Date of Notice: Monday, August 19, 2013

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 29, 2013**

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

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 directly at (916) 325-3800 for further assistance.

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

2. Consideration and approval of the minutes of the May 23, 2013, 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 financial report.

5. Chief Communications Officer Chris Nance will seek Board approval for an augmentation of the 2013 CEA budget (marketing-services item) in order to support and finalize program production for CEA's 2014 TV, radio, trade, and online advertising.

6. CEA Advisory Panel Chair Mark Simmonds will provide a summary of the proceedings of the July 25, 2013, Panel meeting.

7. Mr. Richison will brief the Board on the completed CEA calendar-year-2012 audit conducted by the CEA's independent financial auditors, JLK Rosenberger, LLP (formerly Larson and Rosenberger, LLP); representatives of that firm will address the Board to elaborate on the written audit report.

8. Mr. Richison 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.

9. Mr. Richison will seek Board approval for a proposed CEA revenue-bond issuance.

10. Chief Mitigation Officer Janiele Maffei will update the Board on the CEA's Mitigation Program Guidelines Project.

11. Ms. Maffei will update the Board on CEA-sponsored mitigation-related research.

12. Ms. Maffei will update the Board on the California Residential Mitigation Program (CRMP) incentive program, operated by a joint powers authority whose members are the California Office of Emergency Services and the CEA.

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:
Marc Keller
(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 Marc Keller by telephone, toll free, at (877) 797-4300 or by email at Marc_Keller@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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NOTE: You might have received this notice because your name, or that of your organization, appears on a public-notice list maintained by the California Earthquake Authority. If in the future you do not wish to receive public notices pertaining to the California Earthquake Authority, please send your request by email to Marc_Keller@calquake.com.

Draft Meeting Minutes are not available.

Please see CEA Governing Board Meeting
Approved Minutes.

Governing Board Memorandum

August 29, 2013

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 29, 2013
1:00 PM

Financial Report Table of Contents

Note: See Fact Sheets for Policies In Force, Written Premiums, and Exposures.

Financial Statements & Budgets

California Earthquake Authority
Balance Sheet
As of June 30, 2013

Assets	
Cash and investments:	
Cash and cash equivalents	$ 319,595,475
Restricted cash & equivalents	70,155,977
Restricted investments	307,996,903
Investments	4,194,671,361
Total cash and investments	4,892,419,716
Premiums receivable, net of allowance for doubtful accounts of $6,529,462	40,311,191
Capital contributions receivable	-
Risk capital surcharge receivable	-
Interest receivable	13,556,239
Securities receivable	7,824,879
Restricted securities receivable	5,125,000
Prepaid reinsurance premium	1,887,501
Transformer reinsurance premum deposit	14,661,400
Prepaid transformer maintenance premium	567,496
Equipment, net	299,006
Deferred policy acquisition costs	38,146,079
Other assets	13,270
Total assets	$ 5,014,811,777
Liabilities and Net Assets	
Unearned premiums	$ 284,036,331
Accounts payable and accrued expenses	2,271,952
Accrued reinsurance premium expense	6,096,197
Claim and claim expense reserves	65,618
Securities payable	1,093,954
Revenue bond payable	126,000,000
Revenue bond interest payable	3,886,470
Total liabilities	423,450,522
Net assets:	
Restricted, expendable	254,537,539
Unrestricted, participating insurer contributed capital	777,384,796
Unrestriced, State of California contributed capital	188,590,933
Unrestricted, all other remaining	3,370,847,987
Total net assets	4,591,361,255
Total liabilities and net assets	$ 5,014,811,777

California Earthquake Authority
Statement of Revenues, Expenses and Changes in Net Assets
For the Year-to-Date Ended June 30, 2013

