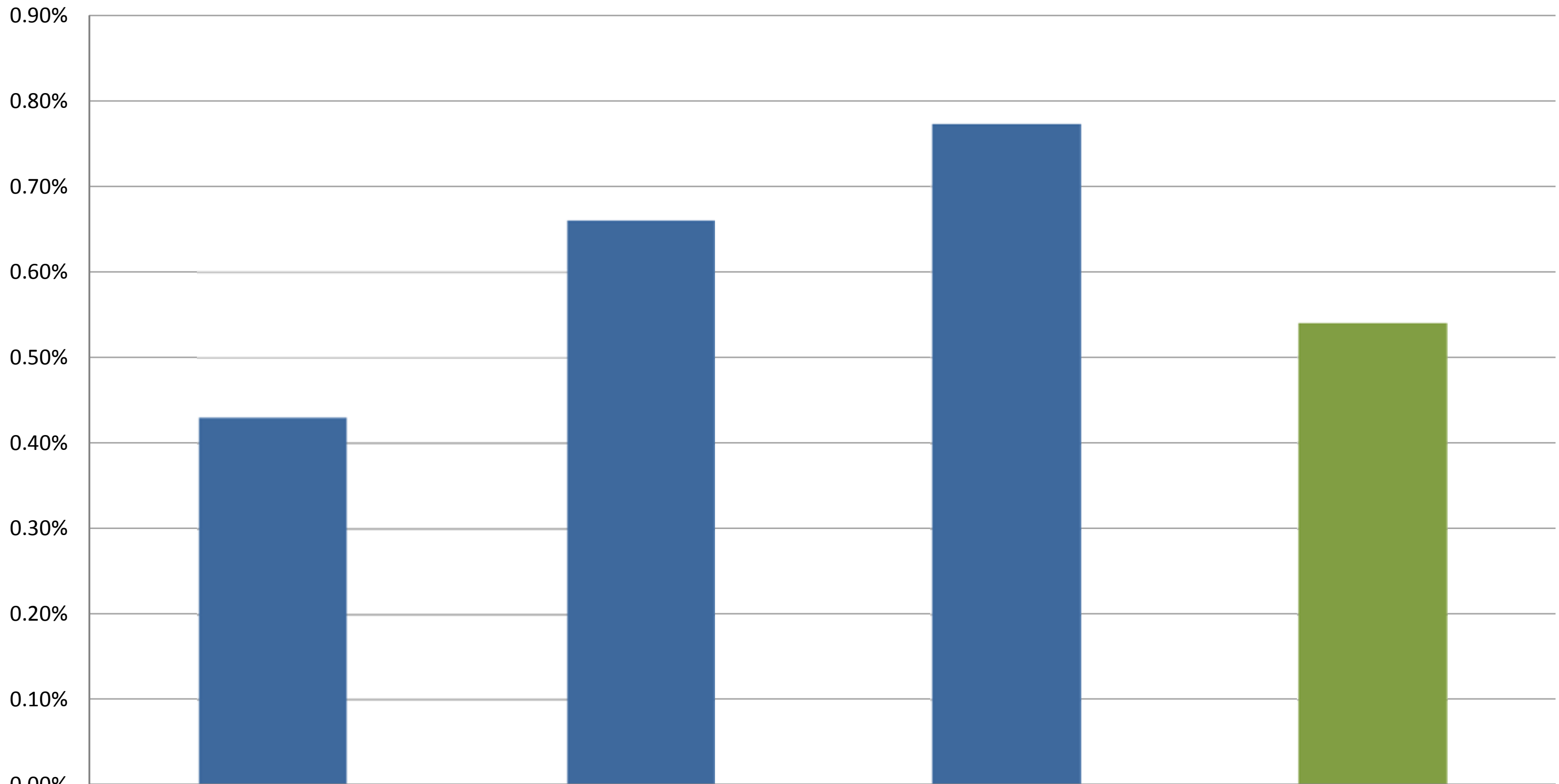
Mitigation Fund
$23 Million



Claim-Paying Fund
$317 Million



California Earthquake Authority
12-Month Rolling Investment Return
as of June 30, 2012

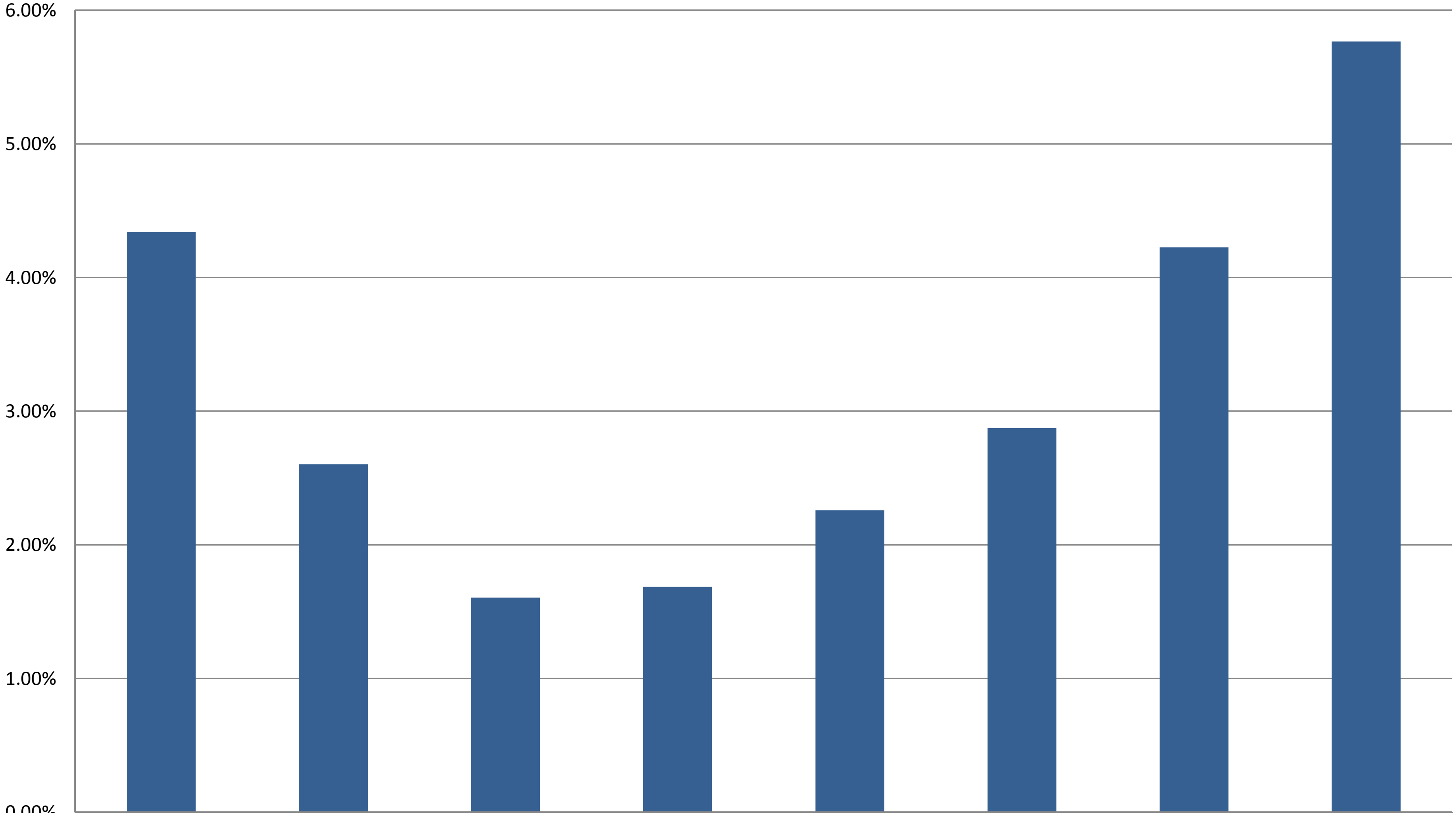


2009	2010	2011	2012*
0.43%	0.66%	0.77%	0.54%

* as of June 30, 2012

NOTE: Gross of Investment Manager Fees

California Earthquake Authority
Annual Investment Manager Fees as a Percentage of Investment Income
as of December 31, 2011



2004	2005	2006	2007	2008	2009	2010	2011
4.34%	2.60%	1.60%	1.69%	2.26%	2.87%	4.22%	5.76%

California Eathquake Authority

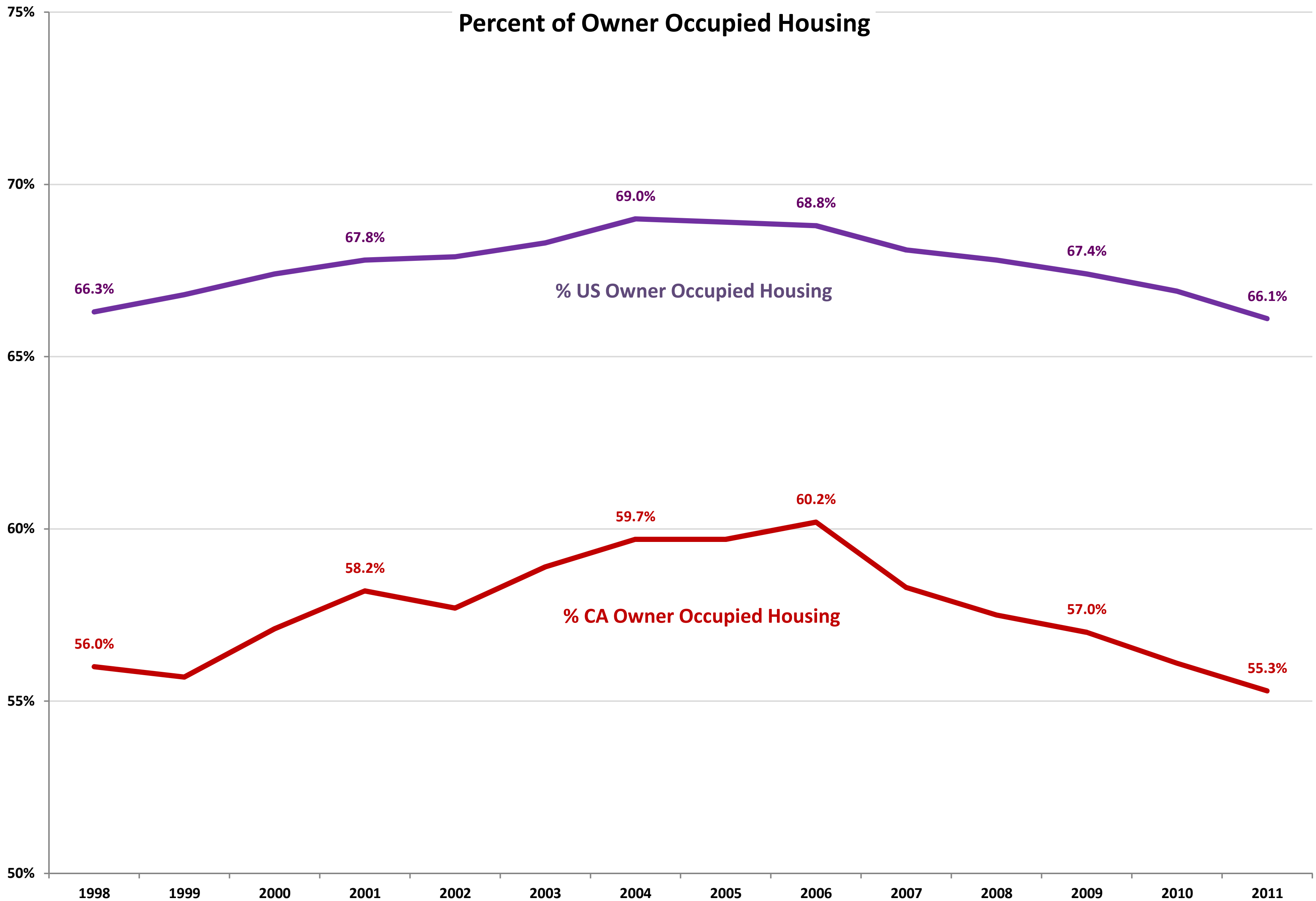
Schedule of Outstanding Debt

DEBT	ISSUANCE AMOUNT	INTEREST RATE	NET PROCEEDS	OUTSTANDING PRINCIPAL	AS OF DATE
Series 2006 Revenue Bonds	**$ 315,000,000**	**6.169%**	**$ 310,829,067**	**$ 157,500,000**	**30-Jun-2012**

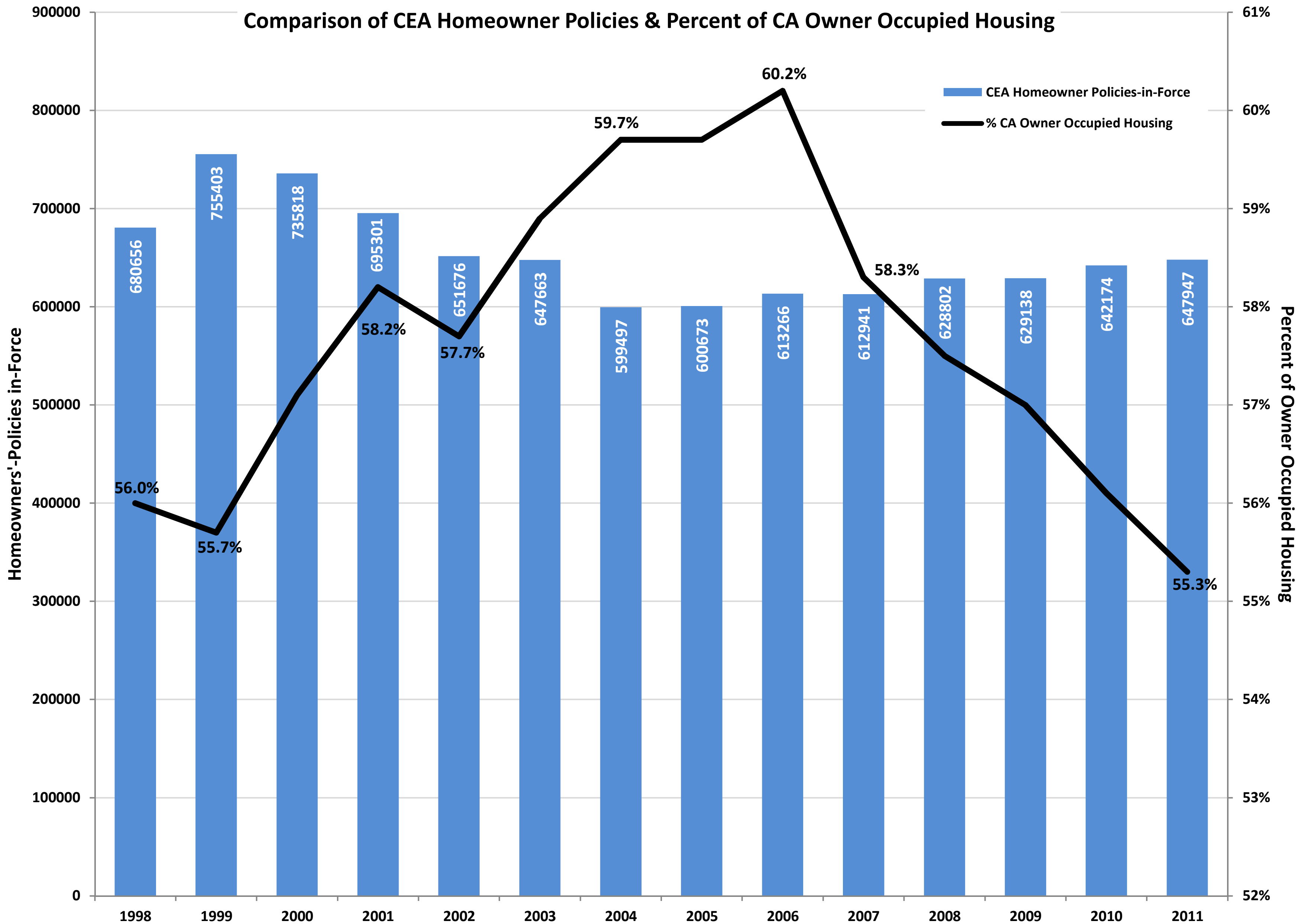
DEBT-SERVICE SCHEDULE

The table below shows the remaining annual-debt-service requirements for the Series 2006 Bonds.

Period Ending	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
1-Jan-12	$157,500,000		4,858,088.00	4,858,088.00	
1-Jul-12	$126,000,000	$31,500,000	$4,858,088	$36,358,088	
2012					$41,216,175
1-Jan-13	$126,000,000		$3,886,470	$3,886,470	
1-Jul-13	$94,500,000	$31,500,000	$3,886,470	$35,386,470	
2013					$39,272,940
1-Jan-14	$94,500,000		$2,914,853	$2,914,853	
1-Jul-14	$63,000,000	$31,500,000	$2,914,853	$34,414,853	
2014					$37,329,705
1-Jan-15	$63,000,000		$1,943,235	$1,943,235	
1-Jul-15	$31,500,000	$31,500,000	$1,943,235	$33,443,235	
2015					$35,386,470
1-Jan-16	$31,500,000		$971,618	$971,618	
1-Jul-16		$31,500,000	$971,618	$32,471,618	
2016					$33,443,235



Sources: U.S. Census Bureau, "Residential Vacancies & Homeownership Annual Statistics," data as of January 1st



Sources: U.S. Census Bureau, "Residential Vacancies & Homeownership Annual Statistics," data as of January 1st & CEA Policies-in-Force, data prior year-end

Governing Board Memorandum

August 23, 2012

Agenda Item 5:	Presentation to Governing Board of (Proposed) 2013 CEA Financial Structure and Capacity
Recommended Action:	Approve Proposed 2013 CEA Financial Structure and Capacity

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Background:

Each year, staff recommends to the Governing Board a financial structure for the next calendar year of operations. In its search for the optimal sources of claim-paying capacity for 2013, staff has balanced the following objectives:

1. Remain financially sound, by maintaining claim-paying capacity sufficient for policyholder claims in the event of an earthquake while retaining financial-strength ratings.

2. Provide a more valuable service to consumers, by using a financial structure that makes CEA insurance as affordable as possible and supports the capacity necessary to provide earthquake coverage to more Californians.

3. Generate stability and longevity for the Authority, through a financial structure that ensures the CEA's continuation, and enhances its ability to serve policyholders, after a significant earthquake or series of earthquakes.

The staff analysis and recommendations focus on these priorities.

Analysis:

In arriving at a recommended financial structure, staff thoroughly analyzed claim-paying-capacity sources both used and contemplated in prior years, as well as potential new capacity sources, to determine their utility for the coming year. Given recent, well publicized shifts in financial markets, this exhaustive approach was particularly important, to ensure that all potential resources were evaluated, given current pricing and market-capacity estimates.

The CEA has historically used the three leading earthquake modeling firms – EQECAT, RMS, and AIR – to assist the CEA in analyzing and understanding both the nature and the magnitude of risks presented by the CEA's insurance portfolio.

In 2010 the CEA assembled a project team of three actuaries with deep knowledge of catastrophe insurance and the use of models, to recommend how best to combine all three models in setting the CEA's annual claim-paying capacity. The team's method provided weights of each model, before application of "demand surge."[1] The modeling firms have not changed their earthquake models since this analysis was conducted, so the use of modeled results was not changed. The following are the weights staff used to recommend the 2012 financial structure:

Modeling Firm	Weight Accorded
EQECAT	50%
AIR	25%
RMS	25%

Proposed CEA claim-paying capacity for 2013 (at 1-in-500 years):

Modeled losses *(1-in-500 level, with **no** adjustments for demand surge, loss adjustment expense, or exposure growth)*	$ 6,984,248,516
Exposure adjustment *(anticipated growth in 2012)*	$ 396,524,377
Demand-surge adjustment	$ 1,845,193,223
Loss adjustment expense *(Includes loss adjustment expense for participating insurers and CEA)*	$ 876,466,781
Proposed 2013 claim-paying capacity (at 1-in-500 years):	**$ 10,102,432,897**

Historically, the CEA has relied heavily on reinsurance — predominantly, traditional reinsurance — for approximately one-third of its total claim-paying capacity. With three highly successful transformer-reinsurance transaction completed in 2011 and 2012, the CEA has access to the capital markets for risk-transfer, which means an additional strong source of claim-paying capacity and risk-transfer, going forward.

- CEA's risk-transfer purchases (both traditional and transformer reinsurance) required to meet the CEA's capacity needs is, and has been for years, a significant recurring expense. This major expense requires high CEA premium rates for its policyholders, while a large majority of CEA's risk-transfer premiums pass directly to offshore reinsurers.

- The nature of catastrophe risk-transfer is that the capacity it affords is purchased, but it is rarely used, given the low-frequency, high-damage events that catastrophe insurance is

[1] Demand surge is post-event inflation of the costs of reconstruction and repair, caused by short supplies of both construction material and labor; typically the larger the event, the larger the inflationary effect.

designed to cover — this mirrors the CEA's experience to date. Through 2012, the CEA will have paid approximately $3.1 billion in risk-transfer premium for an average annual risk-transfer capacity of over $2 billion, but has received just $267,457 in risk-transfer loss recoveries.

- Risk-transfer (whether traditional or transformer reinsurance) itself is not without uncertainty. Available capacity and price are subject to market conditions, global catastrophes, and other factors beyond CEA's control. Multi-year reinsurance contracts (such as provided by the recent transformer-reinsurance transactions) relieve some uncertainty, but there remain significant risks. While staff believes the risk-transfer limits CEA is likely to require for 2013 will be obtainable, there is no guarantee that the capacity demanded by the CEA in the future will be available at CEA's desired pricing.

- Because CEA has a financial structure that depends heavily on risk-transfer, any potential limits on traditional and transformer reinsurance-market capacity will constrain the overall claim-paying capacity of the CEA — and that can hinder CEA's ability to provide affordable earthquake coverage to more Californians.

As a result, staff continues to believe strongly that the ability to reliably access post-event borrowing is absolutely necessary to fully diversify the CEA's financial foundation and for CEA's long-term financial health. Post-event borrowing would partially replace CEA's risk-transfer program (now **the** major source of CEA claim-paying capacity), and if one or more earthquakes exhaust other (non-debt) claim-paying capacity, CEA would issue post-event bonds, as necessary, to meet its claim obligations.