Underwriting income:	
Premiums written	$ 273,227,401
Less premiums ceded - reinsurance	(116,404,097)
Less risk capital surcharge	-
Net premiums written	156,823,304
Change in unearned premiums	6,595,958
Net unearned premiums	6,595,958
Net premiums earned	163,419,262
Expenses:	
Claim and claims expense	399,416
Participating Insurer commissions	27,990,842
Participating Insurer operating costs	8,660,761
Reinsurance broker commissions	2,433,333
Pro forma premium taxes	6,420,844
Other underwriting expenses	9,333,372
Total expenses	55,238,568
Underwriting profit	108,180,694
Net investment income*	(8,825,546)
Other income	202,181
Financing expenses, net	(3,081,652)
Earthquake Loss Mitgation Fund expenses	(236,203)
Participating Insurer Contributed Capital	-
State of California premium tax contribution	6,420,844
Increase in net assets	102,660,318
Net assets, beginning of year	4,488,700,937
Net assets, end of year to date	$ 4,591,361,255

*Per GASB Statement No. 31, all investment income, incuding changes in the fair value of investments, should be reported as revenue in the operating statement (or other statement of activities). Therefore, net investment income includes a $17,200,742 reduction in unrealized gains.

California Earthquake Authority
Insurance Services
Budgeted Expenditures and Actual Expenditures
2013 Budget Year

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	Approved 2013 Budget	**Adjustments thru 6/30/2013**	**Augmentations thru 6/30/2013**	**2013 Budget after Augmentations and Adjustments**	**Actual Expenditures as of 6/30/13**	**Augmented & Adjusted Approved Budget (d) vs. Actual Expenses (e) as of 6/30/13**	**Percentage used of Augmented & Adjusted Approved 2013 Budget**
Salaries & Benefits	$ 11,014,438	$ -	$ -	$ 11,014,438	$ 4,409,273	$ 6,605,165	40.03%
Rent	749,475	-	-	749,475	373,435	376,040	49.83%
Travel	394,267	-	-	394,267	101,641	292,626	25.78%
Non-paid Consultant Travel	1,664	-	-	1,664	-	1,664	0.00%
Telecommunications	215,393	-	-	215,393	99,127	116,266	46.02%
Training	222,719	-	-	222,719	100,772	121,947	45.25%
Insurance	143,415	-	-	143,415	90	143,325	0.06%
Board/Panel Services	23,036	-	-	23,036	12,188	10,848	52.91%
Administration & Office	1,402,925	-	65,000	1,467,925	365,250	1,102,675	24.88%
Data Mgmt Services	543,691	-	-	543,691	213,888	329,803	39.34%
Other Administrative Services	49,493	-	-	49,493	35,354	14,139	71.43%
Furniture/Equipment	33,418	-	-	33,418	2,718	30,700	8.13%
EDP Hardware/Software	349,215	-	-	349,215	20,957	328,258	6.00%
Dept of Insurance Examination	71	-	-	71	-	71	0.00%
Total Operating Expenses	**$ 15,143,220**	**$ -**	**$ 65,000**	**$ 15,208,220**	**$ 5,734,693**	**$ 9,473,527**	**37.71%**
Consulting Services							
Actuarial	25,000	-	-	25,000	-	25,000	0.00%
Claims	10,000	-	-	10,000	-	10,000	0.00%
Compliance	100,000	-	-	100,000	-	100,000	0.00%
Financial Consulting	350,000	-	-	350,000	53,842	296,158	15.38%
Government Relations	117,650	-	-	117,650	107,966	9,684	91.77%
Human Resources	300,000	-	-	300,000	18,285	281,715	6.10%
Information Technology	128,750	-	-	128,750	150	128,600	0.12%
Internal Audit	100,000	-	-	100,000	4,269	95,731	4.27%
Investment Compliance	30,000	-	-	30,000	-	30,000	0.00%
Public Relations	100,000	-	-	100,000	-	100,000	0.00%
Other Consulting Services	160,500	-	-	160,500	106,300	54,200	66.23%
Total Consulting Services	$ 1,421,900	$ -	$ -	$ 1,421,900	$ 290,812	$ 1,131,088	20.45%