Staff firmly believes that the proposed federal legislation, providing committed but limited federal guarantees of CEA's post-event debt, would benefit CEA's policyholders by prudently diversifying CEA finances to include post-event borrowing, which would provide lower-cost claim-paying capacity. In addition, placing into the capital markets guaranteed post-event debt would afford CEA broader capital access (after exhausting tax-exempt potential) by allowing the CEA access to investors seeking taxable, federally guaranteed debt.

Conclusions

The proposed CEA 2013 financial structure assumes a risk-transfer program that includes the purchase of both traditional and transformer reinsurance, together providing 34 percent of CEA's 2013 claim-paying-capacity needs.

Details of the Proposed 2013 CEA Financial Structure:

The proposed 2013 CEA financial structure continues a layer of risk-transfer (traditional and transformer reinsurance), which, added to other layers, provides a total claim-paying capacity of, at a minimum, a least a 1-in-500-year level.

- To provide a claim-paying capacity of 1-in-500 years at January 1, 2013, the proposed 2013 CEA risk-transfer program must provide $3.4 billion in capacity.
- By law, the CEA's New IAL will be subject to a recurring annual 5% roll-off on April 1, 2013, which staff estimates will decrease the New IAL by $220 million. Additional CEA revenues in the 1st quarter of 2013 are not projected to offset this decrease; staff is providing a proposed claim-paying capacity as of April 1, 2013, after the New IAL roll-off.

The 2012 risk-transfer program was divided into several components.

- CEA purchased traditional reinsurance of $1,505 million for a one-year term (from January 1, 2012, through December 31, 2012);
- CEA purchased traditional reinsurance of $1,251 million for a one-year term (from April 1, 2012, through March 31, 2013);
- CEA purchased traditional reinsurance of $100 million for a one-year term (from May 1, 2012, through April 30, 2013) ;
- CEA purchased transformer reinsurance of $150 million for a three-year term (from August 2, 2011, through August 1, 2014) ;
- CEA purchased transformer reinsurance of $150 million for a three-year term (from February 7, 2012, through February 6, 2015) ; and
- CEA purchased transformer reinsurance of $300 million for a three-year term (from August 1, 2012, through July 31, 2015) ;

The proposed 2013 risk-transfer program will require the following capacity levels to achieve a 1-in-500-year claim-paying-capacity level.

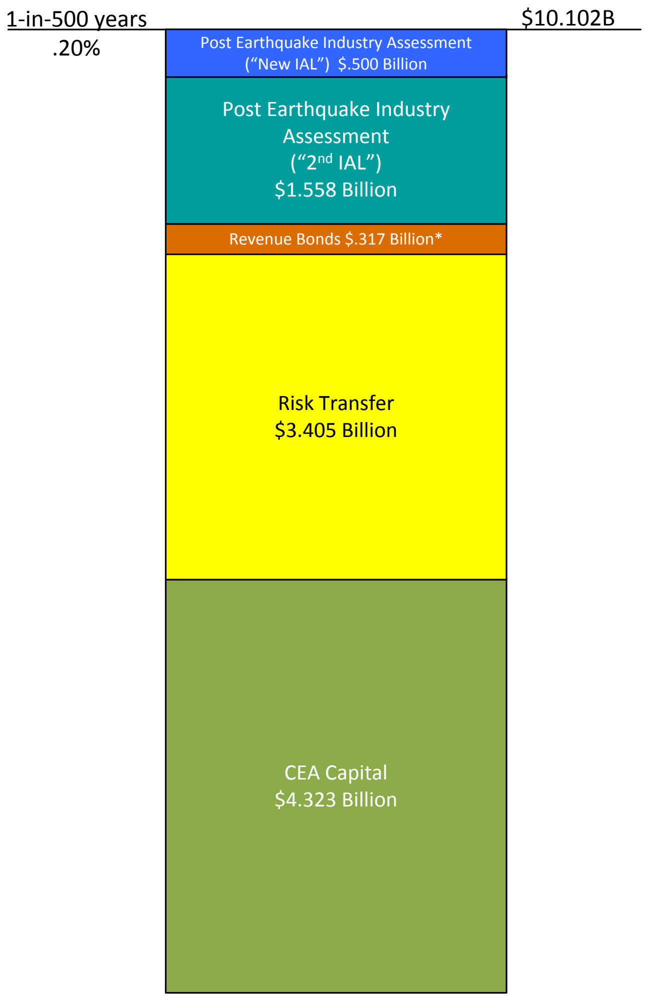
- $ 3,404 million of risk-transfer effective on January 1, 2013[2]; and
- $ 3,557 million of risk-transfer effective on April 1, 2013[3].

[2] This amount includes risk-transfer contracts that will be in effect on January 1, 2013.

[3] This amount includes risk-transfer contracts that will be in effect on April 1, 2013.

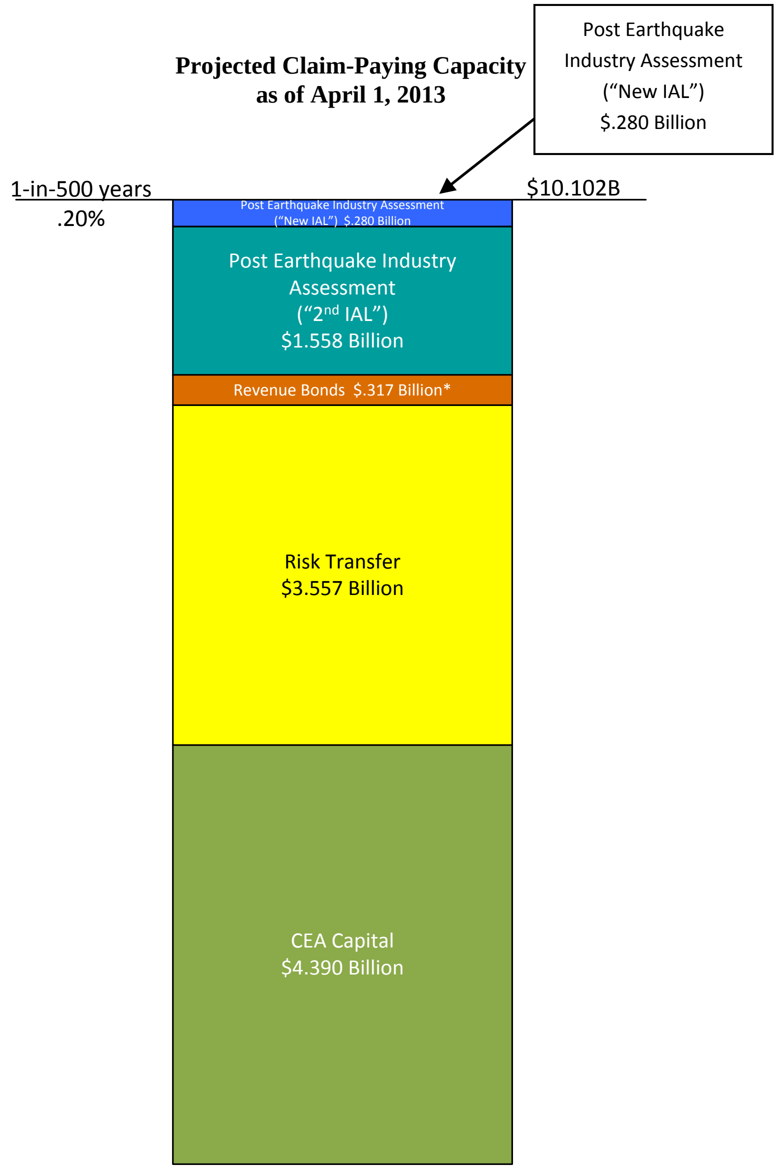
The proposed financial structures as of January 1st and April 1st, 2013, are depicted below.

Projected Claim-Paying Capacity
as of January 1, 2013



Total $10,102 Billion

Projected Claim-Paying Capacity
as of April 1, 2013



Total $10,102 Billion

*based on market value

Recommendations:

Staff recommends the Board direct staff to:

1. Proceed with obtaining the proposed 2013 risk-transfer program composed of an optimal combination of both traditional and transformer reinsurance, as below:
   - $ 3,404 million of risk-transfer effective on January 1, 2013; and
   - $ 3,557 million of risk-transfer effective on April 1, 2013.

2. Bring to the Board at its October 2012 meeting a recommendation for CEA's 2013 risk-transfer program effective January 1, 2013, and at its February 2013 meeting a recommendation for CEA's risk-transfer program effective April 1, 2013.

Governing Board Memorandum

August 23, 2012

Agenda Item 6:	2012 CEA Risk-Transfer Program
Recommended Actions:	Approve additional, traditional, multi-year reinsurance contract for a three-year term, 2012–2015

Background:

At its October 28, 2011; December 9, 2011; and April 26, 2012, meetings, the Governing Board approved the 2012 CEA Reinsurance Programs A, B, and C. At its June 30, 2011, and December 9, 2011, meetings, the Board approved executing two separate transformer-reinsurance (catastrophe-bond-supported) transactions. At its April 26, 2012, meeting, the Board approved the CEA's purchase of up to $300 million in transformer reinsurance, to incept no later than January 1, 2013, under the terms and conditions described in the Board materials presented April 26, 2012.

Following the Board's guidance, the CEA was able last month to execute the third transformer-reinsurance catastrophe-bond transaction, adding to the other two transformer-reinsurance catastrophe-bond transactions, one having become effective August 2, 2011, and a second having become effective February 7, 2012.

Analysis:

2012 CEA Risk-Transfer Program

Splitting the CEA reinsurance program into multiple periods, each with separate contract-inception dates, will allow CEA to purchase reinsurance in stages, reducing the potentially negative effects that worldwide catastrophic events and market swings have on capacity and pricing. In keeping with the Board's consistent direction, CEA staff is continuously seeking out risk-transfer means that meet CEA requirements of the highest-quality financial products, at the best terms, and at the lowest possible cost.

Due to increased exposure as a result of increased policies coming to CEA during the first six-months of 2012, CEA staff has determined that additional risk-transfer is needed to preserve CEA's capacity at or above the required level 1-in-500-years level through the remainder of 2012.

Staff has negotiated a $100 million traditional, multi-year-reinsurance contract with a single reinsurer—termed "Program September 1"—to become effective on September 1, 2012, and extend through August 31, 2015, at an annual premium of $5.7 million. This is the first such transaction of this type. This transaction combines traditional reinsurance with a multi-year contract period that includes several of the key features of the CEA's transformer-reinsurance contracts. With "Program September 1," CEA's 2012 risk-transfer program will look like this:

- 2012 CEA Reinsurance "Program A"
  - Composed of four contracts, each of 12 months' duration, with terms extending from January 1, 2012, through December 31, 2012.
  - Program A was approved by the Board on October 28, 2011.
- 2012 CEA Reinsurance "Program B"
  - Composed of a single contract of 12 months' duration with multiple reinsurers, with terms extending from April 1, 2012, through March 31, 2013.
  - Program B was approved by the Board on December 9, 2011.
- 2012 CEA Reinsurance "Program C"
  - Composed of a single $100 million reinsurer contract of 12 months' duration, with terms extending from May 1, 2012, through April 30, 2013.
  - Program C was approved by the Board on April 26, 2012.
- Proposed 2012 CEA Reinsurance "Program September 1"
  - Composed of a single $100 million reinsurer contract of 3 years' duration, with terms extending from September 1, 2012, through August 31, 2015.
  - Staff proposes Board approval of this reinsurance contract.
- Transformer Reinsurance
  - The CEA now has three transformer-reinsurance contracts in effect.
    - A $150 million transformer-reinsurance contract, in effect from August 2, 2011, through August 1, 2014.
    - A $150 million transformer-reinsurance contract, in effect from February 7, 2012, through February 6, 2015.
    - A $300 million transformer-reinsurance contract, in effect from August 1, 2012, through July 31, 2015.

2012 Risk Transfer Program	Contract Period	Reinsurance Limit
Traditional Reinsurance – Program A	1/1/2012 – 12/31/2012	$1,505,220,000
Transformer Reinsurance – Contract 1	8/2/2011 – 8/1/2014	$150,000,000
Transformer Reinsurance – Contract 2	2/7/2012 – 2/6/2015	$150,000,000
Traditional Reinsurance – Program B	4/1/2012 – 3/31/2013	$1,251,464,950
Traditional Reinsurance – Program C	5/1/2012 - 4/30/2013	$100,000,000
Transformer Reinsurance – Contract 3	8/1/2012 – 7/31/2015	$300,000,000
Proposed Traditional Reinsurance – Program September	9/1/2012 - 8/31/2015	$100,000,000
Total Risk-Transfer Program		**$3,556,684,950**

Contract Terms & Conditions—proposed traditional-reinsurance contract—"Program September 1"—three-year term, $100 million limit

1. The CEA will become obligated to pay the contractual three-year reinsurance premium upon binding the reinsurers' commitments, payable according to the premium-payment schedule in the contracts.

2. As with CEA reinsurance contracts for the past several years, reinsurer commitments and proposed reinsurance contracts do not provide for mandatory "reinstatement" of coverage or require of the CEA a corresponding reinstatement premium. (If a reinsurance contract has a reinstatement clause, when reinsurance coverage under a contract is reduced by loss from one occurrence, the reinsurance limit is automatically "reinstated." The reinstatement term usually incepts at the date of the last loss and runs only through the end of the original coverage period. An additional reinsurance premium is required for reinstating the reinsurance coverage that was reduced by reinsurance loss payment.)

3. The contract would provide that the reinsurance premium payable by CEA can adjust upward or downward by no more than 10% per annum, based on stated, average, total CEA exposures from September 1, 2012, through August 31, 2015.

4. The three-year contract covers losses on an annual aggregate basis (as do all of the CEA's (primarily, one-year) reinsurance contracts) and has a negotiated "reset" provision for deductible and premium for the 2nd and 3rd annual periods (years).

5. At each contract anniversary, the reset provision will allow the parties to re-determine both the dollar-value attachment point and the dollar-value exhaustion point, which together with the remaining available reinsurance limit (note that the limit can only be reduced by loss payments to CEA under the contract) will be used to determine the following year's reinsurance premium.

6. The reinsurance contract attachment point "drops down" in CEA's financial structure when (1) the CEA has losses in a one-year period but (2) the one-year total loss is not sufficient to trigger a 100% loss to the reinsurance contract.

7. At the next anniversary of the reinsurance contract, the attachment point of the next annual period (year) of the reinsurance contract is adjusted for any prior-year CEA losses.

8. Reinsurers expect more premium if the risk of paying losses is higher—if there is a drop-down, the risk of paying losses in the drop-down year is higher than before the drop-down occurred, and therefore an adjustment would serve to increase premium payable by CEA.

9. If CEA losses are below an established loss threshold, however, the reset provision will operate to place the probability of attachment for subsequent contract periods at the same level as for the initial contract period—in that case, the reinsurance premium would not change.

10. The attachment point for subsequent contract periods can also move up or down, depending on changes in the CEA's policy-count and total exposure as well as any new earthquake modeling.

11. The proposed reinsurer for the "Project September 1" contract meets all relevant financial-capacity and underwriting-related requirements stated in the current Board-approved *Guidelines for Sources of Claim-Paying Capacity*.

<u>Recommendation</u>:

Staff recommends that the Board:

1. Approve staff's proposal for the 2012 CEA reinsurance "Program September 1," effective September 1, 2012, for a total reinsurance limit of $100,000,000, on the terms and conditions stated above for the respective contracts and elaborated on in the written resolution presented to the Board on this date;

2. Authorize staff to act immediately to bind the corresponding reinsurance commitment from the reinsurer on "Program September 1," on the terms and conditions described above and elaborated on in the resolution presented to the Board on this date; and

3. Authorize CEO Glenn Pomeroy, acting under the guidance of the written resolution and on the active advice of the CEA general counsel, to execute on behalf of the CEA the resulting "Project September 1" contract, together with all necessary and appropriate contract documents.

Governing Board Memorandum

August 23, 2012

Agenda Item 7:	CEA Advisory Panel update—Brian Deephouse
Recommended Action:	No action required - information only

CEA Advisory Panel member Brian Deephouse will provide a summary of the proceedings of the July 19, 2012, Panel meeting.

Governing Board Memorandum

August 23, 2012

Agenda Item 8:	Staff and consultant recommendation to hire a Chief Information Officer (CIO)
Recommended Action:	Governing Board authorization to recruit and hire a Chief Information Officer (CIO)

Background:
Both the 2011 organizational and staffing analysis conducted by *PricewaterhouseCoopers* and the CEA Information Services "Effectiveness Project" led by *Protiviti* resulted in a key, best-practices-based recommendation: expand CEA's executive-management team to include a Chief Information Officer (CIO).

CEA executive management agrees with this recommendation and has come to recognize the importance, necessity, and value that this key strategic leadership role would bring to the CEA's daily operations, including a critical role in developing a more efficient and effective business model, in these ways:

- In broad terms, a chief information officer directs and manages computing and information-technology strategic plans, policies, programs, and schedules for business and finance data processing, computer services, network communications, and management information services. Importantly, the role would extend to CEA's relationships with key vendors and with participating insurers.

- As a member of the CEA's executive-management team, the CIO would provide the technology vision and leadership to develop and implement information-technology initiatives and direct their alignment with CEA's organizational objectives and goals.
    - The CIO would define and build the appropriate infrastructure-melding technology—and the related human capital—to ensure technology services are deployed that effectively support the CEA.
    - The CIO would ensure information and data integrity across all information-technology functions, and acting from an executive-management position, monitor and validate the CEA's compliance with security policies and regulatory requirements.
    - The CIO would direct information-technology initiatives to support disaster recovery, governance, change management, security, and privacy, as well as IT policies, processes, controls, and portfolio and project management.

To assure trusted, best-practices recommendations to support this effort, the CEA asked *CPS HR Consulting* to conduct a job analysis, compensation analysis, and recruitment services for the CIO position.

- The job analysis identified the core tasks that would constitute a CEA-specific CIO position, describing and justifying the successful combination of knowledge, skills, and abilities ("KSAs") for the position. The job analysis is complete, and the related job description has been developed.
- The compensation analysis has also been completed and has established a salary range for the position.
- The recruitment process will begin upon Board approval to hire for the position.

CPS recommends that CEA hire a CIO as a contracted, at-will position reporting to the CEO. The recommendation is based on a careful analysis of the current organizational structure of the CEA's executive team, required competencies and experience for the new position, and the expected salary requirements to attract candidates with those competencies and that experience.

Analysis:
Since its inception, the CEA has been the leading provider of residential earthquake insurance in California, and it has become an organization of preeminent influence in the global earthquake, earthquake insurance, and insurance-finance communities.

The CEA is broadly recognized as a worldwide thought leader in developing creative residential-earthquake products and related pricing structures; it has set the standard for residential earthquake risk-transfer strategies; the Authority is developing leadership roles for the marketing of residential earthquake insurance and loss-mitigation products; and the CEA has been an influential supporter of earthquake and earthquake-engineering research.

During 2011, in fact, the CEA expanded its sphere of influence relating to earthquake-loss mitigation and preparedness with its unique and successful hiring of a Chief Mitigation Officer.

While achieving much success in its core business segments, CEA's development of internal business processes—including information technology—has often lagged behind because of staffing limitations that have restricted the organization's ability to build a diverse skill bank.

In addition, the CEA's current business model assigns (with unpredictable results and varying success) its most complex and demanding technology-dependent business functions (i.e., policy issuance, billings, and customer notices) to its participating insurers. In that regard, the CEA recently experienced numerous undue complications as it tried to implement new, lower rates, revised policy forms, a new product, and related (and required) systems enhancements.

Those experiences well illustrated the inefficiencies inherent—and inescapable—in the current operating structure, as some participating insurers' aged computer systems presented (and to this day present) difficulties that are labor-intensive and costly to remedy, inhibiting CEA's ability to effect timely, needed change.

Recognizing the importance and necessity of incorporating smart strategies and optimal, mutually beneficial ease-of-doing-business, in 2011 CEA executive staff competitively identified and selected a consulting firm specializing in property and casualty insurance operations. *PricewaterhouseCoopers* completed an independent assessment of the CEA's structure, and staff roles and levels. According to PwC, adding a CIO to the CEA executive staff is key to accomplish all the worthwhile goals and objectives described above. CEA executive management agrees.

In addition, the CEA contracted with *Protiviti* in 2010 to help CEA complete an Information Services (IS) "Effectiveness Project" (the CEA's independent auditor had identified a material weakness in CEA's internal controls, including material risks in CEA IS). Protiviti made a <u>key recommendation</u>: Add a CIO to the CEA executive management team, both to support ongoing IS development and to make CEA's information capabilities more effective.

Since fourth quarter 2011, CEA staff has been working closely with *CPS HR Consulting*, a self-supporting public entity that provides a full range of human resources to both public and nonprofit sectors.

CPS delivers human resources management and consulting services, employment testing, and assessment services to government entities throughout North America – and, provides organizational strategy-planning models and systems to assist in the recruiting, selecting, and developing staff.

CPS HR conducted a job analysis to define a CIO position specifically for the CEA. CPS concluded that the CEA's CIO position be a contracted, at-will position whose incumbent reports to the CEO. As noted, CPS based its conclusion on a thorough analysis of the CEA executive-team structure, the required competencies/experience for the new position, and the expected salary requirements to obtain those competencies and that experience.

The CPS recommendation is fully supported by the job-analytic results, which concluded the CIO position requires an incumbent with private-sector expertise in the property and casualty insurance industry.

The CPS job-analytic results, with specific criteria noted:

- Knowledge of insurance-industry-relevant requirements to ensure the CEA's systems and processes are in compliance with all regulatory requirements and industry best practices.
- Knowledge of the insurance industry (as it relates to property and casualty insurers from a technological perspective) to understand how technical requests and changes can impact the technical infrastructure of both the CEA and its participating insurers.
- Knowledge of various insurance-specific data systems, to recommend controls and ensure system reliability and data integrity.
- Knowledge of appropriate insurance terminology to effectively communicate with CEA staff and external insurance personnel.
- Skill to identify opportunities for technical collaboration among stakeholders, much enhancing desired outcomes for all involved, both internally and externally.

Hiring a Chief Information Officer as a CEA at-will employee is supported legally by the authority granted the Board by California Insurance Code section 10089.7, subdivision (h), paragraph (1) (as that provision relates to the services of a "computer firm") in conjunction with and supported by Insurance Code section 10089.7, subdivision (g), which establishes the Board's authority to employ "that staff and those professionals the board deems necessary for [the

CEA's] efficient operation."

Recommended action:
CEA staff asks that the Board authorize the professional recruitment and hiring by CEA of a Chief Information Officer as an employee, and that negotiating and contracting for the CIO's services be delegated to the Chief Executive Officer, with the active assistance of the general counsel, subject to the Board's ultimate approval of contract terms.

Governing Board Memorandum

August 23, 2012

Agenda Item 9:	Proposed plan to acquire limited additional office space on floor above CEA's main office, to accommodate CEA staff and allow CEA's server room to be upgraded to insurance-industry standards
Recommended Action:	Approve the proposed plan to acquire a limited amount of additional office space; authorize CEO Glenn Pomeroy to negotiate, approve, and execute an amendment to the CEA's lease

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Background:

Multiple sources, including financial auditors and information technology consultants, have expressed serious concerns with the existing water-based ("wet") fire suppression system in the CEA's server room—in the event of fire, the suppression system 's torrents of water would extinguish the fire but damage the core CEA servers, which could cause significant business-interruption issues.

These findings have led to frequent, strong recommendations to build a larger, more technologically advanced data center in support of the CEA's business recovery plan.

The new data center is also needed to meet electrical-power requirements for future modeling, GIS, and data-hosting application environments. Additional space is also needed for hardware—servers, switches, and firewall devices to support state-of-the-art data security while allowing full Internet connectivity.

In addition, the CEA's accelerated evolution in recent years has required the CEA to rely heavily on an ever-increasing number of temporary/seasonal non-employee staff and on-site vendors (e.g., financial auditors and IT consultants) to keep pace with change.

CEA staff is currently working with *CPS HR Consulting* to complete a staffing and talent-management analysis, which will quantify the number of CEA employees needed to support the CEA's daily operations. It is now expected that the analysis will identify the need for more full-time employees in the various areas of specialization required to support the CEA's unique mission.

In the meantime, the creation of both mitigation *and* policy, research and special projects work units, coupled with ongoing advancements in financial strategies, product development, actuarial analysis, marketing, information technology, and human resource management, continue to create a growing need for on-site support of numerous people from a variety of sources to sustain progress.

The recent decision to manage the California Residential Mitigation Program (CRMP) incentive program (the joint powers authority between CEA and CalEMA) in-house requires office space to house the CRMP staff.

With this investment in the organization's human and intellectual capital comes the requirement to provide a quality work environment with adequate work space conducive to collaboration, learning, and thoughtful concentration to perform assigned duties.

The urgent recommendations CEA has received for a larger, more technologically advanced data center combined with the need for more work space to accommodate staff and onsite vendors has led CEA staff to develop plans for office expansion.

Analysis:
In view of the critical-need recommendations for construction of a larger, more technologically advanced data center, a growing need for additional work space, and the current highly tenant-favorable real estate market conditions in the downtown-Sacramento area), CEA staff felt it prudent to explore expanding into work space contiguous with CEA's existing office space(s) at 801 K Street, Sacramento. As a result, we are working on business terms with the landlord to prepare for the possibility of expanding into space adjacent to our current limited 11th-floor office space, which in a crowded fashion houses CEA Information Services staff.

In support of this effort, we again retained the expertise of leading local real estate broker Devon Atlee of *Cornish & Carey Commercial/Newmark Knight Frank*. Mr. Atlee represented the CEA skillfully in previous negotiations and knows the CEA, this property and its other tenants, and the building management and ownership. He and his firm also bring the knowledge and experience of having worked for years with the California Department of General Services.

Based on that experience, Mr. Atlee is the face of the CEA in negotiations with building management and ownership. The CEA also has again retained its expert local counsel, Robert McCormick, who has a commercial real estate specialty.

With Mr. Atlee's expertise and the legal backing of Mr. McCormick, staff is in negotiation with the Landlord to develop a lease amendment that would include the following:

- Acquisition of no more than an additional 9,700 rentable square feet on the 11th floor, which would provide space for:
    - a server room, professionally designed to all appropriate technical standards, to handle CEA's critical computational needs;
    - additional workspace that CEA requires for staff and for on-site consultants and vendors, which (depending on final configuration and design specs) could include approximately 27 modular workstations, 4 private offices, 3 huddle rooms, and a break room.
- conversion of the existing server room on the 10th floor to a conference room;
- substantial allowances for tenant improvements and other items, at landlord's sole expense; and

- a hard option to add adjacent office space in the future, to allow additional activities and a potential expansion of CEA staff over time, as needed.

If proposed plan is approved, staff will present a related budget augmentation later in the year once the lease negotiations are completed, a lease amendment is executed, and plans are finalized.

It is anticipated that the CEA's combined cost to build and equip the new server room and purchase furniture for the additional modular workstations, offices, huddle rooms, and break room will exceed the allowance for tenant improvements.

Recommendation:
Staff recommends that the Board approve the proposed plan to bring the CEA's server room up to industry standards and acquire a limited amount of additional office space, and authorize CEO Glenn Pomeroy (with active assistance of the general counsel) to negotiate and execute a related amendment to the CEA's lease.

Governing Board Memorandum

August 23, 2012

Agenda Item 10:	Reports of Audits on CEA Annual Financial Statements (2011)
Recommended Action:	No action required – information only

Background:

Larson & Rosenberger, LLP, California Earthquake Authority's independent auditor, has performed audits of CEA's financial statements for the year ended December 31, 2011.

- The independent auditor conducted an audit of CEA's financial statements prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America.
- In addition, and at the CEA's request, the independent auditor also conducted an audit of CEA's statutory financial statements based on accounting practices prescribed or permitted by the California Department of Insurance.

Reports of Audit for GAAP financial statements are found in *Attachment A* and consist of:

- Independent Auditor's Report
- Management's Discussion and Analysis (MD&A)
- Audited Financial Statements and accompanying notes
- Supplementary Information

Reports of Audit for statutory financial statements are found in *Attachment B* and consist of:

- Independent Auditor's Report
- Audited Statutory Financial Statements and accompanying notes
- Supplementary Information

Analysis:

According to the Independent Auditor's Reports, CEA's 2011 audited GAAP and statutory financial statements present fairly, in all material respects, the financial position of CEA, in conformity with accounting principles generally accepted in the United States of America and accounting practices prescribed or permitted by the California Department of Insurance, respectively.

A representative of Larson & Rosenberger, LLC, will present to the Board the independent auditor's Management Comment Letter (*Attachment C*).

Recommended Action: No action required – information only.

CALIFORNIA EARTHQUAKE AUTHORITY

Financial Statements
December 31, 2011 and 2010

With Independent Auditors' Report Thereon

Table of Contents

LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Governing Board
California Earthquake Authority

We have audited the accompanying balance sheets of the California Earthquake Authority (CEA) as of December 31, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the CEA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the California Earthquake Authority as of December 31, 2011 and 2010, and the changes in its financial position and cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of participating insurer capital contributions, participating insurer premiums written, participating insurer unearned premiums, participating insurer commissions and participating insurer operating costs, on pages 25 to 29, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of participating insurer capital contributions, participating insurer premiums written, participating insurer unearned premiums, participating insurer commissions and participating insurer operating costs are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Larson & Rosenberger LLP

Glendale, California
August 20, 2012

CALIFORNIA EARTHQUAKE AUTHORITY

Management's Discussion and Analysis

History and Financing

This discussion provides an assessment by management of the financial position, revenues, expenses, changes in net assets, cash flows and liquidity of the California Earthquake Authority (CEA). Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow Management's Discussion and Analysis.

Following the unprecedented losses from the 1994 Northridge earthquake, many insurance companies either stopped or severely restricted selling new homeowners' insurance policies in California. The insurer response was largely due to state law that requires insurers to offer earthquake insurance when selling or renewing residential property insurance.

In September 1996, legislation to create the CEA was approved by the California State Legislature. On November 26, 1996, the State of California Insurance Commissioner certified that all statutory conditions necessary for the CEA to become operational had been met, and the CEA began writing earthquake policies on December 1, 1996. The CEA is overseen by a three member Governing Board consisting of the Governor, the Treasurer, and the Insurance Commissioner or their designees. The Speaker of the Assembly and the Chairperson of the Senate Rules Committee or their designees serve on the Governing Board as nonvoting members. The Governing Board establishes premium rates, subject to the prior approval of the Insurance Commissioner. The Governing Board is advised by an 11 member advisory panel, consisting of members of the public, consumers and insurance industry representatives.

The CEA uses its available capital (net assets) to leverage approximately $9.8 billion in claims-paying capacity at December 31, 2011. The CEA's claims-paying capacity is determined from the CEA's available capital, risk-transfer coverage, available letters of credit, debt, and post-event prospective participating insurance company assessments. The CEA derives its capital from participating insurer capital contributions and from increases in net assets generated from the sale of earthquake insurance policies. The CEA is exempt from federal income tax and from state insurance-premium tax. California Insurance Code section 10089.44 provides, in pertinent part, that "… premiums collected by the authority shall be exempt from collection of the state's insurance premium tax, and the amount of tax foregone by the state shall be considered for all purposes a contribution by the state and its citizens to the capital and operating revenues of the authority."

The CEA has approximately 821,000 policyholders at December 31, 2011, most of whom insure single-family dwellings through the CEA. The CEA offers a basic residential earthquake policy to homeowners, which includes coverage for the insured dwelling and limited coverage for contents and loss-of-use if the residence is uninhabitable due to an earthquake. The CEA also offers policies to condominium unit owners and renters. For an additional premium, CEA policyholders can significantly increase insured limits on contents and for loss-of-use, and homeowners can lower their CEA policy deductible from 15 percent to 10 percent.

The CEA employs contract employees and employees subject to civil-service provisions. By law, the number of employees subject to civil-service provisions is limited to 25. Because of its limited staff size, the CEA uses an extensive network of contract vendors to perform functions on behalf of the CEA.

Using the Report

While the CEA is an instrumentality of the state, the State of California's General Fund is not liable for CEA claims, losses, or other liabilities. However, the CEA meets the definition of a governmental organization, as defined by accounting principles generally accepted in the United States of America. The CEA's financial statements for the years ended December 31, 2011 and 2010 have been prepared using accounting standards applicable to governmental entities. This financial report consists of three financial statements with accompanying notes. The balance sheets, prepared on the accrual basis of accounting, include all assets, liabilities and net assets of the CEA. The statements of revenues, expenses, and changes in net assets, also prepared on the accrual basis, take into account all revenues and expenses for the CEA regardless of when cash is received or paid. The statements of cash flows reflect the actual cash receipts and disbursements for a specified period of time.

Condensed Balance Sheets

The CEA's assets, liabilities and net assets as of December 31 are summarized as follows:

	2011	2010	2009
Assets			
Cash and investments	$ 4,508,924,403	$ 4,273,041,274	$ 4,002,726,319
Premium receivable, net	41,893,958	49,595,737	52,838,052
Deferred policy acquisition costs	41,619,480	40,674,396	40,154,994
Other assets	106,409,943	18,697,215	22,519,031
Total assets	$ 4,698,847,784	$ 4,382,008,622	$ 4,118,238,396
Liabilities and Net Assets			
Unearned premiums	$ 309,899,331	$ 302,862,221	$ 298,994,745
Revenue bonds payable	157,500,000	189,000,000	220,500,000
Other liabilities	10,913,051	8,207,794	8,503,359
Total liabilities	478,312,382	500,070,015	527,998,104
Net assets:			
Restricted, expendable	205,889,564	168,559,583	133,264,871
Unrestricted	4,014,645,838	3,713,379,024	3,456,975,421
Total net assets	4,220,535,402	3,881,938,607	3,590,240,292
Total liabilities and net assets	$ 4,698,847,784	$ 4,382,008,622	$ 4,118,238,396

Condensed Balance Sheets (Continued)

Assets

Total assets grew $316.8 million (7%) in 2011 and $263.8 million (6%) in 2010. The 2011 and 2010 increases were primarily due to an increase in net assets of $338.6 million and $291.7 million, respectively. Cash and investments grew $235.9 million (6%) and $270.3 million (7%), in 2011 and 2010, respectively. Investments are managed by external managers under the guidance of the CEA. U.S. Treasuries, short-term investments and cash-equivalent securities comprise 100% of the CEA's investment portfolio.

Premium receivable balances decreased $7.7 million (-16%) and decreased $3.2 million (-6%) in 2011 and 2010, respectively. The 2011 decrease in premium receivables was due to the CEA receiving a larger portion of weekly premiums remitted by the CEA participating insurers in the last week of the year than in the last week of the previous year. The 2010 decrease in premium receivables was due to the normalization of this balance as compared to the 2009 balance, which was higher than usual because of the implementation of a new data system at the end of 2008.

Deferred policy acquisition costs, consisting of unearned participating insurer commissions and operating costs, are deferred and amortized ratably over the terms of the underlying policies. Deferred policy acquisition costs increased $0.9 million (2%) in 2011, which corresponds with the increase in policies that were unearned at the end of 2011. Deferred policy acquisition costs increased $0.5 million (1%) in 2010 that corresponds with the increase in policies that were unearned at the end of 2010. The operating cost reimbursement rate during 2011 and 2010 was the same at 3.43%.

The 2011 increase in other assets of $87.7 million (469%) was due to a combination of a security receivable of $68.5 million, a reinsurance premium deposit of $5.0 million, and prepaid reinsurance premium of $2.5 million. The security receivable was from an investment that matured on Saturday, December 31, 2011. The proceeds from the matured investment were received on Monday, January 2, 2012, when the bond-market opened. The 2010 decrease in other assets of $3.8 million was the net effect of an $8.2 million reduction in interest receivable, a $2.9 increase in capital contributions receivable, and a $1.7 million increase in risk-capital surcharges receivable.

Liabilities

Unearned premiums represent the pro rata portion of the premiums written related to the remaining term of policies in force. Unearned premiums increased $7.0 million (2%) and increased $3.9 million (1%) in 2011 and 2010, respectively. The 2011 increase was due to the increase in premiums written by the end of 2011. The 2010 increase was due to the increase in premiums written by the end of 2010.

Revenue bonds payable decreased by $31.5 million (-17%) in 2011 resulting from the annual 10% principal reduction payment. The bonds were initially issued in June 2006, totaling $315 million. The revenue bonds bear interest at a fixed rate of 6.196% and mature in 2016 requiring annual 10% principal reduction payments.

Other liabilities include claims and claim expense reserves, which are not significant since California has not suffered a major earthquake during the CEA's existence. Other liabilities in 2011 increased $2.7 million (33%) in 2011 largely due to an accrued reinsurance premium expense of $1.7 million. Other liabilities remained at relatively the same amount for 2010 and 2009 with a decrease of $0.3 million (-3.5%) in 2010. The main reason for the decrease in 2010 was due to revenue bond interest payable decreasing as the outstanding principle decreased, causing the interest to decrease as well.

Condensed Balance Sheets (Continued)

Net Assets

The CEA classifies its net assets into two components, restricted-expendable and unrestricted net assets. Restricted net assets include the net assets of the Earthquake Loss Mitigation Fund (Mitigation Fund), unspent bond proceeds restricted for payment of claims as defined in the debt agreements offset by underlying debt, funds held for debt service by the revenue bond trustee, and investment income earned on the bond proceeds restricted as pledged revenue for debt service. The Mitigation Fund was created by statute and related funds must be used solely for the establishment and operation of earthquake mitigation programs. The remaining net assets of the CEA are classified as unrestricted. The CEA's net assets grew $338.6 million (9%) and $291.7 million (8%) in 2011 and 2010, respectively. The 2011 increase was comprised of the underwriting profit of $275.0 million, premium tax contributions from the State of California of $14.4 million, and the increase in contributed capital of $20.8 million. The 2010 increase was comprised primarily of an underwriting profit of $249.3 million and premium tax contributions from the State of California of $13.9 million.

Condensed Statements of Revenue, Expenses, and Changes in Net Assets

The CEA's operating results are presented in the following table:

	2011	%	2010	%	2009	%
Underwriting income:						
Premium written	$ 612,830,953	100%	$ 603,127,689	100%	$ 585,520,749	100%
Less premium ceded – reinsurance	(200,622,675)		(221,788,128)		(194,697,154)	
Net premium written	412,208,278	67%	381,339,561	63%	390,823,595	67%
Change in net unearned premiums	(7,037,110)		(3,867,476)		4,433,465	
Net premium earned	405,171,168	66%	377,472,085	63%	395,257,060	68%
Expenses:						
Claims and claim expense	299,164		75,036		137,637	
Mitigation fund expenses	343,570		424,711		376,472	
Other underwriting expenses	129,532,169		127,677,823		136,168,302	
Total expenses	130,174,903	21%	128,177,570	21%	136,682,411	23%
Underwriting profit	274,996,265	45%	249,294,515	41%	258,574,649	44%
Net investment income	27,893,141		22,486,654		10,864,785	
Capital contributions	20,772,000		5,470,000		-	
Other income	14,935,389		14,447,146		25,450,791	
Increase in net assets	338,596,795	55%	291,698,315	48%	294,890,225	50%
Net assets, beginning of year	3,881,938,607		3,590,240,292		3,295,350,067	
Net assets, end of year	$ 4,220,535,402		$ 3,881,938,607		$ 3,590,240,292	

Condensed Statements of Revenue, Expenses, and Changes in Net Assets (Continued)

The increase in net assets was $338.6 million in 2011, which resulted in a net profit margin of 55%, and $291.7 million in 2010, which resulted in a net profit margin of 48%. Net investment income increased $5.4 million (24%) in 2011. The increase was largely due to a $13.7 million increase in the change of unrealized investment gains on U.S. Treasuries and a decrease of $8.9 million in investment income. Net investment income increased $11.6 million (107%) in 2010. The increase was largely due to a $25.6 million decrease in the change of unrealized investment gain on U.S. Treasuries and a decrease of $15.2 million in investment income. The CEA's net premiums written increased $30.8 million (8%) in 2011 and decreased $9.5 million (-2.4%) in 2010. The 2011 increase is due to a $9.7 million growth in written premiums and a decrease in premiums ceded of $22.9 million. The 2010 decrease is due to a $17.6 million growth in written premiums while premiums ceded for reinsurance grew $27.1 million (14%).

The variance in the change in unearned premiums decreased $3.2 million and decreased $8.3 million in 2011 and 2010, respectively. The 2011 variance is due to an increase in unearned premium caused by a slight increase in premiums for policies not effective at the end of 2011. The 2010 variance is due to an increase in unearned premium caused by a slight increase in premiums for policies not effective at the end of 2010.

In 2011 and 2010, the CEA's claims and claim expenses were essentially zero due to California not experiencing any significant earthquakes.

In 2011, the increase in other underwriting expense of $2.1 million (2%) was largely due to a $0.9 million increase in participating insurer commissions and operating expense, and a $0.5 million increase in pro forma premium taxes. In 2010, the decrease in other underwriting expense of $8.5 million (-6%) was due to a $0.8 million increase in participating insurer commissions and operating expense, and an $11.1 million decrease in pro forma premium taxes. The decrease in pro forma premium taxes resulted from the 2009 adjustment for an error in the calculation of the pro forma premium taxes from the CEA's inception through 2008.

2009 adjustment to pro forma premium taxes:

	(In Millions)
Inception - 1998	$ 4.5
1999	1.2
2000	.6
2001	.4
2002	.3
2003	.3
2004	.6
2005	1.0
2006	.1
2007	.8
2008	1.6
Total	$ 11.4

Capital contributions increased $15.3 million and $5.5 million in 2011 and 2010, respectively. The 2011 increase was due to Nationwide Insurance Company joining the CEA as a participating insurer as of November 2011. The 2010 increase was due to an additional contribution from State Farm Insurance Company for additional earthquake insurance exposure transferred to the CEA during the year.

Other income remained relatively flat in 2011 and 2010.

Condensed Statements of Cash Flows

Primary sources of cash included cash flows from operations and capital contributions received from participating insurers. The primary use of cash was for operating expenses, repayment of debt, and the purchase of short-term and long-term investment securities.

The cash flows of the CEA are summarized as follows:

	2011	2010	2009
Net cash provided by operating activities	$ 300,100,166	$ 268,777,962	$ 328,499,565
Net cash used in noncapital financing activities	(31,011,209)	(30,961,093)	(31,104,301)
Net cash provided by capital and related financing activities	6,572,406	1,818,807	43,332,709
Net cash used in investing activities	(211,457,391)	(198,332,217)	(397,870,084)
Net increase (decrease) in cash and cash equivalents	64,203,972	41,303,459	(57,142,111)
Cash and cash equivalents, beginning of year	96,456,862	55,153,403	112,295,514
Cash and cash equivalents, end of year	$ 160,660,834	$ 96,456,862	$ 55,153,403

Cash from operating activities increased $31.3 million (12%) in 2011 and decreased $59.7 million (-18%) in 2010. The 2011 increase resulted from an increase in cash received from premiums of $15.9 million and a decrease in payments for reinsurance of $15.3 million. The 2010 decrease resulted from an increase in payments for reinsurance of $56.8 million and an increase in payments for operating expenses of $3.3 million.

Cash used in non-capital financing activities for 2011 and 2010 is a result of the CEA annual principal reduction payment of $31.5 million for its outstanding revenue bonds.

The $4.8 million (261%) change in cash provided by capital and related financing activities for 2011 was a result of $4.0 million in capital contribution installments received from Nationwide Insurance Company and the $0.7 million increase in purchases of equipment during 2011 as compared to 2010. The $41.5 million (-96%) change in cash provided by capital and related financing activities for 2010 was a result of a decrease of $41.0 million in capital contribution installments receivable due to Safeco making its final capital contribution and the $0.5 million increase in purchases of equipment during 2010 as compared to 2009.

The change in cash used in investing activities for 2011 was $13.1 million (7%) and reflects the CEA's decision to continue to prudently extend the duration of its portfolio as a result of the lagging economy, continued all-time low Treasury rates, and the Federal Reserve's postponement of any monetary tightening through the remainder of 2013 and possibly longer. The change in cash used in investing activities in 2010 was $199.5 million and was a result of the investment philosophy to gradually transition the CEA's investment portfolio from securities maturing in less than 90 days, which are classified as cash-equivalent securities, to short-term and long-term investments. The CEA slowed the transition of cash equivalent securities to longer-term securities in 2010 because of the all-time low federal funds rate and the possible increase in interest rates. In addition, because of the flatness in the shorter portion of the Treasury bond yield curve, and relatively low spreads for CEA-permitted security types other than Treasuries, management did not foresee a benefit to increase the duration of the CEA's portfolio at that time.