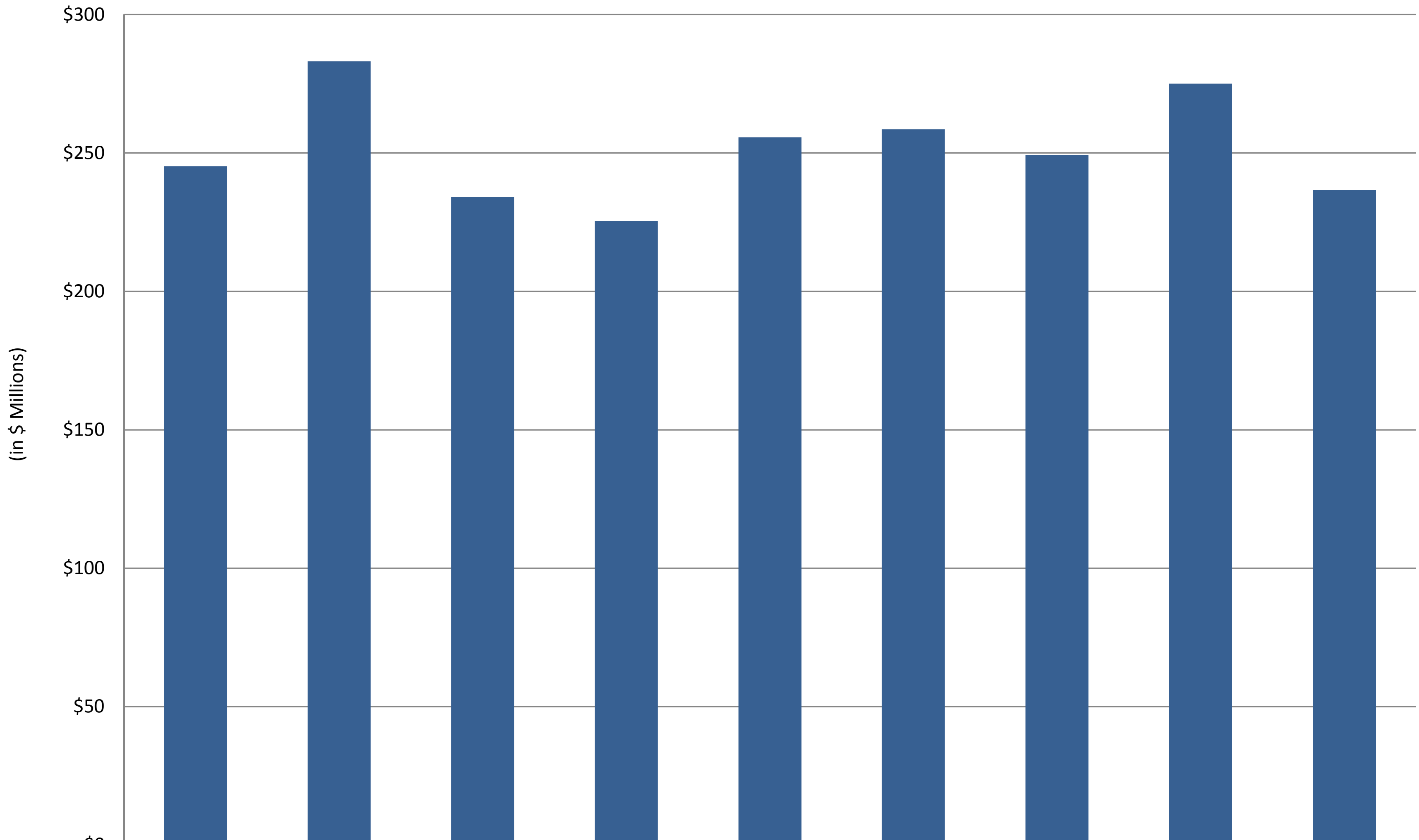
California Earthquake Authority
Insurance Services
Budgeted Expenditures and Actual Expenditures
2013 Budget Year