Liquidity

The CEA maintains a highly liquid investment portfolio in order to be able to quickly pay claims in the event of a large earthquake. As of December 31, 2011, 26.68% of the portfolio was scheduled to mature in 90 days or less, securities maturing between 91 days and one year accounted for 36.15% of the portfolio, while securities maturing between one to five years accounted for the remaining 37.17% of the portfolio, with a total portfolio modified duration of less than one year. Based on earthquake modelers' results of analyzing the CEA's portfolio, management believes the CEA has sufficient liquidity to meet its obligations as they become due resulting from an earthquake or series of earthquakes. The probability of an earthquake or series of earthquakes occurring that would deplete CEA's liquidity and the associated claims-paying capacity is estimated to be 0.17% in any one year. The CEA pays policyholder claims from its claims-paying capacity. The following depicts the CEA's claims-paying capacity in effect as of December 31, 2011, in millions of dollars:

CEA capital available for claims	$	4,048
Risk transfer financial products		3,050
Revenue bonds		317
Post-earthquake industry assessments (2nd Layer)		1,558
Post-earthquake industry assessments (New Layer)		804
Total	$	9,777

Under California's Insurance Code, the CEA has the ability to assess the participating insurers on a post-event basis if claim payments to policyholders reach certain levels, as defined. Additionally, the CEA is able to recover amounts under reinsurance contracts when policyholder claims reach certain defined levels.

CALIFORNIA EARTHQUAKE AUTHORITY

Balance Sheets
As of December 31, 2011 and 2010

	2011	2010
Assets		
Cash and investments:		
Cash and cash equivalents	$ 111,091,346	$ 48,536,535
Restricted cash	49,569,488	47,920,327
Restricted investments	310,862,316	313,837,486
Investments	4,037,401,253	3,862,746,926
Total cash and investments	4,508,924,403	4,273,041,274
Premiums receivable, net of allowance for doubtful accounts of $10,561,115 and $10,533,225	41,893,958	49,595,737
Risk capital surcharge receivable	-	1,700,000
Capital contributions receivable	17,310,000	3,190,830
Interest receivable	12,035,424	12,350,634
Securities receivable	68,858,008	-
Prepaid reinsurance premiums	2,546,102	-
Deferred policy acquisition costs	41,619,480	40,674,396
Deposit with reinsurer	5,029,836	-
Equipment, net	499,468	1,413,255
Other assets	131,105	42,496
Total assets	$ 4,698,847,784	$ 4,382,008,622
Liabilities and Net Assets		
Unearned premiums	$ 309,899,331	$ 302,862,221
Reinsurance premium payable	1,676,612	-
Securities payable	871,423	-
Revenue bond payable	157,500,000	189,000,000
Revenue bond interest payable	4,858,088	5,829,705
Accounts payable and accrued expenses	3,506,928	2,378,089
Total liabilities	478,312,382	500,070,015
Net assets:		
Restricted, expendable	205,889,564	168,559,583
Unrestricted	4,014,645,838	3,713,379,024
Total net assets	4,220,535,402	3,881,938,607
Total liabilities and net assets	$ 4,698,847,784	$ 4,382,008,622

See accompanying notes to financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended December 31, 2011 and 2010

	2011	2010
Underwriting income:		
Premiums written	$ 612,830,953	$ 603,127,689
Less premiums ceded	(200,622,675)	(221,788,128)
Net premiums written	412,208,278	381,339,561
Change in unearned premiums	(7,037,110)	(3,867,476)
Net premiums earned	405,171,168	377,472,085
Expenses:		
Claims and claim expense	299,164	75,036
Participating insurer commissions	60,623,577	59,970,221
Participating insurer operating costs	20,776,606	20,567,165
Reinsurance broker commissions	4,800,000	4,800,040
Pro forma premium taxes	14,446,598	13,908,239
Financing expenses, net	7,389,584	8,861,561
Mitigation fund expenses	343,570	424,711
Other underwriting expenses	21,495,804	19,570,597
Total expenses	130,174,903	128,177,570
Underwriting profit	274,996,265	249,294,515
Net investment income	27,893,141	22,486,654
Other income	488,791	538,907
Contributed capital	20,772,000	5,470,000
State of California premium tax contribution	14,446,598	13,908,239
Increase in net assets	338,596,795	291,698,315
Net assets, beginning of year	3,881,938,607	3,590,240,292
Net assets, end of year	$ 4,220,535,402	$ 3,881,938,607

See accompanying notes to financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities:		
Cash received from premiums	$ 622,232,732	$ 606,370,004
Cash payments for premiums ceded - reinsurance	(206,522,001)	(223,488,128)
Cash payments for operating expenses	(115,610,565)	(114,103,914)
Net cash provided by operating activities	300,100,166	268,777,962
Cash Flows from Noncapital Financing Activities:		
Repayment of revenue bonds	(31,500,000)	(31,500,000)
Other income	488,791	538,907
Net cash used in noncapital financing activities	(31,011,209)	(30,961,093)
Cash Flows from Capital and Related Financing Activities:		
Capital contributions received from participating insurers	6,652,830	2,593,189
Acquisition of equipment	(80,424)	(774,382)
Net cash provided by capital and related financing activities	6,572,406	1,818,807
Cash Flows from Investing Activities:		
Proceeds from maturities of investments	3,692,317,795	4,120,423,879
Purchases of investments	(3,951,135,195)	(4,389,600,177)
Net investment income	47,360,009	70,844,081
Net cash used in investing activities	(211,457,391)	(198,332,217)
Net increase in cash and cash equivalents	64,203,972	41,303,459
Cash and cash equivalents, beginning of year	96,456,862	55,153,403
Cash and cash equivalents, end of year	$ 160,660,834	$ 96,456,862
Reconciliation to statement of net assets:		
Cash and cash equivalent	$ 111,091,346	$ 48,536,535
Restricted cash	49,569,488	47,920,327
	$ 160,660,834	$ 96,456,862

See accompanying notes to financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Cash Flows (Continued)
For the Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of operating income to net cash provided by operating activities:		
Underwriting profit	$ 274,996,265	$ 249,294,515
Adjustments to reconcile underwriting profit to net cash provided by operating activities:		
Depreciation on equipment	994,212	901,265
Pro forma premium tax expense	14,446,598	13,908,239
Changes in operating assets and liabilities:		
Premiums receivable	7,701,779	3,242,315
Risk capital surcharge receivable	1,700,000	(1,700,000)
Deposit with reinsurer	(5,029,836)	-
Prepaid reinsurance premiums	(2,546,102)	-
Deferred policy acquisition costs	(945,084)	(519,402)
Other assets	(88,610)	79,119
Unearned premiums	7,037,110	3,867,476
Reinsurance premium payable	1,676,612	-
Revenue bond interest payable	(971,617)	(971,618)
Accounts payable and accrued expenses	1,128,839	676,053
Net cash provided by operating activities	$ 300,100,166	$ 268,777,962

Non-cash Investing, Capital and Financing Activities

Net unrealized appreciation in the fair value of investments, which is included as a component of net investment income in the Statements of Revenues, Expenses and Changes in Net Assets, was $1.7 million and $(12.0) million in 2011 and 2010, respectively. Premium tax contributed by the State of California and recognized as a component of expense in the Statements of Revenues, Expenses, and Changes in Net Assets was $14.4 million and $13.9 million in 2011 and 2010, respectively.

See accompanying notes to financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The California Earthquake Authority (CEA) is a privately financed, publicly managed authority that provides insurance coverage for earthquake damage to residential property owners, condominium owners, mobile homeowners, and renters in the state of California. In September 1996, legislation to create the CEA was approved by the California State Legislature. On November 26, 1996, the State of California Insurance Commissioner certified that all statutory conditions necessary for the CEA to become operational had been met, and the CEA began writing earthquake policies on December 1, 1996. The CEA is overseen by a three member Governing Board consisting of the Governor, the Treasurer, and the Insurance Commissioner or their designees. The Speaker of the Assembly and the Chairperson of the Senate Rules Committee or their designees serve on the Governing Board as nonvoting members. The Governing Board is advised by an 11 member advisory panel, consisting of members of the public, consumers and insurance industry representatives.

CEA policies are sold to policyholders by participating insurers of the CEA. Insurance companies admitted to write residential property insurance in California and who elected to become participating members of the CEA sign Insurer Participation Agreements with the Insurance Commissioner and the CEA. Under these agreements, participating insurers act as independent contractor agents on behalf of the CEA by performing policy and claims services which include policy issuance, premium collection, and claims adjustment. Under the agreements, the CEA reimburses participating insurers for non-claims related costs incurred by these companies in servicing CEA policies. The operating cost reimbursement is 3.43% of written premium. The producer commission is equal to 10% of written premium of all new and renewal CEA policies. Additionally, participating insurers receive reimbursement for expenses associated with servicing CEA claims equal to 9% of paid claims. As of December 31, 2011, there are 21 participating insurers of which 16 insurers are writing CEA policies. Four participating insurers account for 76% of CEA’s written premiums.

The CEA has eligibility requirements that compel the CEA to issue and renew policies if the insured structure has no pre-existing, non-cosmetic earthquake damage and the policyholder has a companion policy of residential property insurance from a participating insurer.

In the event that a natural disaster program is enacted by Congress, the Advisory Panel is required to prepare a plan to dissolve the CEA or to conform the sections of the California Insurance Code regarding the CEA to the federal program and recommend an action plan to the CEA Governing Board and the California State Legislature.

Basis of Accounting

While the CEA is an instrumentality of the state, the State of California's General Fund is not liable for CEA claims, losses, or other liabilities. However, the CEA meets the definition of a governmental organization, as defined by accounting principles generally accepted in the United States of America.

1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

The CEA is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The CEA uses the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses are recorded when incurred. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenue and expenses for the period, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates applied in the preparation of the accompanying financial statements.

In accordance with governmental accounting standards, the CEA applies all applicable statements issued by the Governmental Accounting Standards Board (GASB). The CEA applies all private-sector standards of accounting and financial reporting issued prior to November 30, 1989, unless those standards conflict with or contradict guidance of the GASB. In addition, the CEA has elected to apply pronouncements issued by the Financial Accounting Standards Board after November 30, 1989, unless those pronouncements conflict with or contradict guidance of the GASB.

Revenue Recognition

Premiums are recognized as earned on a pro rata basis over the policy contract period. All premium rates charged by the CEA must be approved by the State of California Insurance Commissioner before use. Unearned premiums represent amounts written which relate to coverage in future periods.

Premiums paid or accrued by the CEA under reinsurance agreements are accounted for as a reduction in the related premium revenue earned and amortized over the remaining reinsurance contract period. Unearned ceded premium is the pro rata portion of premiums ceded applicable to the unexpired period of reinsurance coverage.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the CEA considers investments in certificates of deposit, U.S. treasuries, commercial paper, corporate bonds, and bankers' acceptances with original maturities of three months or less, to be cash equivalents. Restricted cash and cash equivalents are comprised of unspent bond proceeds, debt service sinking funds and monies transferred to the Earthquake Loss Mitigation Fund (Mitigation Fund).

1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

Investments

Investments consist primarily of certificates of deposit, U.S. treasuries, commercial paper, corporate bonds, and bankers' acceptances, as authorized by California Insurance Code (Code) section 10089.6. All investments are reported at fair value in the balance sheets. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, and is determined from published data provided by the exchanges, computerized pricing sources, securities custodians, and other authoritative sources. The CEA is permitted to invest in securities eligible in California Government Code section 16430. Restricted investments are comprised of unspent bond proceeds and monies transferred to the Mitigation Fund. The CEA intends to hold all investments to maturity unless there is an earthquake or series of earthquakes causing significant damage in California warranting the CEA's need to liquidate securities to pay policyholder claims.

Risk-Capital Surcharge

Under California Insurance Code sec. 10089.16(d), effective July 1, 2008, the CEA Governing Board must calculate a risk-capital surcharge one year after the date that a new participating insurer first places or renews business into the CEA. The law provides that each annual risk-capital surcharge must equal the CEA's increased cost of providing or securing capacity to insure the new participant's excess earthquake-insurance risk. Safeco Insurance Company of America ("Safeco") was the first participating insurer to join the CEA after the risk-capital surcharge law took effect.

CEA staff analyzed Safeco's earthquake-insurance risk profile as of December 31, 2010, and determined that Safeco's business was no longer likely to produce greater losses for the CEA than would a book of existing CEA business of similar size. Therefore, the Governing Board at its June 2011 meeting determined that Safeco would not be required to pay an annual risk-capital surcharge going forward.

CEA staff analyzed Safeco's earthquake-insurance risk profile as of December 31, 2009, and determined that the addition of Safeco's business was more likely to produce losses for the CEA, or was likely to produce greater losses for the CEA, than would a book of existing CEA business of similar size. Therefore, the Governing Board required Safeco to pay a first annual risk-capital surcharge in the amount of $1,700,000. Since the intent of the risk-capital surcharge was to offset the increased cost to CEA of providing capacity to insure Safeco's excess earthquake-insurance risk for that one-year period, the CEA recorded the risk-capital surcharge as a reduction of premium ceded for reinsurance for the year ended December 31, 2010.

Deferred Policy Acquisition Costs

Acquisition costs, consisting of participating insurer commissions and operating costs, are deferred and amortized over the terms of the underlying policies. Deferred acquisition costs are limited to the estimated recoverable value of such costs. The determination of estimated recoverable value gives effect to the premium to be earned, losses and loss adjustment expenses incurred, investment income to be earned, and certain other costs expected to be incurred as the premium is earned.

1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

Claims and Claim Expense Reserves

Reserves for insurance claims and claim adjustment expenses include the accumulation of case estimates for claims reported, claims incurred but not reported, and estimates of expenses for investigating and adjusting all incurred claims. The reserve is established at a level that management estimates to be sufficient to satisfy those claims. Estimates are revised as more information becomes available. Since the CEA's inception, there has not been a major earthquake. If a major California earthquake were to occur, there would be a significant increase in the reserve for claims and claim adjustment expenses. The CEA does not have any unpaid claims reported as of December 31, 2011.

If the CEA's Governing Board determines that the CEA's net assets, bond proceeds, additional participating insurer capital contributions and reinsurance proceeds are exhausted and that no source of additional funds is available to the CEA to pay policyholder claims, the Governing Board is required to develop a plan for approval by the State of California Insurance Commissioner to pay policyholder claims on a pro rata or installment basis. In such circumstances, the insurance code states that the commissioner shall order the CEA to cease renewing or accepting new earthquake insurance policies.

Participating Insurer Capital Contributions

Each insurer that elected to participate in the CEA during its first year of operations was required to contribute as its share of the CEA's initial operating capital, an amount equal to $1,000,000,000 multiplied by the percentage representing that insurer's residential earthquake insurance market share as of January 1, 1994. Insurers that elect to participate in the CEA after December 1, 1996, are required to make an initial capital contribution calculated using their residential earthquake insurance market share as of January 1, 1994, or the latest date for which such market share information is available to the CEA, whichever contribution amount is greater. As of December 31, 2011, participating insurer capital contributions totaled $777 million and were 98% funded.

Participating Insurer Assessments

The California Insurance Code (Code) states that, subject to certain maximum limits as set forth in the Code, the CEA has the power to make additional assessments of participating insurers in the event of a major California earthquake, subject to the approval of the State of California Insurance Commissioner. The CEA's ability to make certain additional assessments for the 1st industry assessment layer pertaining to the participating insurers expired December 1, 2008. However, during 2007 the CEA worked with the state legislature and participating insurers to establish a new industry assessment layer, which commenced on December 1, 2008. The maximum assessment amount of the new industry assessment layer as of December 31, 2011, was $804 million. The CEA continued to retain its 2^{nd} industry assessment layer of $1.558 billion.

As of December 31, 2010, participating insurers have a cumulative residential property insurance market share of approximately 73% of the total residential property insurance market in California based on written premium. If participating insurers withdraw their participation in the CEA such that the cumulative residential property insurance market share is less than 65%, the Insurance Commissioner is required by law to make recommendations to the California Legislature for the continuation or termination of the CEA.

1. Reporting Entity and Summary of Significant Accounting Policies (Continued)

Net Assets

The CEA classifies its net assets into two components, restricted-expendable and unrestricted net assets. Restricted net assets include the net assets of the Mitigation Fund, unspent bond proceeds restricted for payment of claims as defined in the debt agreements and funds held for debt service by the revenue bond trustee offset by underlying debt, and investment income earned on the bond proceeds restricted as pledged revenue for debt service.

Income Taxes

In a private letter ruling dated November 8, 1996, the Internal Revenue Service determined the CEA to be an integral part of the State of California for federal income tax purposes. As such, the CEA is exempt from federal income tax.

State of California Premium Tax

California Insurance Code section 10089.44 provides that "Notwithstanding any other provision of law, premiums collected by the authority shall be exempt from collection of the state's insurance premium tax, and the amount of tax foregone by the state shall be considered for all purposes a contribution by the state and its citizens to the capital and operating revenues of the authority." As a result, CEA is exempt from remitting state premium tax. State premium tax contributions were $14,446,598 and $13,908,239 for the years ended December 31, 2011 and 2010, respectively.

2. Cash and Investments

As of December 31, 2011 and 2010, the CEA had the following cash and investments:

	December 31, 2011					
	Investment Maturities (in Years)					
	Less than 1	1-2	2-3	3-4	4-5	Total
U.S. Treasuries	$ 2,305,085,737	$ 907,398,231	$ 293,038,782	$ 271,924,587	$ 202,472,254	$ 3,979,919,591
U.S. agencies	387,678,169	-	-	-	-	387,678,169
U.S. Gov't money market funds	25,590,837	-	-	-	-	25,590,837
Cash	2,921,259	-	-	-	-	2,921,259
Commercial paper	112,814,547	-	-	-	-	112,814,547
Total	$ 2,834,090,549	$ 907,398,231	$ 293,038,782	$ 271,924,587	$ 202,472,254	$ 4,508,924,403

2. Cash and Investments (Continued)

	December 31, 2010					
	Investment Maturities (in Years)					
	Less than 1	1-2	2-3	3-4	4-5	Total
U.S. Treasuries	$ 2,271,005,195	$ 1,351,634,751	$ 176,346,556	$ 33,686,100	$ 55,692,624	$ 3,888,365,226
U.S. agencies	307,225,721	-	-	-	-	307,225,721
U.S. Gov't money market funds	25,250,003	-	-	-	-	25,250,003
Cash	2,238,595	-	-	-	-	2,238,595
Commercial paper	49,961,729	-	-	-	-	49,961,729
Total	$ 2,655,681,243	$ 1,351,634,751	$ 176,346,556	$ 33,686,100	$ 55,692,624	$ 4,273,041,274

Interest Rate Risk

As a means of limiting its exposure to fair value losses resulting from rising interest rates, the CEA's investment policy limits all securities purchased to a maximum maturity duration of 181 days, except for U.S. Treasuries. U.S. Treasuries are allowed to have maturities of up to 5 years as long as the CEA's combined portfolio does not exceed a maximum modified duration of 1.75 years. As of December 31, 2011, the CEA's combined portfolio had a maximum modified duration of 1.0 years.

Credit Risk

The CEA investment policy limits investments in banker's acceptances and commercial paper to issuers with the highest rating category by all rating agencies that rate the issuer. The policy limits investments in corporate bonds to the top three ratings issued by nationally recognized rating services. As of December 31, 2011, 88% of the portfolio consisted of U.S. Treasuries and 12% of the portfolio consisted of U.S. Agencies, U.S. Government money market funds that invest exclusively in obligations of the U.S. Treasury, cash and commercial paper.

Concentration of Credit Risk

There is no concentration of investments in any one non U. S. Governmental issuer that represents 5% or more of total investments.

Investment Income

Total investment income is comprised of interest, realized gains and losses, and unrealized gains and losses due to changes in the fair value of investments held at year end. Investment income earned on unspent bond proceeds are offset against related interest expense and classified as financing expenses, net on the statements of revenues, expenses, and changes in net assets.

2. Cash and Investments (Continued)

Investment Income (Continued)

Investment income for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
U.S. agency securities and government money market accounts	$ 634,357	$ 594,901
U.S. Treasuries	30,942,605	39,716,242
Other short-term investments	129,948	97,723
Interest income	31,706,910	40,408,866
Change in fair value of investments	1,710,656	(12,049,809)
Less investment expenses	(1,903,642)	(1,775,133)
Total investment income	$ 31,513,924	$ 26,583,924

The following is a reconciliation of investment income to the statements of revenues, expenses, and changes in net assets:

	2011	2010
Investment income included in financing expenses	$ 3,620,783	$ 4,097,270
Net investment income	27,893,141	22,486,654
Total investment income	$ 31,513,924	$ 26,583,924

The change in fair value of investments for the years ended December 31, 2011 and 2010 are calculated as follows:

	2011	2010
Fair value of investments at the end of year	$ 4,348,263,569	$ 4,176,584,412
Add: Proceeds of investments matured	3,761,175,803	4,120,423,879
Add: Amortization of premium and discount	20,862,314	28,114,993
Less: Cost of investments purchased	(3,952,006,618)	(4,389,600,177)
Less: Fair value of investments at the beginning of year	(4,176,584,412)	(3,947,572,916)
Change in fair value of investments	$ 1,710,656	$ (12,049,809)

Fair Value of Financial Instruments

The recorded value of other receivables and payables which are financial instruments approximates fair value due to the short-term nature of these assets and liabilities.

3. Long-Term Debt

The CEA issued its first long-term debt of $315 million in fixed rate revenue bonds on July 20, 2006 to enhance claims paying capacity. The following reflects activity in the long-term debt accounts during the years ended December 31, 2011 and 2010, respectively:

	2011	2010
Balance at January 1,	$ 189,000,000	$ 220,500,000
Payments made in July,	(31,500,000)	(31,500,000)
Balance at December 31,	$ 157,500,000	$ 189,000,000

The net proceeds from the revenue bonds were deposited into the Claims Paying Account and were used to purchase investments according to CEA's investment policy and procedures. The proceeds will only be used for future payments of earthquake policyholder claims and related loss adjustment expenses and may not be used to repay principal and interest of the debt. Revenue bond proceeds may be used for payment of claims after the CEA exhausts its capital available for claims and any capacity made available by reinsurance contracts. Repayment of debt does not affect the level of the Claims Paying Account.

The bonds are payable from future pledged policyholder premiums. The bonds bear interest at 6.169% and are federally taxable. Interest is payable semi-annually, beginning January 1, 2007. The bonds are due July 1, 2016, but are subject to annual mandatory sinking-fund payments as indicated below. The bonds are subject to optional redemptions at any time prior to maturity, in whole or in part, at the option of the CEA. The CEA is subject to certain bond covenants, the most restrictive of which requires a debt service coverage ratio, as defined, of 3:1.

Future scheduled debt service payments, including mandatory sinking-fund payments, for the CEA's long-term debt are as follows as of December 31, 2011:

	Principal	Interest	Total
2012	$ 31,500,000	$ 8,744,558	$ 40,244,558
2013	31,500,000	6,801,323	38,301,323
2014	31,500,000	4,858,088	36,358,088
2015	31,500,000	2,914,853	34,414,853
2016	31,500,000	971,617	32,471,617
Total requirements	$ 157,500,000	$ 24,290,439	$ 181,790,439

Interest paid during the year was $11,010,368 and $12,958,831 for 2011 and 2010, respectively.

3. Long-Term Debt (Continued)

Fair Value

The estimated fair value of the CEA's long-term debt, based on quoted market prices for the same or similar issues at December 31, 2011, is as follows:

Carrying amount	$ 157,500,000
Fair value	177,593,850

4. Reinsurance

The CEA cedes risk to reinsurers under catastrophe excess-of-loss reinsurance contracts for purposes of limiting its maximum exposure. All contracts provide coverage for losses as well as allocated loss adjustment expenses. Although the ceding of risk does not discharge the CEA from its primary responsibility to its policyholders, the insurance company that assumes the coverage assumes responsibility to reimburse the CEA for the related liability. Management believes that its reinsurers are and will continue to be able to satisfy their obligations under the reinsurance agreements. To date, losses have been recovered only under the supplemental coverages reinsurance contracts. In the event that legislation is enacted by the State of California that has the effect of increasing a reinsurer's exposure to loss under the reinsurance contract, a reinsurer has the right to cancel the reinsurance contract.

During 2011, Embarcadero Reinsurance Ltd. (Embarcadero Re), an independent Bermuda insurance company, completed an offering of catastrophe bonds to unrelated investors of $150 million. In connection with the offering, Embarcadero Re entered into a reinsurance agreement (covering a three-year period) with the CEA, providing up to $150 million of reinsurance resulting from insured events. Under the terms of the reinsurance agreement, the CEA is obligated to pay annual reinsurance premiums to Embarcadero Re. The transaction is subject to a retention reset at the beginning of the second and third annual contract periods based on exposure adjustments and losses. The reinsurance agreement meets the requirements to be accounted for as reinsurance in accordance with the guidance for reinsurance contracts. The reinsurance limit will be reduced by any amounts paid to the CEA under the reinsurance agreement. At December 31, 2011, the CEA had $5,029,835 on deposit to ensure its performance under the terms of the agreement with Embarcadero Re.

The 2011 and 2010 aggregate excess reinsurance contracts allowed for an adjustment of premium, based on the average aggregate insurance in force and the exposure adjustment limit, as defined in the contracts. As of December 31, 2011, in accordance with these terms, the CEA did not have any premium adjustment expense against the contract. During 2011, the CEA continued to cede insurance to reinsurers under the catastrophe excess-of-loss reinsurance contracts providing maximum limits of $3.05 billion at varying attachment points.

Effective January 1, 2012, the CEA entered into reinsurance contracts that provide a maximum limit of $2.855 billion. The contracts have varying duration and expiration dates extending into future reporting periods.

5. Statutory Compliance

The State of California Insurance Code limits the CEA's "operating expenses" to 3% of its "premium income." In calculating this limitation, the CEA has determined that its premium income is its reported premiums written and that its operating expenses do not include certain start-up expenses and certain credits and payments, including payments to reinsurers, payments to investment managers and advisors, payments to participating insurers, or payments of agent commissions. Operating expenses, as determined by the CEA, totaled $11.0 million and $9.4 million for the years ended December 31, 2011 and 2010, respectively, and did not exceed 3% of premiums written.

6. Commitments and Contingencies

The CEA is a defendant in various legal actions arising from the normal course of business. Management does not believe that the ultimate disposition of these actions will have a material adverse effect on CEA's financial position or results of operations.

The CEA leases office facilities and equipment under various non-cancelable operating lease agreements that expire through December 2016. Rental expense associated with the lease agreements was $638,812 and $486,983 for the years ended December 31, 2011 and 2010, respectively. Future minimum rental payments under these agreements are as follows:

	Amount
2012	$ 706,897
2013	722,439
2014	717,144
2015	727,069
2016	184,490
Total	$ 3,058,039

7. Mitigation Fund

California Insurance Code (Code) Section 10089.37 created the Earthquake Loss Mitigation Fund (Mitigation Fund) as a "sub-account of the CEA". According to statute, the Mitigation Fund must be used solely for the establishment and operation of an earthquake loss mitigation program. The Code requires the CEA to annually transfer an amount equal to the lesser of 5% of investment income or $5 million to the Mitigation Fund if deemed actuarially sound by a consulting actuary. The transfer and setting aside of those monies into the Mitigation Fund sub-account have been formally approved by the CEA Governing Board. It is the opinion of the general counsel of the CEA and of the CEA's outside counsel that the monies that reside in the Mitigation Fund sub-account within the CEA are by statute not available to pay policyholder or other claims against the CEA.

As of December 31, 2011 and 2010, the balance sheets include expendable restricted net assets related to the Mitigation Fund totaling $25,537,617 and $24,302,326, respectively. The expendable restricted net assets of the Mitigation Fund as of December 31, 2011 include the potential annual transfer amount of $1,584,672, which is subject to actuarial review and formal approval of the CEA's Governing Board as discussed in the previous paragraph.

8. Retirement Plan, Deferred Compensation and Post-Employment Benefits

Defined Benefit Plans

The State of California sponsors a defined benefit pension plan covering all CEA civil-service employees. The benefits are based on the highest 12 consecutive months' compensation during their employment. The state's funding policy is to make the minimum annual contributions required by applicable regulations and charges the CEA for its allocable share of such contributions based on a percentage of payroll. The CEA has no legal obligation for benefits under this plan.

Defined Contribution Plans

The CEA sponsors a defined contribution savings plan for contract employees. Employees contribute 5% of compensation. The CEA contributes 12.71% of the employee's compensation. The contributions are funded semi-annually and allocated to the CEA based on employee contributions. The CEA has no legal obligation for benefits under this plan.

Post-Employment Benefits

The CEA has no obligations to former employees for benefits after their employment other than compensation related to earned vacation and severance. The liability for earned but untaken leave, such as vacation, personal leave days, or holiday credit, has been accrued to contract employees.

9. California Residential Mitigation Program

On August 16, 2011, the CEA entered into a Joint Powers Agreement with the California Emergency Management Agency (Cal EMA) to create the California Residential Mitigation Program (CRMP) for the purpose of supplying grants, loans, and loan guarantees (and related assistance and incentives) to owners of dwellings in California. The CRMP Governing Board is comprised of two employees of each the CEA and Cal EMA. Previously, on December 10, 2010, the CEA's Governing Board approved a $500,000 transfer from the CEA Mitigation Fund to the CRMP when certain conditions were met, mostly relating to the formation of the CRMP. In April 2012, those conditions were met and the CEA transferred the funds to the CRMP.

10. Subsequent Events

Management has evaluated subsequent events through August 20, 2012, which is the date the financial statements were made available to be issued. No events, other than those disclosed below and elsewhere in these financial statements, have occurred subsequent to December 31, 2011 requiring recording or disclosure in these financial statements.

On February 7, 2012, Embarcadero Re completed a second bond offering and entered into another reinsurance agreement with the CEA. The transaction provides the CEA an additional $150 million in reinsurance coverage.

On August 2, 2012, Embarcadero Re completed a third bond offering and entered into another reinsurance agreement with the CEA. The transaction provides the CEA an additional $300 million in reinsurance coverage.

SUPPLEMENTARY INFORMATION

CALIFORNIA EARTHQUAKE AUTHORITY

Schedule of Participating Insurer Capital Contributions
From Inception through December 31, 2011

		2011
State Farm General Insurance Company	$	254,658,275
Allstate Insurance Company		145,612,517
The Fire Insurance Exchange (Farmers)		143,280,000
United Services Automobile Association[1]		58,992,512
California State Automobile Association Inter-Insurance Bureau[2]		39,013,494
Safeco Insurance Company of America[3]		46,500,000
Nationwide Insurance Company[8]		20,772,000
California FAIR Plan Association		15,029,487
Interinsurance Exchange of the Automobile Club		14,443,651
CNA/Continental[4]		13,924,611
Prudential[4]		11,531,455
Liberty Mutual Fire Insurance Company[5]		6,699,434
Foremost Property and Casualty Insurance Company		4,614,304
Mercury Casualty Company		1,406,238
Armed Forces Insurance Exchange		783,685
GuideOne (formerly Preferred Risk)[4]		123,133
Merastar[6]		-
Homesite Insurance Company of California		-
Pacific National Insurance[4]		-
Glen Falls Insurance Company[4]		-
Commerce West Insurance Company		-
Workmen's Auto Insurance[7]		-
Total	$	777,384,796

[1]Includes Garrison Insurance Company

[2]Includes ACA Insurance Company

[3]Joined the CEA as of December 1, 2008

[4]Not currently writing residential property insurance in California

[5]Includes Golden Eagle Insurance Company

[6]Withdrew from the CEA as of May 1, 2009

[7]Withdrew from the CEA as of December 31, 2007

[8]Joined the CEA as of November 1, 2011

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Premiums Written
For the Years Ended December 31, 2011 and 2010

	2011	2010
State Farm General Insurance Company	$ 219,132,203	$ 212,325,217
Allstate Insurance Company	92,430,246	96,452,143
The Fire Insurance Exchange (Farmers)	75,330,427	78,443,512
United Services Automobile Association[1]	81,720,225	79,572,597
California State Automobile Association Inter-Insurance Bureau[2]	27,304,761	25,464,527
Safeco Insurance Company of America[3]	32,306,958	31,060,641
California FAIR Plan Association	4,715,894	4,546,230
Interinsurance Exchange of the Automobile Club	39,961,992	38,604,396
CNA/Continental[4]	-	-
Prudential[4]	-	-
Liberty Mutual Fire Insurance Company[5]	15,098,844	14,328,376
Foremost Property and Casualty Insurance Company	2,520,191	2,343,520
Mercury Casualty Company	15,506,120	14,158,005
Armed Forces Insurance Exchange	731,553	757,218
GuideOne (formerly Preferred Risk)[4]	-	-
Merastar[6]	-	-
Homesite Insurance Company of California	521,465	339,398
Pacific National Insurance[4]	-	
Encompass Insurance Company	4,153,175	4,720,884
Glen Falls Insurance Company[4]	-	-
Commerce West Insurance Company	26,022	11,025
Workmen's Auto Insurance[7]	-	-
Nationwide Insurance Company[8]	1,370,877	-
Total	$ 612,830,953	$ 603,127,689

[1]Includes Garrison Insurance Company

[2]Includes ACA Insurance Company

[3]Joined the CEA as of December 1, 2008

[4]Not currently writing residential property insurance in California

[5]Includes Golden Eagle Insurance Company

[6]Withdrew from the CEA as of May 1, 2009

[7]Withdrew from the CEA as of December 31, 2007

[8]Joined the CEA as of November 1, 2011

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Unearned Premiums
As of December 31, 2011 and 2010

	2011	2010
State Farm General Insurance Company	$ 108,836,524	$ 105,588,276
Allstate Insurance Company	46,584,860	46,613,133
The Fire Insurance Exchange (Farmers)	37,155,208	39,311,113
United Services Automobile Association[1]	40,815,491	39,926,665
California State Automobile Association Inter-Insurance Bureau[2]	13,955,939	12,798,895
Safeco Insurance Company of America[3]	19,650,543	19,376,804
California FAIR Plan Association	2,416,204	2,348,100
Interinsurance Exchange of the Automobile Club	19,563,131	18,934,223
CNA/Continental[4]	-	-
Prudential[4]	-	-
Liberty Mutual Fire Insurance Company[5]	8,111,551	7,300,964
Foremost Property and Casualty Insurance Company	1,336,556	1,176,529
Mercury Casualty Company	7,581,421	6,887,490
Armed Forces Insurance Exchange	388,394	390,380
GuideOne (formerly Preferred Risk)[4]	-	-
Merastar[6]	-	-
Homesite Insurance Company of California	233,683	207,392
Pacific National Insurance[4]	-	-
Encompass Insurance Company	1,977,670	1,997,526
Glen Falls Insurance Company[4]	-	-
Commerce West Insurance Company	7,824	4,731
Workmen's Auto Insurance[7]	-	-
Nationwide Insurance Company[8]	1,284,332	-
Total	$ 309,899,331	$ 302,862,221

[1]Includes Garrison Insurance Company

[2]Includes ACA Insurance Company

[3]Joined the CEA as of December 1, 2008

[4]Not currently writing residential property insurance in California

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[6]Withdrew from the CEA as of May 1, 2009

[7]Withdrew from the CEA as of December 31, 2007

[8]Joined the CEA as of November 1, 2011

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Commissions
For the Years Ended December 31, 2011 and 2010

	2011	2010
State Farm General Insurance Company	$ 21,603,880	$ 21,302,966
Allstate Insurance Company	9,252,759	9,887,460
The Fire Insurance Exchange (Farmers)	7,754,381	7,760,842
United Services Automobile Association[1]	8,088,164	7,821,373
California State Automobile Association Inter-Insurance Bureau[2]	3,936,319	2,369,216
Safeco Insurance Company of America[3]	3,205,629	3,063,071
California FAIR Plan Association	465,038	456,091
Interinsurance Exchange of the Automobile Club	2,616,554	3,776,632
CNA/Continental[4]	-	-
Prudential[4]	-	-
Liberty Mutual Fire Insurance Company[5]	1,430,181	1,415,848
Foremost Property and Casualty Insurance Company	237,014	211,440
Mercury Casualty Company	1,482,192	1,338,999
Armed Forces Insurance Exchange	73,417	73,164
GuideOne (formerly Preferred Risk)[4]	-	-
Merastar[6]	-	-
Homesite Insurance Company of California	49,570	33,766
Pacific National Insurance[4]	-	-
Encompass Insurance Company	417,460	458,143
Glen Falls Insurance Company[4]	-	-
Commerce West Insurance Company	2,291	1,210
Workmen's Auto Insurance[7]	-	-
Nationwide Insurance Company[8]	8,728	-
Total	$ 60,623,577	$ 59,970,221

[1]Includes Garrison Insurance Company

[2]Includes ACA Insurance Company

[3]Joined the CEA as of December 1, 2008

[4]Not currently writing residential property insurance in California

[5]Includes Golden Eagle Insurance Company

[6]Withdrew from the CEA as of May 1, 2009

[7]Withdrew from the CEA as of December 31, 2007

[8]Joined the CEA as of November 1, 2011

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Operating Costs
(Net of Deferred Acquisition Costs)
For the Years Ended December 31, 2011 and 2010

	2011	2010
State Farm General Insurance Company	$ 7,407,774	$ 7,304,976
Allstate Insurance Company	3,172,508	3,389,823
The Fire Insurance Exchange (Farmers)	2,658,559	2,660,705
United Services Automobile Association[1]	2,773,506	2,681,722
California State Automobile Association Inter-Insurance Bureau[2]	896,465	812,630
Safeco Insurance Company of America[3]	1,090,284	1,050,973
California FAIR Plan Association	159,132	156,372
Interinsurance Exchange of the Automobile Club	1,351,818	1,296,553
CNA/Continental[4]	-	-
Prudential[4]	-	-
Liberty Mutual Fire Insurance Company[5]	487,858	486,460
Foremost Property and Casualty Insurance Company	80,862	72,328
Mercury Casualty Company	508,943	459,853
Armed Forces Insurance Exchange	25,117	25,091
GuideOne (formerly Preferred Risk)[4]	-	-
Merastar[6]	-	-
Homesite Insurance Company of California	17,595	12,127
Pacific National Insurance[4]	-	-
Encompass Insurance Company	142,963	157,136
Glen Falls Insurance Company[4]	-	-
Commerce West Insurance Company	788	416
Workmen's Auto Insurance[7]	-	-
Nationwide Insurance Company[8]	2,434	-
Total	$ 20,776,606	$ 20,567,165

[1]Includes Garrison Insurance Company

[2]Includes ACA Insurance Company

[3]Joined the CEA as of December 1, 2008

[4]Not currently writing residential property insurance in California

[5]Includes Golden Eagle Insurance Company

[6]Withdrew from the CEA as of May 1, 2009

[7]Withdrew from the CEA as of December 31, 2007

[8]Joined the CEA as of November 1, 2011

CALIFORNIA EARTHQUAKE AUTHORITY

Statutory Financial Statements
December 31, 2011 and 2010

With Independent Auditors' Report Thereon

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LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Governors
California Earthquake Authority

We have audited the accompanying statutory statements of admitted assets, liabilities, and surplus of the California Earthquake Authority (CEA) as of December 31, 2011 and 2010, and the related statutory statements of operations and changes in surplus, and cash flow for the years then ended. These financial statements are the responsibility of the CEA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described more fully in Note 2 to the financial statements, these financial statements were prepared in conformity with accounting practices prescribed or permitted by the California Department of Insurance, which practices differ from generally accepted accounting principles. The effects on the financial statements of the variances between statutory accounting practices and accounting principles generally accepted in the United States of America are described in Note 2.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the California Earthquake Authority as of December 31, 2011 and 2010, or the results of its operations, or its cash flow for the years then ended.

However, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities, and surplus of the California Earthquake Authority as of December 31, 2011 and 2010, and the results of its operations and its cash flow for the years then ended, on the basis of accounting described in Note 2.

Our audits were conducted for the purpose of forming an opinion on the basic statutory financial statements taken as a whole. The summary investment schedule, the supplemental investment risk interrogatories, and the supplemental reinsurance interrogatories on pages 17 to 19 are not a required part of the basic statutory financial statements but are supplementary information required by the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual*. Such information has been subjected to the auditing procedures applied in the 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.

Larson & Rosenberger LLP

Glendale, California
August 20, 2012

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CALIFORNIA EARTHQUAKE AUTHORITY

Statutory Statements of Admitted Assets, Liabilities, and Surplus
As of December 31, 2011 and 2010

	2011	2010
Admitted Assets		
Debt securities, at book/adjusted carrying value	$ 3,300,076,517	$ 2,949,805,276
Cash, cash equivalents and short-term investments	1,166,491,512	1,283,898,970
Total cash and invested assets	4,466,568,029	4,233,704,246
Investment income receivable	12,033,296	12,350,635
Receivable for securities	68,858,008	-
Premiums receivable	36,945,836	44,591,137
Electronic data processing equipment and software	296,236	1,109,954
Other assets	22,355,384	4,904,802
Total admitted assets	$ 4,607,056,789	$ 4,296,660,774
Liabilities and Surplus		
Liabilities:		
Accounts payable and accrued expenses	$ 3,506,928	$ 2,378,089
Collateral loan and interest payable	162,358,088	194,829,705
Unearned premiums	305,072,292	296,557,910
Advance premium	1,424,318	1,900,572
Ceded reinsurance premiums payable	(869,490)	-
Payable for securities	871,423	-
Total liabilities	472,363,559	495,666,276
Surplus:		
Gross paid-in and contributed surplus	777,394,246	756,622,246
Unassigned surplus	3,357,298,984	3,044,372,252
Total surplus	4,134,693,230	3,800,994,498
Total liabilities and surplus	$ 4,607,056,789	$ 4,296,660,774

See accompanying notes to statutory financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statutory Statements of Operations and Changes in Surplus
For the Years Ended December 31, 2011 and 2010

	2011	2010
Underwriting income:		
Premiums earned, net	$ 405,171,167	$ 377,472,085
Losses and loss adjustment expenses	299,163	75,036
Other underwriting expenses	135,805,536	114,252,412
Total underwriting and other deductions	136,104,699	114,327,448
Underwriting income	269,066,468	263,144,637
Investment income and other:		
Net investment income	29,808,911	38,625,285
Net realized capital gain	170	2,378
Net gain from agents' balances	1,509,095	-
Other income	488,795	538,907
Total investment income and other	31,806,971	39,166,570
Net income	$ 300,873,439	$ 302,311,207
Surplus, beginning of year	$ 3,800,994,498	$ 3,498,293,896
Net income	300,873,439	302,311,207
Change in nonadmitted assets	(401,942)	(2,308,107)
Paid in surplus	20,772,000	5,470,000
Mitigation program funding per statute	(2,019,253)	(2,772,498)
Premium tax contribution	14,446,598	-
Change in unearned over 90 days	27,890	-
Surplus, end of year	$ 4,134,693,230	$ 3,800,994,498

See accompanying notes to statutory financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statutory Statements of Cash Flow
For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash flow from operating activities:		
Premiums collected, net	$ 420,911,074	$ 378,748,029
Losses and loss adjustment expenses paid, net	(299,163)	(75,036)
Underwriting expenses paid	(135,648,315)	(114,547,976)
Net cash provided by underwriting activities	284,963,596	264,125,017
Investment income received, net	50,065,116	71,123,191
Other income	2,025,785	538,908
Net cash provided by operating activities	337,054,497	335,787,116
Cash flow form investing activities:		
Payments for purchase of bonds	(1,704,650,692)	(2,092,676,395)
Proceeds from sales and maturities of bonds	1,266,453,994	1,242,121,000
Miscellaneous proceeds	170	2,378
Net cash used in investing activities	(438,196,528)	(850,553,017)
Cash flow from financing activities:		
Repayment of collateral loan	(31,500,000)	(31,500,000)
Capital contributions	21,099,428	2,593,189
Other cash applied	(5,864,855)	(7,834,633)
Net cash used in financing activities	(16,265,427)	(36,741,444)
Net decrease in cash, cash equivalents, and short-term investments	(117,407,458)	(551,507,345)
Beginning cash, cash equivalents, and short-term investments	1,283,898,970	1,835,406,315
Ending cash, cash equivalents, and short-term investments	$ 1,166,491,512	$ 1,283,898,970

See accompanying notes to statutory financial statements.

1. Organization and Description of Business

The California Earthquake Authority (CEA) is a privately financed, publicly managed authority that provides insurance coverage for earthquake damage to residential property owners, condominium owners, mobile homeowners, and renters in the State of California. In September 1996, legislation to create the CEA was approved by the California State Legislature. On November 26, 1996, the State of California Insurance Commissioner certified that all statutory conditions necessary for the CEA to become operational had been met, and the CEA began writing earthquake policies on December 1, 1996. The CEA is overseen by a three-member governing board consisting of the Governor, the Treasurer, and the Insurance Commissioner or their designees. The Speaker of the Assembly and the Chairperson of the Senate Rules Committee or their designees serve on the governing board as nonvoting members. The Governing Board is advised by an 11-member advisory panel, consisting of members of the public, consumers and insurance industry representatives.

CEA policies are sold to policyholders by participating insurers of the CEA. Insurance companies admitted to write residential property insurance in California and who elected to become participating members of the CEA signed Insurer Participation Agreements with the Insurance Commissioner and the CEA. Under these agreements, participating insurers act as independent contractor agents on behalf of the CEA by performing policy and claims services which include policy issuance, premium collection, and claims adjustment. Under the agreements, the CEA reimburses participating insurers for non-claims related costs incurred by these companies in servicing CEA policies. As of December 31, 2011, the operating cost reimbursement is 3.43% of written premiums. The producer commission is equal to 10% of written premiums of all new and renewal CEA policies. Additionally, participating insurers receive reimbursement for expenses associated with servicing CEA claims equal to 9% of paid claims. As of December 31, 2011, there are 21 participating insurers of which just 16 insurers are writing CEA policies. Four participating insurers account for 76% of the CEA's written premiums.

The CEA eligibility requirements compel the CEA to issue and renew policies if the insured structure has no pre-existing, non-cosmetic earthquake damage and the policyholder has a companion policy of residential property insurance from a participating insurer.

In the event that Congress enacts a natural disaster program, the Advisory Panel is required to prepare a plan to dissolve the CEA or to conform the sections of the California Insurance Code regarding the CEA to the federal program and recommend an action plan to the CEA Governing Board and the California State Legislature.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in conformity with statutory accounting practices prescribed or permitted by the California Department of Insurance (SAP) and are not intended to present financial position, results of operations, and cash flow in conformity with accounting principles generally accepted in the United States of America (GAAP). The California Department of Insurance requires all licensed insurers to complete their financial statements in conformance with the *Accounting Practices and Procedures Manual* promulgated by the National Association of Insurance Commissioners (NAIC). The CEA is not a licensed insurer in California but prepares those statutory financial statements on a voluntary basis.

2. Summary of Significant Accounting Policies

Basis of Presentation (Continued)

As the CEA meets the definition of a government organization, it also prepares financial statements in accordance with GAAP and all applicable standards issued by the Governmental Accounting Standards Board (Governmental GAAP). The more significant variances between SAP and Governmental GAAP are as follows:

i. The costs of acquiring policies are expensed as incurred, although the related premiums are recognized over the period covered by the policies.

ii. Nonadmitted assets such as furniture and fixtures, and past-due agents' balances are charged directly against surplus.

iii. Investments in fixed maturity securities are reported at admitted value (which is amortized cost adjusted for NAIC designations).

iv. The Earthquake Loss Mitigation Fund, a "sub-account of the CEA" is excluded from these financial statements.

v. Cash flow is not consistent with Governmental GAAP and a reconciliation from net income to cash provided by operations is not presented.

A reconciliation of net income and surplus as determined in accordance with SAP to amounts determined in accordance with Governmental GAAP as of December 31 is as follows:

	Net Income		Surplus	
	2011	2010	2011	2010
SAP basis	$ 300,873,439	$ 302,311,207	$4,134,693,230	$3,800,994,498
Investments	1,711,398	(12,049,809)	18,378,785	16,667,387
Nonadmitted assets	-	-	13,100,560	12,698,618
Deferred acquisition costs	1,143,482	519,402	40,971,209	40,674,923
Allowance for doubtful accounts	-	(3,287,177)	(10,561,115)	(10,533,225)
Mitigation fund	(350,119)	(418,641)	23,952,733	22,283,073
Advance premium	-	(846,669)	-	(846,669)
Premium tax contribution	14,446,598	-	-	-
Contributed surplus	20,772,000	5,470,000	-	-
Governmental GAAP basis	$ 338,596,798	$ 291,698,313	$4,220,535,402	$3,881,938,605

2. Summary of Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with accounting practices prescribed or permitted by the California Department of Insurance requires management to make estimates and assumptions that affect the reported amounts of admitted 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.

Investments

Bonds are valued on the basis prescribed by the Purposes and Procedures Manual of the NAIC Securities Valuation Office. Bonds are generally carried at amortized cost using the scientific method of amortization.

Realized gains and losses on sale of investments are determined on the specific identification method. Declines in fair values of investment securities deemed other-than-temporary are recognized as a realized loss in the statement of operations.

Cash, Cash Equivalents, and Short-Term Investments

Included with cash are cash equivalents and short-term investments with maturity dates within one year or less from the acquisition dates. Cash equivalents are highly liquid investments with original maturities of three months or less. Short-term investments are accounted for in the same manner as similar long-term investments.

Revenue Recognition

Premiums are earned over the terms of the related insurance policies. Unearned premium reserves are established to cover the unexpired portion of premiums written. Such reserves are computed by pro-rata methods for direct business.

Reinsurance premiums, commissions, and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to reinsurers have been reported as a reduction of premiums earned.

Unpaid Losses and Loss Adjustment Expenses

The liability for unpaid losses and loss adjustment expenses is an estimate of payments to be made on individual case estimates for insurance claims that have been incurred and reported or incurred but not yet reported (IBNR) and estimates of expenses for investigating and adjusting all incurred claims. Incurred claims are reduced for estimated reinsurance recoveries. The ultimate costs of claims are dependent on future events, the outcomes of which are affected by many factors. Such factors include the CEA's reserving procedures and settlement philosophy, current and perceived social factors, inflation, current and future court rulings and jury attitudes, and many other economic, scientific, legal, political, and social factors. If a major California earthquake were to occur, there would be a significant increase in the reserve for claims and claim adjustment expense. The CEA does not have any unpaid claims reported as of December 31, 2011 and 2010.

2. Summary of Significant Accounting Policies (Continued)

Participating Insurer Capital Contributions

Each insurer that elected to participate in the CEA during its first year of operations was required to contribute as its share of the CEA's initial operating capital, an amount equal to $1,000,000,000 multiplied by the percentage representing that insurer's residential earthquake insurance market share as of January 1, 1994. Insurers that elect to participate in the CEA after December 1, 1996, are required to make an initial capital contribution calculated using their residential earthquake insurance market share as of January 1, 1994, or the latest date for which such market share information is available to the CEA, whichever contribution amount is greater. As of December 31, 2011, participating insurer capital contributions totaled $777 million and were 98% funded.

The California Insurance Code (Code) states that, subject to certain maximum limits as set forth in the Code, the CEA has the power to make additional assessments of participating insurers in the event of a major California earthquake, subject to the approval of the State of California Insurance Commissioner. The CEA's ability to make certain additional assessments for the 1st industry assessment layer pertaining to the participating insurers expired December 1, 2008. However, during 2007, the CEA worked with the California State Legislature and participating insurers to establish a new industry assessment layer, which commenced on December 1, 2008. The maximum assessment amount of the new industry assessment layer as of December 31, 2011, was $804 million.

As of December 31, 2010, participating insurers have a cumulative residential property insurance market share of approximately 73% of the total residential property insurance market in California based on written premium. If participating insurers withdraw their participation in the CEA such that the cumulative residential property insurance market share is less than 65%, the Insurance Commissioner is required by law to make recommendations to the California Legislature for the continuation or termination of the CEA.

Risk-Capital Surcharge

Under California Insurance Code sec. 10089.16(d), effective July 1, 2008, the CEA Governing Board must calculate a risk-capital surcharge one year after the date that a new participating insurer first places or renews business into the CEA. The law provides that each annual risk-capital surcharge must equal the CEA's increased cost of providing or securing capacity to insure the new participant's excess earthquake- insurance risk. Safeco Insurance Company of America ("Safeco") was the first participating insurer to join the CEA after risk-capital surcharge law took effect.

CEA staff analyzed Safeco's earthquake-insurance risk profile as of December 31, 2010, and determined that Safeco's business was no longer likely to produce greater losses for the CEA, than would a book of existing CEA business of similar size. Therefore, the Governing Board at its June 2011 meeting determined that Safeco would not be required to pay an annual risk-capital surcharge going forward.

2. Summary of Significant Accounting Policies (Continued)

Risk-Capital Surcharge (Continued)

CEA staff analyzed Safeco's earthquake-insurance risk profile as of December 31, 2009, and determined that the addition of Safeco's business was more likely to produce losses for the CEA, or was likely to produce greater losses for the CEA, than would a book of existing CEA business of similar size. Therefore, the Governing Board required Safeco to pay a first annual risk-capital surcharge in the amount of $1,700,000. Since the intent of the risk-capital surcharge was to offset the increased cost to CEA of providing capacity to insure Safeco's excess earthquake-insurance risk for that one-year period, the CEA recorded the risk-capital surcharge as a reduction of premium ceded for reinsurance for the year ended December 31, 2010.

Income Taxes

In a private letter ruling dated November 8, 1996, the Internal Revenue Service determined the CEA to be an integral part of the State of California for federal income tax purposes. As such, the CEA is exempt from federal income tax.

State of California Premium Tax

California Insurance Code section 10089.44 provides that "notwithstanding any other provision of law, premiums collected by the authority shall be exempt from collection of the state's insurance premium tax, and the amount of tax foregone by the state shall be considered for all purposes a contribution by the state and its citizens to the capital and operating revenues of the authority." As a result, CEA is exempt from remitting state premium tax.

In 2011, the CEA changed its method of accounting for premium taxes. In the accompanying 2011 financial statements, the CEA provided premium tax expense of $14,446,598 and a corresponding increase to surplus in recognition of a capital contribution by the state. This change in accounting had no impact on surplus of the CEA as of December 31, 2011 but reduced net income by $14,446,598 for the year then ended.

3. Fair Value Disclosures

The following summarizes the estimated fair value of certain financial assets and liabilities at December 31:

	2011		2010	
	Statement value	Fair value	Statement value	Fair value
Debt securities	$ 3,300,076,517	$ 3,318,400,622	$ 2,949,805,276	$ 2,966,361,848
Collateral loan	157,500,000	177,593,850	189,000,000	206,633,700

The carrying value of cash, cash equivalents, short-term investments, accrued interest, unearned premiums and other liabilities approximate fair value due to the short-term maturity, and low interest rate environment of these items.

4. Investments

Major components of net investment income are derived from the following investments:

	2011	2010
Bonds	$ 29,823,036	$ 36,793,332
Short-term investments	1,870,237	3,589,353
Total investment before expenses	31,693,273	40,382,685
Less investment expenses	1,884,362	1,757,400
Net investment income	$ 29,808,911	$ 38,625,285

The book/adjusted carrying values and estimated fair values of investments in bonds as of December 31 are as follows:

	Book/Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2011				
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 3,300,076,517	$ 18,394,945	$ (70,840)	$ 3,318,400,622
2010				
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 2,949,805,276	$ 18,382,897	$ (1,826,325)	$ 2,966,361,848

The book/adjusted carrying values and estimated fair values of investments in bonds at December 31, 2011, by contractual maturity, are shown below.

	Book/Adjusted Carrying Value	Fair Value
Due in one year or less	$ 1,677,750,088	$ 1,683,156,197
Due in years two through five	1,622,326,429	1,635,244,425
Total	$ 3,300,076,517	$ 3,318,400,622

4. Investments (Continued)

Other-than-Temporary Impairment

The following table shows the gross unrealized losses and fair value of the CEA's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous loss position at December 31:

	Less than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2011				
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 172,427,591	$ (69,385)	$ 13,175,316	$ (1,455)

	Less than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2010				
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 394,652,003	$ (1,806,721)	$ 99,141,241	$ (19,604)

5. Long-Term Debt

The CEA issued its first long-term debt, $315 million in fixed rate revenue bonds on July 20, 2006 to enhance claims paying capacity. The following reflects activity in the long-term debt accounts during the year ended December 31:

	2011	2010
Balance at January 1,	$ 189,000,000	$ 220,500,000
Payments made on July 1,	(31,500,000)	(31,500,000)
Balance at December 31,	$ 157,500,000	$ 189,000,000

The net proceeds from the revenue bonds were deposited into the Claims Paying Account and were used to purchase investments according to CEA's investment policy and procedures. The proceeds will only be used for future payments of earthquake policyholder claims and related loss adjustment expenses and may not be used to repay principal and interest on the debt. Revenue bond proceeds may be used for payment of claims after the CEA exhausts its capital available for claims and any capacity made available by reinsurance contracts. Repayment of debt does not affect the amount of the Claims Paying Account.

5. Long-Term Debt (Continued)

The bonds are payable from future pledged policyholder premiums. The bonds bear interest at 6.169% and are federally taxable. Interest is payable semi-annually, beginning January 1, 2007. The bonds are due July 1, 2016, but are subject to annual mandatory sinking-fund payments as indicated below. The bonds are subject to optional redemptions at any time prior to maturity, in whole or in part, at the option of the CEA. The CEA is subject to certain bond covenants, the most restrictive of which requires a debt service coverage ratio, as defined, of 3:1.

Future scheduled debt service payments, including mandatory sinking fund payments, for the CEA's long-term debt are as follows as of December 31, 2011:

	Principal	Interest	Total
2012	$ 31,500,000	$ 8,744,558	$ 40,244,558
2013	31,500,000	6,801,323	38,301,323
2014	31,500,000	4,858,088	36,358,088
2015	31,500,000	2,914,853	34,414,853
2016	31,500,000	971,617	32,471,617
Total	$ 157,500,000	$ 24,290,439	$ 181,790,439

Interest paid during the year was $10,687,793 and $12,631,028 for 2011 and 2010, respectively.

6. Reinsurance

The CEA cedes risk to reinsurers under catastrophe excess-of-loss reinsurance contracts for purposes of limiting its maximum exposure. All contracts provide coverage for losses as well as allocated loss adjustment expenses. Although the ceding of risk does not discharge the CEA from its primary responsibility to its policyholders, the insurance company that assumes the coverage assumes responsibility to reimburse the CEA for the related liability. Management believes that its reinsurers are and will continue to be able to satisfy their obligations under the reinsurance agreements. To date, losses have been recovered only under the supplemental coverages reinsurance contracts. In the event that legislation is enacted by the State of California that has the effect of increasing a reinsurer's exposure to loss under the reinsurance contract, a reinsurer has the right to cancel the reinsurance contract.

During 2011, Embarcadero Reinsurance Ltd. (Embarcadero Re), an independent Bermuda insurance company, completed an offering of catastrophe bonds to unrelated investors of $150 million. In connection with the offering, Embarcadero Re entered into a reinsurance agreement (covering a three-year period) with the CEA, providing up to $150 million of reinsurance. Under the terms of the reinsurance agreement, the CEA is obligated to pay annual reinsurance premiums to Embarcadero Re. The transaction is subject to a retention reset at the beginning of the second and third annual contract periods based on exposure adjustments and losses. The reinsurance agreement meets the requirements to be accounted for as reinsurance in accordance with the guidance for reinsurance contracts. The reinsurance limit will be reduced by any amounts paid to the CEA under the reinsurance agreement.

At December 31, 2011, the CEA had $5,029,835 on deposit to ensure its performance under the terms of the agreement with Embarcadero Re.

6. Reinsurance (Continued)

The 2011 and 2010 aggregate excess reinsurance contracts allowed for an adjustment of premium, based on the average aggregate insurance in force and the exposure adjustment limit, as defined in the contracts. As of December 31, 2011 in accordance with these terms, the CEA did not have a premium adjustment expense against the contract. During 2011, the CEA continued to cede insurance to reinsurers under catastrophe excess-of-loss reinsurance contracts provided maximum limits of $3.05 billion at varying attachment points.

Effective January 1, 2012, the CEA entered into reinsurance contracts that provide a maximum limit of $2.855 billion. The contracts have varying duration and expiration dates extending into future reporting periods.

The effect of reinsurance on premiums is as follows:

	2011		2010	
	Written	Earned	Written	Earned
Direct	$ 614,308,227	$ 605,793,843	$ 596,107,647	$ 599,260,213
Ceded	200,622,676	200,622,676	221,788,128	221,788,128
Net	$ 413,685,551	$ 405,171,167	$ 374,319,519	$ 377,472,085

7. Commitments and Contingencies

The CEA is a defendant in various legal actions arising from the normal course of business. Management does not believe that the ultimate disposition of these actions will have a material adverse effect on CEA's financial position or results of operations.

The CEA leases office facilities and equipment under various non-cancelable operating lease agreements that expire through December 2016. Rental expense associated with the lease agreements was $638,812 and $486,983 for the years ended December 31, 2011 and 2010, respectively. Future minimum rental payments under these agreements are as follows:

	Amount
2012	$ 706,897
2013	722,439
2014	717,144
2015	727,069
2016	184,490
Total	$ 3,058,039

8. Mitigation Fund

California Insurance Code Section 10089.37 created the Earthquake Loss Mitigation Fund (Mitigation Fund) as a "sub-account of the CEA." According to statute, the Mitigation Fund must be used solely for the establishment and operation of an earthquake loss mitigation program. The Insurance Code requires the CEA to annually transfer an amount equal to the lesser of 5% of investment income or $5 million to the Mitigation Fund if deemed actuarially sound by a consulting actuary. The transfer and setting aside of those monies into the Mitigation Fund sub-account have been formally approved by the CEA Governing Board. It is the opinion of the general counsel of the CEA and of the CEA's outside counsel that the monies that reside in the Mitigation Fund sub-account within the CEA are by statute not available to pay policyholder claims or other claims against the CEA. Accordingly the mitigation fund has been excluded from the determination of statutory net income and surplus in these financial statements. As of December 31, 2011, the potential annual transfer calculated at 5% of investment income was $1,584,672 which is subject to actuarial review and formal approval of the CEA Governing Board.

9. Unassigned Surplus

Included in unassigned surplus as of December 31 are the following cumulative balances:

	2011	2010
Nonadmitted assets	$ (13,100,560)	$ (12,698,618)
Inception to date transfers to mitigation fund	(34,913,326)	(32,894,073)

10. Retirement Plan, Deferred Compensation and Post-Employment Benefits

Defined Benefit Plans

The State of California sponsors a defined benefit pension plan covering all CEA civil-service employees. The benefits are based on the highest 12 consecutive months' compensation during their employment. The state's funding policy is to make the minimum annual contributions required by applicable regulations and charges the CEA for its allocable share of such contributions based on a percentage of payroll. The CEA has no legal obligation for benefits under this plan.

Defined Contribution Plans

The CEA sponsors a defined contribution savings plan for contract employees. Employees contribute 5% of compensation and the CEA contributes 12.71% of the employee's compensation. The CEA has no legal obligation for benefits under this plan.

Post-Employment Benefits

The CEA has no obligations to former employees for benefits after their employment other than compensation related to earned vacation and severance. The liability for earned but untaken leave, such as vacation, personal leave days, or holiday credit, has been accrued to contract employees.

11. Statutory and Regulatory Compliance

The State of California Insurance Code limits the CEA's "operating expenses" to 3% of its "premium income." In calculating this limitation, the CEA has determined that its premium income is its reported premiums written and that its operating expenses do not include certain start-up expenses and certain credits and payments, including payments to reinsurers, payments to investment managers and advisors, payments to participating insurers, or payments of agent commissions. Operating expenses, as determined by the CEA, totaled $11.0 million and $9.4 million for the years ended December 31, 2011 and 2010, respectively, and did not exceed 3% of premiums written.

In December 1993, the NAIC adopted a risk-based capital formula for property casualty insurance companies, which establishes recommended minimum capital requirements. The formula has been designed to capture the widely varying elements of risks undertaken by writers of different lines of insurance having differing risk characteristics, as well as writers of similar lines where differences in risk may be related to corporate structure, investment policies, reinsurance arrangements, and a number of other factors. The CEA has calculated its risk-based capital requirement as of December 31, 2011 and has capital in excess of any regulatory action or reporting level.

12. Reconciliation to Annual Statement

The following is a reconciliation of amounts reported to the California Department of Insurance in the CEA's annual statement to amounts reported in these statutory statements:

	Net Income	Surplus
2010		
As previously reported in Annual Statement	$ 297,576,501	$ 3,800,994,498
Net gain/loss from agents balances	4,734,706	-
As reported herein	$ 302,311,207	$ 3,800,994,498

13. California Residential Mitigation Program

On August 16, 2011, the CEA entered into a Joint Powers Agreement with the California Emergency Management Agency (Cal EMA) to create the California Residential Mitigation Program (CRMP) for the purpose of supplying grants, loans, and loan guarantees (and related assistance and incentives) to owners of dwellings in California. The CRMP Governing Board is comprised of two employees of each the CEA and Cal EMA. Previously, on December 10, 2010, the CEA's Governing Board approved a $500,000 transfer from the CEA Mitigation Fund to the CRMP when certain conditions were met, mostly relating to the formation of the CRMP. In April 2012, those conditions were met and the CEA transferred the funds to the CRMP.

14. Subsequent Events

Management has evaluated subsequent events through August 20, 2012, which is the date the financial statements were made available to be issued. No events, other than those disclosed below and elsewhere in these financial statements, have occurred subsequent to December 31, 2011 requiring recording or disclosure in these financial statements.

14. Subsequent Events (Continued)

On February 7, 2012, Embarcadero Re completed a second bond offering and entered into another reinsurance agreement with the CEA. The transaction provides the CEA an additional $150 million in reinsurance coverage.

On August 2, 2012, Embarcadero Re completed a third bond offering and entered into another reinsurance agreement with the CEA. The transaction provides the CEA an additional $300 million in reinsurance coverage.

SUPPLEMENTARY INFORMATION

CALIFORNIA EARTHQUAKE AUTHORITY

Summary Investment Schedule
December 31, 2011

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement *	
	Amount	%	Amount	%
Bonds:				
U.S. treasury securities	$ 3,300,076,517	72.76	$ 3,300,076,517	72.76
Receivable for securities	68,858,008	1.52	68,858,008	1.52
Cash, cash equivalents, and short-term investments	1,166,491,512	25.72	1,166,491,512	25.72
Total invested assets	$ 4,535,426,037	100.00	$ 4,535,426,037	100.00

** The CEA has no securities lending reinvested capital.*

CALIFORNIA EARTHQUAKE AUTHORITY

Supplemental Investment Risk Interrogatories
December 31, 2011

1. The total admitted assets as reported on page 2 of the CEA's annual statement are $4,607,056,789.

2. The following are the CEA's largest exposures to a single issuer, borrower, and/or investment excluding U.S. government, U.S. government agency securities, and those U.S. government money market funds listed in the Appendix to the SVO Purposes and Procedure Manual as exempt, property occupied by the CEA, and policy loans:

Issuer	Investment Category	Amount	% of Total Admitted Assets
JP Morgan Chase CP	Short-Term Bond	$ 20,704,890	0.45%
Toronto DOM Hldg CP	Short-Term Bond	14,994,223	0.33
Nat'l Aust FDG CP	Short-Term Bond	14,988,881	0.33
Rabobank USA Fin CP	Short-Term Bond	14,987,811	0.33
General Electric CP	Short-Term Bond	14,472,557	0.31
Svenska HNDL Inc CP	Short-Term Bond	11,988,162	0.26

3. The total admitted assets held in bonds by NAIC rating are:

Bonds	Amount	% of Total Admitted Assets
NAIC-1	$ 4,438,056,866	96%

4. The CEA assets held in foreign investments are less than 2.5% of total admitted assets.

5. The CEA assets held in Canadian investments and unhedged Canadian currency exposure are less than 2.5% of total admitted assets.

6. The CEA does not have any assets held in investments with contractual sales commitments

7. The CEA does not have assets held in nonaffiliated, privately placed equities.

8. The CEA does not have any assets held in general partnership interests.

9. The CEA does not have any assets held in mortgage loans.

10. The CEA does not have any interests held in real estate.

11. The CEA does not have any investments held in mezzanine real estate loans.

12. The CEA does not have assets subject to securities lending, repurchase, or reverse repurchase agreements.

13. The CEA does not hold warrants not attached to other financial instruments, options, caps, or floors.

14. The CEA does not hold assets as potential exposure for collars, swaps, and forwards.

15. The CEA does not hold assets as potential exposure for futures contracts.

Supplemental Reinsurance Interrogatories
December 31, 2011

1. The CEA has not reinsured risk under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage.

2. The CEA ceded risk under reinsurance contracts for which during the year ended December 31, 2011: (i) total ceded written premiums were greater than 5% of prior year-end surplus; (ii) it accounted for those contracts as reinsurance and not as a deposit; and (iii) the contracts contain aggregate stop loss reinsurance coverage:

   - The CEA cedes risk to reinsurers under catastrophe excess-of-loss reinsurance contracts for purposes of limiting its maximum exposure. In 2011, the CEA entered into reinsurance contracts that provided a maximum limit of $3.05 billion, which resulted in an aggregate financial impact of $201 million in ceded written premiums. The contracts were annual contracts with the exception of the agreement with Embarcadero Re, which was a three-year contract.

3. The CEA has not ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the CEA, or (ii) an association of which one or more unaffiliated policyholders of the CEA is a member where:

   - The written premium ceded to the reinsurer by the CEA or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
   - Twenty-five Percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the CEA or its affiliates.

4. Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62R, *Property and Casualty Reinsurance*, the CEA has not ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

   - Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or
   - Accounted for that contract as reinsurance under GAAP and as a deposit under SAP.

LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS

To the Governing Board
and California Earthquake Authority

In planning and performing our audit of the financial statements of the California Earthquake Authority (the "CEA") as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the CEA's internal control over financial reporting (internal control) 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 the CEA's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. Additionally, this report is being prepared consistent with the guidance in the NAIC/AICPA Working Group letter to regulators on the interpretation of Section 11 of the NAIC Model Audit Rule dated March 9, 2005. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This communication is intended solely for the information and use of management, the governing board, others within the organization, and state insurance departments to whose jurisdiction the CEA is subject and is not intended to be and should not be used by anyone other than these specified parties.

Larson & Rosenberger LLP

Glendale, California
August 20, 2012

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Governing Board Memorandum

August 23, 2012

Agenda Item 11: Request for Annual Set-Aside for the CEA Loss Mitigation Fund

Recommended Action: Approve the Annual Set-Aside for the CEA Loss Mitigation Fund

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Background:

California Insurance Code section 10089.37 states, in pertinent part:

> *The board shall set aside in each calendar year an amount equal to 5 percent of investment income accruing on the authority's invested funds, or five million dollars ($5,000,000), whichever is less, if deemed actuarially sound by a consulting actuary employed or hired by the authority, to be maintained as a subaccount in the California Earthquake Authority Fund. The authority shall use those funds to fund the establishment and operation of an earthquake Loss Mitigation Fund… .*

The Governing Board last approved set-aside funding for the CEA Loss Mitigation Fund in August 2011 after its receipt of the 2010 audited financial statements. The Board authorized a set-aside amount of $2,019,253.

Analysis:

The CEA Loss Mitigation Fund is established by law to hold the money to be used for the CEA mitigation activities' operational and program expenses. The Board, however, must approve the mitigation programs before CEA Loss mitigation Fund money can be expended on program activities.

The Insurance Code also requires that the set-aside of monies for the CEA Loss Mitigation Fund be reviewed "by a consulting actuary employed or hired by the authority" to determine if it will impair the CEA's actuarial soundness—the CEA's Chief Actuary has reviewed the staff proposal to transfer funds and has determined that the requested transfer will not impair the CEA's actuarial soundness, as stated in *Attachment A.*

Staff requests Board authorization and approval to set aside $1,584,672.10 for the CEA Loss Mitigation Fund, as calculated and shown on *Attachment B.*

Recommendation:

Staff recommends the Board authorize a set-aside of $1,584,672.10 for the CEA Loss Mitigation Fund.

CEA CALIFORNIA EARTHQUAKE AUTHORITY
THE STRENGTH TO REBUILD℠

Memorandum

DATE: August 9, 2012

TO: Tim Richison, Chief Financial Officer

FROM: Shawna Ackerman, Chief Actuary

CC: Mark Dawson, Assistant Chief Financial Officer

RE: 2011 Earthquake Loss Mitigation Fund

Pursuant to California Insurance Code §10089.37, the California Earthquake Authority (CEA) shall set aside an amount equal to the lesser of 5% of its annual investment income or $5,000,000 for the Earthquake Loss Mitigation Fund, if deemed actuarially sound. The amount under review for calendar year 2011 is $1,584,672.

The term "actuarially sound" is often applied to rates. The current rate structure considers and provides for a sufficient provision for the mitigation fund.

In the context of the statute for the mitigation fund, the term may also apply to the CEA's solvency. I have reviewed the financial data provided to me including the provision for the mitigation fund. The CEA available capital at March 31, 2012 is $4.097 billion and the total claims paying capacity is $9.780 billion. The mitigation funds available to set aside are approximately 0.04% of the CEA's available capital and 0.02% of the CEA's total claims paying capacity. Because the mitigation fund represents a small percentage of the CEA's total claims paying capacity, the absence of the funds for claims paying will not impair the CEA's solvency. Additionally, the mitigation funds can increase the CEA's ability to pay 100% of claims liabilities to the extent that the funds are used to support activities that reduce the CEA's losses in the event of a damaging earthquake. Therefore, I conclude that the mitigation fund amount as proposed is actuarially sound as contemplated in the statute.

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(916) 325-3800 Fax (916) 327-8272

California Earthquake Authority
Calculation of Available Set-Aside Amount for Loss Mitigation Fund
For the Years Ended December 31

Year	Investment Income	5% of Investment Income	A Beginning-of-Year Remaining Funds Available for Set Aside	B Lesser of 5% of Investment Income or $5 million **	C Funds Set Aside by the Governing Board	(A + B + C) End-of-Year Remaining Funds Available for Set Aside
Balance as of December 31, 2000						**$ -**
2001	$ 44,184,990.04	$ 2,209,249.50	$ -	$ 2,209,249.50	$ (309,275.55)	$ 1,899,973.95
2002	$ 24,782,830.64	$ 1,239,141.53	$ 1,899,973.95	$ 1,239,141.53	$ (2,509,232.25)	$ 629,883.23
2003	$ 25,562,896.69	$ 1,278,144.83	$ 629,883.23	$ 1,278,144.83	$ -	$ 1,908,028.07
2004	$ 35,851,094.85	$ 1,792,554.74	$ 1,908,028.07	$ 1,792,554.74	$ -	$ 3,700,582.81
2005	$ 64,786,415.96	$ 3,239,320.80	$ 3,700,582.81	$ 3,239,320.80	$ (3,700,582.81)	$ 3,239,320.80
2006	$ 118,647,844.32	$ 5,932,392.22	$ 3,239,320.80	$ 5,000,000.00	$ (3,239,320.80)	$ 5,000,000.00
2007	$ 125,616,215.18	$ 6,280,810.76	$ 5,000,000.00	$ 5,000,000.00	$ (5,000,000.00)	$ 5,000,000.00
2008	$ 84,700,308.00	$ 4,235,015.40	$ 5,000,000.00	$ 4,235,015.40	$ (5,000,000.00)	$ 4,235,015.40
2009	$ 55,449,955.00	$ 2,772,497.75	$ 4,235,015.40	$ 2,772,497.75	$ (4,235,015.40)	$ 2,772,497.75
2010	$ 40,385,063.00	$ 2,019,253.15	$ 2,772,497.75	$ 2,019,253.15	$ (2,772,497.75)	$ 2,019,253.15
2011	$ 31,693,442.00	$ 1,584,672.10	$ 2,019,253.15	$ 1,584,672.10	$ (2,019,253.15)	$ 1,584,672.10
Balance as of December 31, 2011						**$ 1,584,672.10**

** By law, "(t)he board shall set aside in each calendar year an amount equal to 5 percent of investment income accruing on the authority's invested funds, or five million dollars ($5,000,000), whichever is less…"
Insurance Code section 10089.37.

Governing Board Memorandum

August 23, 2012

Agenda Item 12: Update on the CEA Mitigation Program

Recommended Action: No action required

Background and Analysis:

At the Governing Board's June 21, 2012, meeting, Chief Mitigation Officer Janiele Maffei outlined proposed strategies for the CEA Mitigation Program, which together were aimed at reducing the risk of earthquake damage to California homes. Progress on the strategies includes the following:

Establishing statewide standards:

To successfully establish and expand (1) an incentive program to encourage seismic retrofits, such as that currently being coordinated under the California Residential Mitigation Program, or (2) the ability for the CEA to develop and provide mitigation discounts for insured homeowners, additional statewide residential retrofit standards must be developed.

The CEA, in cooperation with the Federal Emergency Management Agency (FEMA), has invited industry leaders—engineers, geologists, building officials, contractors, and community representatives—to a conference the CEA is convening on September 17, 2012, to discuss guideline requirements and expectations.

In partnership with FEMA, the CEA will use the information gained at the September conference to outline a scope of work and a work schedule for the development of comprehensive guidelines for the seismic rehabilitation of existing single-family, wood-frame dwellings.

Research Symposium:

The CEA Mitigation Program includes development of research programs to calculate appropriate mitigation-related insurance-premium discounts, support the guideline-development process, and inform other strategic mitigation endeavors. The CEA is planning a symposium for late fall 2012 to collect information from experts on research topics that would serve these goals.

CRMP Pilot Program:

The California Residential Mitigation Program (CRMP) pilot project is presently scheduled to roll out in early 2013. Selected on a first come, first served basis, five homeowners in a Northern California community and five homeowners in a Southern California community will use a Web portal to submit applications for the retrofit program.

Requests for Qualifications for CRMP contractors are being finalized and will be issued shortly, including solicitations for Web-site designers, an auditor, insurance services, inspection services, and quality-control services.

Recommendation:

No action – information only.

Governing Board Memorandum

August 23, 2012

Agenda Item 13:	Renewal of the CEA's Directors and Officers and Employment Practices Liability insurance coverages
Recommended Action:	Approve expenditure of CEA funds for renewal premium for insurance coverage

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Background:

Each year, the CEA purchases Directors and Officers ("D&O") and Employment Practices Liability ("EPL") insurance coverage for its business operations. These coverages provide coverage not only for the acts of CEA as an organization but also for the acts of the CEA's employees, contract executives, and Governing Board members.

The term of the CEA's current D&O/EPL policy expires August 31, 2012. Staff has obtained a quote for a renewal policy, and requests the Board's authorization to purchase that coverage.

Analysis:

Since 2005, the CEA has purchased D&O/EPL coverage from RSUI Indemnity Company, a carrier that offers a unique D&O/EPL policy form tailored to not-for-profit public organizations such as the CEA. Before 2005, the CEA had only been offered D&O/EPL on a standard corporate-form policy that was less suited to the CEA's unique form of organization.

RSUI has offered to renew the existing coverage for an additional year—from August 31, 2012, through August 31, 2012. The renewal offer includes a few minor modifications in the scope of the coverages provided (some of which are enhancements, and some of which narrow the scope). As with the previous term, the limit of liability is $10 million per claim with respect to claims against the CEA as an organization, and $11 million with respect to claims against individual CEA employees, executives, and Board members. The premium for the expiring policy year—which actually had represented a reduction of a few thousand dollars from the preceding years—was $113,180, and the renewal offer is at a very slight (less that 1%) increase in premium, $113,980.

The CEA's broker team has advised staff that it has solicited other coverage offers in the commercial insurance market, but it has been unable to find another carrier that would offer coverage to the CEA on more favorable terms or rates.

CEA staff is satisfied with the terms of the current and offered coverages, and recommends accepting the carrier's renewal offer.

Recommendation:

Authorize the necessary expenditure and signature authority to the chief executive officer so that staff may:

1. Renew the CEA's existing D&O/EPL coverage, currently quoted at a premium of $113,980, and;
2. Bind the coverage at or before the expiration of CEA's existing coverage on August 31, 2012.

California Earthquake Authority

Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to June 30, 2012

Event Code	Event Name	Date of Event	Magnitude	Location	# of Paid Claims	Losses Paid	LAE Paid	Total Paid Losses & LAE
98010	Chino	1/5/1998	4.3	3 mi. W of Chino	1	$1,385.72	$124.71	$1,510.43
98050	San Juan Bautista	8/12/1998	5.3	7 mi. SSE of San Juan Bautista	1	161,204.93	13,643.13	$174,848.06
98070	Redding	11/26/1998	5.2	3 mi. NNW of Redding	1	4,029.72	362.67	$4,392.39
	1998 Minor Quakes				2	4,199.20	377.93	$4,577.13
99050	Hector Mine	11/16/1999	7.0	28 mi. N of Joshua Tree (near Palm Springs)	25	137,361.81	12,362.47	$149,724.28
	1999 Minor Quakes				1	4,037.26	363.35	$4,400.61
00030	Napa	9/3/2000	5.2	17 mi. ESE of Santa Rosa; 6 mi. NNE of Sonoma; 3 mi. WSW of Yountville	15	278,130.07	25,031.71	$303,161.78
01010	Ferndale	1/13/2001	5.4	53 mi. WNW of Ferndale	1	34,764.54	3,128.79	$37,893.33
	2001 Minor Quakes				1	52,896.82	4,760.70	$57,657.52
01040	West Hollywood	9/9/2001	4.2	West Hollywood	10	67,044.15	6,033.94	$73,078.09
	2002 Minor Quakes				1	8,361.24	752.51	$9,113.75
03090	San Simeon	12/22/2003	6.4	7 mi. NE of San Simeon	84	2,692,628.02	242,339.74	$2,934,967.76
04120	Parkfield	9/28/2004	6.0	7 mi SSE of Parkfield	1	7,032.59	632.93	$7,665.52
07240	Chatsworth	8/9/2007	4.5	4 mi NNW of Chatsworth	1	7,813.88	703.24	$8,517.12
07250	Alum Rock	10/30/2007	5.6	5 mi NNE of Alum Rock	1	6,149.20	553.42	$6,702.62
08280	Chino Hills	7/29/2008	5.4	5.5 mi SE of Diamond Bar	8	156,781.38	14,110.29	$170,891.67
09320	Calexico	12/30/2009	5.9	22.7 mi SE of Calexico	1	275.88	24.83	$300.71
	2009 Minor Quakes				1	4,839.51	435.56	$5,275.07
10330	Ferndale	1/9/2010	6.5	27 mi W of Ferndale	2	23,787.67	20,140.89	$43,928.56
10360	Baja California Mexico	4/4/2010	7.2	16 mi SW from Guadalupe Victoria, Mexico	17	79,392.57	7,145.34	$86,537.91
				Total	**175**	**$3,732,116.16**	**$353,028.15**	**$4,085,144.31**

Claims History Report Glossary

Event Code: A 5 digit code that the CEA assigns to all earthquakes expected to produce paid losses. This code is used to track statistics for a particular earthquake.

Event Name: This is generally the name given to the earthquake by the USGS (United States Geological Survey).

Date of Event: Date that the earthquake occurred.

Magnitude: Richter scale magnitude assigned by USGS.

Location: This is assigned by USGS and is usually a city close to the earthquake.

# of Paid Claims: A numeric count of the claims that received a payment for damage caused by a particular earthquake.

Losses Paid: Total dollar amount of all claims paid to the policyholders for a particular earthquake.

LAE Paid: "LAE" stands for Loss Adjustment Expense which is always 9% of paid losses. This is the amount paid to the Participating Insurers for handling the claim.

Total Paid Losses and ALE: The sum of Losses Paid and LAE Paid.

Minor Quakes: Losses paid for damage from minor earthquakes that were initially not expected to generate a claim and therefore were not issued a CEA event code.

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 7/23/2012 - Policies in Force on: 6/30/2012

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Homeowners							
15% Total	593,130	71.5 %	259,314,441,918	85.3 %	472,366,179	81.3 %	796
10% Total	64,036	7.7 %	30,573,140,961	10.1 %	59,754,712	10.3 %	933
Homeowners Total	657,166	79.2 %	289,887,582,879	95.3 %	532,120,891	91.5 %	810
Manufactured Homes (Mobilehomes)-Homeowners							
15% Total	22,293	2.7 %	2,333,870,544	0.8 %	2,345,601	0.4 %	105
10% Total	4,224	0.5 %	623,796,660	0.2 %	545,785	0.1 %	129
Manufactured Homes (Mobilehomes)-Homeowners Total	26,517	3.2 %	2,957,667,204	1.0 %	2,891,386	0.5 %	109
Condo Total	102,850	12.4 %	9,600,531,000	3.2 %	40,075,006	6.9 %	390
Renters Total	43,087	5.2 %	1,582,086,000	0.5 %	6,201,781	1.1 %	144
Grand Total	829,620	100.0 %	304,027,867,083	100.0 %	581,289,065	100.0 %	701

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 7/23/2012 - Policies in Force on: 6/30/2012

HOMEOWNERS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k	593,130	90.3 %	251,669,466,418	86.8 %	439,118,450	82.5 %	740
BCU 20k	64,445	9.8 %	644,450,000	0.2 %	1,433,074	0.3 %	22
Coverage C 25k	31,647	4.8 %	632,940,000	0.2 %	4,902,251	0.9 %	155
Coverage C 50k	21,286	3.2 %	957,870,000	0.3 %	5,035,306	0.9 %	237
Coverage C 75k	10,042	1.5 %	702,940,000	0.2 %	2,993,868	0.6 %	298
Coverage C 100k	33,700	5.1 %	3,201,500,000	1.1 %	12,494,869	2.3 %	371
Coverage D 10k	38,925	5.9 %	330,862,500	0.1 %	1,516,379	0.3 %	39
Coverage D 15k	77,322	11.8 %	1,043,847,000	0.4 %	4,641,319	0.9 %	60
Coverage D 25k	5,556	0.8 %	130,566,000	0.0 %	230,663	0.0 %	42
15% Total	**593,130**	**90.3 %**	**259,314,441,918**	**89.5 %**	**472,366,179**	**88.8 %**	**796**
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k	64,036	9.7 %	27,349,452,461	9.4 %	47,809,192	9.0 %	747
BCU 20k	15,131	2.3 %	151,310,000	0.1 %	288,621	0.1 %	19
Coverage C 25k	10,344	1.6 %	206,880,000	0.1 %	1,607,030	0.3 %	155
Coverage C 50k	7,672	1.2 %	345,240,000	0.1 %	1,554,986	0.3 %	203
Coverage C 75k	4,199	0.6 %	293,930,000	0.1 %	1,042,090	0.2 %	248
Coverage C 100k	17,625	2.7 %	1,674,375,000	0.6 %	5,766,811	1.1 %	327
Coverage D 10k	13,479	2.1 %	114,571,500	0.0 %	393,033	0.1 %	29
Coverage D 15k	27,354	4.2 %	369,279,000	0.1 %	1,209,934	0.2 %	44
Coverage D 25k	2,898	0.4 %	68,103,000	0.0 %	83,016	0.0 %	29
10% Total	**64,036**	**9.7 %**	**30,573,140,961**	**10.5 %**	**59,754,712**	**11.2 %**	**933**
Homeowners Total	**657,166**	**100.0 %**	**289,887,582,879**	**100.0 %**	**532,120,891**	**100.0 %**	**810**

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 7/23/2012 - Policies in Force on: 6/30/2012

MANUFACTURED HOMES (MOBILEHOMES)-HOMEOWNERS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k	22,293	84.1 %	2,138,779,544	72.3 %	2,227,980	77.1 %	100
Coverage C 25k	1,690	6.4 %	33,800,000	1.1 %	29,594	1.0 %	18
Coverage C 50k	1,126	4.2 %	50,670,000	1.7 %	27,655	1.0 %	25
Coverage C 75k	349	1.3 %	24,430,000	0.8 %	10,453	0.4 %	30
Coverage C 100k	488	1.8 %	46,360,000	1.6 %	16,024	0.6 %	33
Coverage D 10k	1,717	6.5 %	14,594,500	0.5 %	14,433	0.5 %	8
Coverage D 15k	1,610	6.1 %	21,735,000	0.7 %	18,656	0.6 %	12
Coverage D 25k	149	0.6 %	3,501,500	0.1 %	806	0.0 %	5
15% Total	**22,293**	**84.1 %**	**2,333,870,544**	**78.9 %**	**2,345,601**	**81.1 %**	**105**
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k	4,224	15.9 %	448,198,160	15.2 %	470,845	16.3 %	111
Coverage C 25k	1,308	4.9 %	26,160,000	0.9 %	16,878	0.6 %	13
Coverage C 50k	1,027	3.9 %	46,215,000	1.6 %	17,609	0.6 %	17
Coverage C 75k	338	1.3 %	23,660,000	0.8 %	7,289	0.3 %	22
Coverage C 100k	451	1.7 %	42,845,000	1.4 %	11,568	0.4 %	26
Coverage D 10k	1,310	4.9 %	11,135,000	0.4 %	7,358	0.3 %	6
Coverage D 15k	1,580	6.0 %	21,330,000	0.7 %	13,587	0.5 %	9
Coverage D 25k	181	0.7 %	4,253,500	0.1 %	652	0.0 %	4
10% Total	**4,224**	**15.9 %**	**623,796,660**	**21.1 %**	**545,785**	**18.9 %**	**129**
Manufactured Homes (Mobilehomes)-Homeowners Total	**26,517**	**100.0 %**	**2,957,667,204**	**100.0 %**	**2,891,386**	**100.0 %**	**109**

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 7/23/2012 - Policies in Force on: 6/30/2012

CONDO	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Coverage A/BCU 10k	73,703	71.7 %	2,579,605,000	26.9 %	7,195,948	18.0 %	98
Coverage C 5k/D 1.5k	36,032	35.0 %	234,208,000	2.4 %	2,910,758	7.3 %	81
Coverage C 5k[1]	8,510	8.3 %	42,550,000	0.4 %	653,940	1.6 %	77
Coverage C 25k	14,166	13.8 %	354,150,000	3.7 %	2,169,312	5.4 %	153
Coverage C 50k	12,033	11.7 %	601,650,000	6.3 %	2,069,252	5.2 %	172
Coverage C 75k	5,771	5.6 %	432,825,000	4.5 %	1,093,498	2.7 %	189
Coverage C 100k	11,525	11.2 %	1,152,500,000	12.0 %	2,228,359	5.6 %	193
Coverage D 1.5k[2]	7,262	7.1 %	10,893,000	0.1 %	48,239	0.1 %	7
Coverage D 10k	14,712	14.3 %	147,120,000	1.5 %	286,032	0.7 %	19
Coverage D 15k	27,847	27.1 %	417,705,000	4.4 %	602,209	1.5 %	22
Coverage D 25k	2,184	2.1 %	54,600,000	0.6 %	57,905	0.1 %	27
Coverage E 25k	3,041	3.0 %	76,025,000	0.8 %	707,616	1.8 %	233
Coverage E 50k	60,772	59.1 %	3,038,600,000	31.7 %	17,706,440	44.2 %	291
Coverage E 75k	6,108	5.9 %	458,100,000	4.8 %	2,345,499	5.9 %	384
Condo Total	**102,850**	**100.0 %**	**9,600,531,000**	**100.0 %**	**40,075,006**	**100.0 %**	**390**

[1]Policies that have a Coverage C limit of 5k and a Coverage D limit >1.5k

[2]Policies that have a Coverage D limit of 1.5k and a Coverage C limit >5k

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 7/23/2012 - Policies in Force on: 6/30/2012

RENTERS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Coverage C 5k/D 1.5k	16,663	38.7 %	108,309,500	6.8 %	1,413,614	22.8 %	85
Coverage C 5k[1]	3,469	8.1 %	17,345,000	1.1 %	283,233	4.6 %	82
Coverage C 25k	10,256	23.8 %	256,400,000	16.2 %	1,618,829	26.1 %	158
Coverage C 50k	6,651	15.4 %	332,550,000	21.0 %	1,187,925	19.2 %	179
Coverage C 75k	2,055	4.8 %	154,125,000	9.7 %	407,779	6.6 %	198
Coverage C 100k	3,993	9.3 %	399,300,000	25.2 %	767,216	12.4 %	192
Coverage D 1.5k[2]	4,931	11.4 %	7,396,500	0.5 %	35,895	0.6 %	7
Coverage D 10k	7,383	17.1 %	73,830,000	4.7 %	159,827	2.6 %	22
Coverage D 15k	11,992	27.8 %	179,880,000	11.4 %	269,575	4.3 %	22
Coverage D 25k	2,118	4.9 %	52,950,000	3.3 %	57,888	0.9 %	27
Renters Total	**43,087**	**100.0 %**	**1,582,086,000**	**100.0 %**	**6,201,781**	**100.0 %**	**144**

California Earthquake Authority

Historical Risk-Transfer Costs

Risk-Transfer Limits

Contract Year	Contract	Limit	Rate On Line (ROL)	Premium
August 1, 2012	**Traditional Reinsurance**			
	Contract #A (1/1/2012 - 12/31/2012)	$655,220,000	7.0000%	$45,865,400
	Contract #A1 (1/1/2012 - 12/31/2012)	$400,000,000	7.3000%	$29,200,000
	Contract #A2 (1/1/2012 - 12/31/2012)	$200,000,000	7.1500%	$14,300,000
	Contract #A3 (1/1/2012 - 12/31/2012)	$250,000,000	7.2000%	$18,000,000
	Contract #B (4/1/2012 - 3/31/2013) [3]	$1,251,464,950	6.2000%	$77,590,827
	Contract #C (5/1/2012 - 4/30/2013) [3]	$100,000,000	4.5000%	$4,500,000
	Total Traditional Reinsurance	$2,856,684,950	6.6320%	$189,456,227
	Traditional Reinsurance Percent Change from Previous Year	-1.49%	-1.52%	-2.99%
	Transformer Reinsurance			
	Contract #1 (8/2/2011 - 8/8/2014) [2]	$150,000,000	7.7800%	$11,670,000
	Contract #2 (2/7/2012 - 2/15/2015) [2]	$150,000,000	8.3880%	$12,582,000
	Contract #3 (8/1/2012 - 8/7/2015) [2]	$300,000,000	5.6410%	$16,923,000
	Total Transformer Reinsurance	$600,000,000	6.8625%	$41,175,000
	Total Risk-Transfer[3]	**$3,456,684,950**		**$230,631,227**
May 1, 2012	**Traditional Reinsurance**			
	Contract #A (1/1/2012 - 12/31/2012)	$655,220,000	7.0000%	$45,865,400
	Contract #A1 (1/1/2012 - 12/31/2012)	$400,000,000	7.3000%	$29,200,000
	Contract #A2 (1/1/2012 - 12/31/2012)	$200,000,000	7.1500%	$14,300,000
	Contract #A3 (1/1/2012 - 12/31/2012)	$250,000,000	7.2000%	$18,000,000
	Contract #B (4/1/2012 - 3/31/2013) [3]	$1,251,464,950	6.2000%	$77,590,827
	Contract #C (5/1/2012 - 4/30/2013) [3]	$100,000,000	4.5000%	$4,500,000
	Total Traditional Reinsurance	$2,856,684,950	6.6320%	$189,456,227
	Traditional Reinsurance Percent Change from Previous Year	-1.49%	-1.52%	-2.99%
	Transformer Reinsurance			
	Contract #1 (8/2/2011 - 8/8/2014) [2]	$150,000,000	7.7800%	$11,670,000
	Contract #2 (2/7/2012 - 2/15/2015) [2]	$150,000,000	8.3880%	$12,582,000
	Total Transformer Reinsurance	$300,000,000	8.0840%	$24,252,000
	Total Risk-Transfer[3]	**$3,156,684,950**		**$213,708,227**
April 1, 2012	**Traditional Reinsurance**			
	Contract #A (1/1/2012 - 12/31/2012)	$655,220,000	7.0000%	$45,865,400
	Contract #A1 (1/1/2012 - 12/31/2012)	$400,000,000	7.3000%	$29,200,000
	Contract #A2 (1/1/2012 - 12/31/2012)	$200,000,000	7.1500%	$14,300,000
	Contract #A3 (1/1/2012 - 12/31/2012)	$250,000,000	7.2000%	$18,000,000
	Contract #B (4/1/2012 - 3/31/2013) [3]	$1,251,464,950	6.2000%	$77,590,827
	Total Traditional Reinsurance	$2,756,684,950	6.7094%	$184,956,227
	Traditional Reinsurance Percent Change from Previous Year	-4.94%	-0.37%	-5.30%
	Transformer Reinsurance			
	Contract #1 (8/2/2011 - 8/8/2014) [2]	$150,000,000	7.7800%	$11,670,000
	Contract #2 (2/7/2012 - 2/15/2015) [2]	$150,000,000	8.3880%	$11,533,500
	Total Transformer Reinsurance	$300,000,000		$23,203,500
	Total Risk-Transfer[3]	**$3,056,684,950**		**$208,159,727**

Contract Year	Contract	Limit	Rate On Line (ROL)	Premium
January 1, 2012	**Traditional Reinsurance**			
	Contract #3 (1/1/2011 - 3/31/2012)	$500,000,000	6.2000%	$31,000,000
	Contract #4 (65% placed) (1/1/2011 - 3/31/2012)	$650,000,000	5.5000%	$35,750,000
	Contract #4a (5% placed) (4/1/2011 - 3/31/2012)	$50,000,000	5.5000%	$2,750,000
	Contract #A (1/1/2012 - 12/31/2012)	$655,220,000	7.0000%	$45,865,400
	Contract #A1 (1/1/2012 - 12/31/2012)	$400,000,000	7.3000%	$29,200,000
	Contract #A2 (1/1/2012 - 12/31/2012)	$200,000,000	7.1500%	$14,300,000
	Contract #A3 (1/1/2012 - 12/31/2012)	$250,000,000	7.2000%	$18,000,000
	Total Traditional Reinsurance	$2,705,220,000	6.5379%	$176,865,400
Traditional Reinsurance Percent Change from Previous Year		-6.72%	-2.92%	-9.44%
	Transformer Reinsurance			
	Contract #1 (8/2/2011 - 8/8/2014) [2]	$150,000,000	7.7800%	$11,670,000
	Total Risk-Transfer	**$2,855,220,000**		**$188,535,400**
	Traditional Reinsurance			
2011	Contract #1 (1/1/2011 - 12/31/2011)	$200,000,000	8.1500%	$16,300,000
	Contract #2 (1/1/2011 - 12/31/2011)	$1,300,000,000	7.5000%	$97,500,000
	Contract #3 (1/1/2011 - 3/31/2012)	$500,000,000	6.2000%	$31,000,000
	Contract #3a (1/1/2011 - 12/31/2011)	$200,000,000	6.0000%	$12,000,000
	Contract #4 (65% placed) (1/1/2011 - 3/31/2012)	$650,000,000	5.5000%	$35,750,000
	Contract #4a (5% placed) (4/1/2011 - 3/31/2012)	$50,000,000	5.5000%	$2,750,000
	Total	$2,900,000,000	6.7345%	$195,300,000
Traditional Reinsurance Percent Change from Previous Year		-7.13%	-5.91%	-12.61%
	Transformer Reinsurance			
	Contract #1 (8/2/2011 - 8/8/2014) [2]	$150,000,000	7.7800%	$11,670,000
	Total Risk-Transfer	**$3,050,000,000**		**$206,970,000**
2010	Contract #1	$202,500,000	9.2500%	$18,731,250
	Contract #2	$1,000,000,000	8.5500%	$85,500,000
	Contract #3	$275,000,000	7.7000%	$21,175,000
	Contract #4	$300,000,000	6.8000%	$20,400,000
	Contract #5 (97.10% placed)	$200,000,000	6.5000%	$12,623,000
	Contract #6 (94.05% placed)	$250,000,000	6.2500%	$14,695,313
	Contract #7 (79.62619% placed)	$1,150,000,000	5.5000%	$50,363,565
	Total	**$3,122,526,185**	**7.1573%**	**$223,488,128**
Percent Change from Previous Year		0.73%	13.96%	14.79%
2009	Contract #1	$500,000,000	7.7500%	$38,749,846
	Contract #2	$500,000,000	6.9999%	$34,999,384
	Contract #3	$200,000,000	5.9600%	$11,920,000
	Contract #4	$100,000,000	5.8000%	$5,800,000
	Contract #5	$200,000,000	5.5400%	$11,080,000
	Contract #6	$200,000,000	5.3100%	$10,620,000
	Contract #7 Backup Reinsurance for Transformer	$250,000,000	6.9900%	$17,475,000
	Contract #8	$650,000,000	4.9938%	$32,460,000
	Contract #9 Backup Reinsurance for Transformer	$400,000,000	6.6500%	$26,600,000
	Contract #10	$100,000,000	4.9938%	$4,993,846
	Total	**$3,100,000,000**	**6.2806%**	**$194,698,076**
Percent Change from Previous Year		85.96%	-26.36%	5.71% (Combined base & Supplemental)

Contract Year	Contract	Limit	Rate On Line (ROL)	Premium
Base-Limits				
2008	Combined Reinsurance Contract #1	$300,000,000	9.8000%	$29,400,000
	Combined Reinsurance Contract #2	$1,367,000,000	8.2500%	$112,777,500
	Total	**$1,667,000,000**	**8.5289%**	**$142,177,500**
Percent Change from Previous Year		-11.58%	5.77%	-6.48%
2007	Collateralized Reinsurance Contract (2006-2007)	$350,000,000	6.9500%	$24,325,000
	Reinsurance Layer 1	$150,000,000	15.0000%	$22,500,000
	Reinsurance Layer 2	$50,000,000	12.5000%	$6,250,000
	Collateralized Reinsurance Contract (2007)	$125,000,000	11.5000%	$14,375,000
	Reinsurance Layer 3	$20,000,000	11.0000%	$2,200,000
	Reinsurance Layer 4 (79.45953% placed)	$1,200,000,000	7.1000%	$0
	Reinsurance Layer 5 (79.47738% placed)	$298,000,000	6.2000%	$0
	Total	**$1,885,356,952**	**8.0639%**	**$152,033,760**
Percent Change from Previous Year		7.37%	24.19%	33.33%
2006	Collateralized Reinsurance Contract (2005-2006)	$300,000,000	7.0000%	$21,000,000
	Collateralized Reinsurance Contract (2006-2007)	$350,000,000	6.9500%	$24,325,000
	Collateralized Reinsurance Contract	$30,000,000	6.8000%	$2,040,000
		$680,000,000	**6.9654%**	**$47,365,000**
	Base-Limit Coverage Reinsurance Contract	$1,076,000,000	6.0000%	$64,560,000
	Insurance In Force Adjustment			$2,100,000
	Total	**$1,756,000,000**	**6.4935%**	**$114,025,000**
Percent Change from Previous Year		17.07%	5.83%	23.89%
2005	Collateralized Reinsurance Contract (2005-2006)	$300,000,000	7.0000%	$21,000,000
	First Transformer Layer (2004-2005)	$150,000,000	7.2500%	$10,875,000
	MLCRC First Reinsurance Layer	$550,000,000	5.7500%	$31,625,000
		$1,000,000,000	**6.3500%**	**$63,500,000**
	Second Transformer Layer (2004-2005)	$200,000,000	5.5000%	$11,000,000
	MLCRC Second Reinsurance Layer	$300,000,000	4.3500%	$13,050,000
		$500,000,000	**4.8100%**	**$24,050,000**
	Insurance In Force Adjustment [1]			$4,484,662
	Total	**$1,500,000,000**	**6.1356%**	**$92,034,662**
Percent Change from Previous Year		0.00%	-8.51%	-8.51%

Contract Year	Contract	Limit	Rate On Line (ROL)	Premium
2004	MLCRC First Reinsurance Layer	$700,000,000	7.8500%	$54,950,000
	First Transformer Layer (2004-2005)	$150,000,000	7.2500%	$10,875,000
	MLCRC Second Reinsurance Layer	$150,000,000	6.3500%	$9,525,000
		$1,000,000,000	**7.5350%**	**$75,350,000**
	Second Transformer Layer (2004-2005)	$200,000,000	5.5000%	$11,000,000
	MLCRC Third Reinsurance Layer	$300,000,000	4.7500%	$14,250,000
		$500,000,000	**5.0500%**	**$25,250,000**
	Total	**$1,500,000,000**	**6.7067%**	**$100,600,000**
Percent Change from Previous Year		-2.47%	-6.40%	-8.72%
2003	MLCRC Coverage A	$600,000,000	8.8000%	$52,800,000
	MLCRC Coverage B	$400,000,000	7.2500%	$29,000,000
		$1,000,000,000	**8.1800%**	**$81,800,000**
	Transformer Layer	$200,000,000	5.5000%	$11,000,000
	MLCRC Coverage C	$338,000,000	5.1500%	$17,407,000
		$538,000,000	**5.2801%**	**$28,407,000**
	Total	**$1,538,000,000**	**7.1656%**	**$110,207,000**
Percent Change from Previous Year		-21.98%	6.99%	-16.53%
2002	First Aggregate	$1,433,620,000	7.2500%	$82,187,450
	First Aggregate ($200M part of)	$1,433,620,000	7.1400%	$14,280,000
	First Aggregate ($100M part of)	$1,433,620,000	5.9900%	$5,990,000
		$1,433,620,000	**7.1468%**	**$102,457,450**
	Second Aggregate[4]	$537,607,500	5.5000%	$29,568,413
	Total	**$1,971,227,500**	**6.6976%**	**$132,025,863**
Percent Change from Previous Year		0.00%	-13.69%	-13.69%
2001	First Aggregate	$1,433,620,000	8.5000%	$96,357,700
	First Aggregate ($200M part of)	$1,433,620,000	7.5000%	$15,000,000
	First Aggregate ($100M part of)	$1,433,620,000	5.9900%	$5,990,000
		$1,433,620,000	**8.1854%**	**$117,347,700**
	Second Aggregate	$537,607,500	6.6250%	$35,616,497
	Total	**$1,971,227,500**	**7.7598%**	**$152,964,197**
Percent Change from Previous Year		-21.43%	-17.31%	-35.03%

Contract Year	Contract	Limit	Rate On Line (ROL)	Premium
2000	First Aggregate	$1,433,620,000	8.5000%	$104,857,697
	First Aggregate ($200M part of)	$1,433,620,000	7.5000%	$15,000,002
		$1,433,620,000	**8.3605%**	**$119,857,699**
	Second Aggregate	$1,075,215,000	10.7500%	$115,585,613
	Total	**$2,508,835,000**	**9.3846%**	**$235,443,311**
Percent Change from Previous Year		0.00%	3.02%	3.02%
1999	First Aggregate	$1,433,620,000	11.0000%	$157,698,200
	No Claims Bonus Paid to CEA			($28,970,456)
	Exposure Adjustment			($15,769,820)
	Revised ROL and Premium	$1,433,620,000	7.8792%	$112,957,924
	Second Aggregate	$1,075,215,000	10.7500%	$115,585,613
	Total	**$2,508,835,000**	**9.1095%**	**$228,543,537**
Percent Change from Previous Year		0.00%	-23.56%	-23.56%
1998	First Aggregate	$1,433,620,000	14.3750%	$206,082,875
	No Claims Bonus Paid to CEA			($22,687,734)
	Revised ROL and Premium	$1,433,620,000	12.7925%	$183,395,141
	Second Aggregate	$1,075,215,000	10.7500%	$115,585,613
	Total	**$2,508,835,000**	**11.9171%**	**$298,980,754**
Percent Change from Previous Year		16.13%	-4.19%	11.27%
1997	First Aggregate	$1,433,620,000	14.3750%	$206,082,875
	No Claims Bonus Paid to CEA			($14,430,600)
	Revised ROL and Premium	$1,433,620,000	13.3684%	$191,652,275
	Second Aggregate (1/1/98 - 3/31/98)	$1,075,215,000	10.7500%	$28,896,403
	Second Aggregate (7/1/97 - 12/31/97)	$716,810,000	10.7500%	$38,528,538
	Second Aggregate (4/1/97 - 6/30/97)	$358,405,000	10.7500%	$9,632,134
			10.7500%	**$77,057,075**
	Total	**$2,160,430,000**	**12.4378%**	**$268,709,350**

[1] Based on IIF of $198,926,424,765 at 12/31/05
[2] Twelve month annualized premium over 3 years
[3] Includes average limit for Second Aggregate of $716.810M
[3] Premium is based on 12-month premium

California Earthquake Authority
Historical Risk-Transfer Costs

Supplemental-Limits

Contract Year	Contract	Limit		Retention	Rate On Line (ROL)	Premium
2008	Combined Reinsurance Contract #1	$150,000,000	xs	$50,000,000	10.8500%	$16,275,000
	Combined Reinsurance Contract #2	$451,300,000	xs	$200,000,000	5.7000%	$25,725,000
	Total	**$601,300,000**	**xs**	**$50,000,000**	**6.9849%**	**$42,000,000**
	Percent Change from Previous Year	1.45%			-1.43%	0.00%
2007	Supplemental-Limits Excess (1st Layer)	$50,000,000	xs	$50,000,000	14.2500%	$7,125,000
	Supplemental-Limits Excess (2nd Layer)	$200,000,000	xs	$100,000,000	8.7375%	$17,475,000
	Supplemental-Limits Excess (3rd Layer)	$342,715,221	xs	$300,000,000	5.0771%	$17,400,000
	Total	**$592,715,221**	**xs**	**$50,000,000**	**7.0860%**	**$42,000,000**
	Percent Change from Previous Year	306.36%			66.73%	577.53%
2006 [1]	Supplemental-Limits Excess	$145,858,362	xs	$450,000,000	4.2500%	$6,198,980
	Total	**$145,858,362**	**xs**	**$450,000,000**	**4.2500%**	**$6,198,980**

[1] 2006 included quota share limit of $450M

Supplemental Quota Share

Begin	End	Written Premium	Ceding Commission		Losses
7/1/2006	12/31/2006	$26,177,940	$4,581,141		$0
7/1/2005	6/30/2006	$42,241,492	$7,391,498		$0
7/1/2004	6/30/2005	$34,970,758	$5,856,545		$0
7/1/2003	6/30/2004	$31,458,876	$5,033,420	$5,847,750	$267,457
7/1/2002	6/30/2003	$26,454,750	$4,858,622	$5,190,607	$0
7/1/2001	6/30/2002	$24,280,490	$4,856,098		$0
7/1/2000	6/30/2001	$18,453,214	$3,690,643		$0
7/1/1999	6/30/2000	$12,017,218	$2,403,444		$0
Unearned Premium Returned			$19,914,409		