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	Approved 2013 Budget	**Adjustments thru 6/30/2013**	**Augmentations thru 6/30/2013**	**2013 Budget after Augmentations and Adjustments**	**Actual Expenditures as of 6/30/13**	**Augmented & Adjusted Approved Budget (d) vs. Actual Expenses (e) as of 6/30/13**	**Percentage used of Augmented & Adjusted Approved 2013 Budget**
Research	$ 280,000	$ -	$ -	$ 280,000	$ 30,142	$ 249,858	10.77%
Contracted Services							
Agent Services	100,000	-	-	100,000	-	100,000	0.00%
Audit Services	130,000	-	-	130,000	73,297	56,703	56.38%
Brochure/Information Products	285,000	-	-	285,000	2,853	282,147	1.00%
Communications	62,800	-	-	62,800	-	62,800	0.00%
Consumer Services	300,000	-	-	300,000	-	300,000	0.00%
Dynamic Financial Analysis	65,000	-	-	65,000	-	65,000	0.00%
Legal Services-Claims Counsel	300,000	-	-	300,000	121,707	178,293	40.57%
Legal Service - Non-Claims	4,260,000	-	-	4,260,000	400,990	3,859,010	9.41%
Marketing Services	7,184,403	-	144,000	7,328,403	1,547,304	5,781,099	21.11%
Modeling Services	1,234,000	-	-	1,234,000	242,250	991,750	19.63%
Rating Agencies	200,000	-	-	200,000	25,000	175,000	12.50%
Staffing Services - Support and Admin	2,904,131	-	-	2,904,131	1,089,817	1,814,314	37.53%
Other Contracted Services	444,500	-	-	444,500	9,780	434,720	2.20%
Total Contracted Services	$ 17,469,834	$ -	$ 144,000	$ 17,613,834	$ 3,512,998	$ 14,100,836	19.94%
Participating Insurer Commissions	59,133,038	-	-	59,133,038	27,331,246	31,801,792	46.22%
Participating Insurer Operating Costs	18,272,109	-	-	18,272,109	8,434,520	9,837,589	46.16%
Investment Expenses	2,488,981	-	-	2,488,981	1,101,378	1,387,603	44.25%
Financing Expenses	7,151,023	-	-	7,151,023	4,014,279	3,136,744	56.14%
Risk Transfer	230,195,428	-	-	230,195,428	118,837,430	111,357,998	51.62%
Risk Transfer - Exposure Adjustment	18,846,376	-	-	18,846,376	-	18,846,376	0.00%
Total Expenditures	**$ 370,401,909**	**$ -**	**$ 209,000**	**$ 370,610,909**	**$ 169,287,498**	**$ 201,323,411**	**45.68%**

California Earthquake Authority
Mitigation
Budgeted Expenditures and Actual Expenditures
2013 Budget Year

	(a) Approved 2013 Budget	(b) Adjustments thru 6/30/2013	(c) Augmentations thru 6/30/2013	(d) (d=a+b+c) 2013 Budget after Augmentations and Adjustments	(e) Actual Expenditures as of 6/30/13	(f) (f=d-e) Augmented & Adjusted Approved Budget (d) vs. Actual Expenses (e) as of 6/30/13	(g) (g=e/d) Percentage used of Augmented & Adjusted Approved 2013 Budget
Salaries & Benefits	$ 241,962	$ -	$ 23,000	$ 264,962	$ 117,040	$ 147,922	44.17%
Rent	25,200	-	-	25,200	9,730	15,470	38.61%
Travel	34,000	-	-	34,000	9,194	24,806	27.04%
Non-paid Consultant Travel	1,000	-	-	1,000	-	1,000	0.00%
Telecommunications	7,250	-	-	7,250	1,943	5,307	26.80%
Training	15,250	-	-	15,250	5,380	9,870	35.28%
Insurance	5,000	-	-	5,000	-	5,000	0.00%
Board/Panel Services	-	-	-	-	-	-	0.00%
Administration & Office	122,850	-	-	122,850	18,605	104,245	15.14%
Administrative Contracted Services	-	-	-	-	-	-	0.00%
Data Mgmt Services	-	-	-	-	-	-	0.00%
Other Administrative Services	-	-	-	-	-	-	0.00%
Furniture/Equipment	1,400	-	600	2,000	-	2,000	0.00%
EDP Hardware/Software	-	-	2,500	2,500	-	2,500	0.00%
Total Operating Expenses	**$ 453,912**	**$ -**	**$ 26,100**	**$ 480,012**	**$ 161,892**	**$ 318,120**	**33.73%**
Consulting Services							
Other Consulting Services	25,000	-	-	25,000	-	25,000	0.00%
Total Consulting Services	$ 25,000	$ -	$ -	$ 25,000	$ -	$ 25,000	0.00%
Contracted Services							
Mitigation Projects	325,000	-	-	325,000	52,305	272,695	16.09%
Staffing Services-Support and Admin	14,367	-	12,000	26,367	6,631	19,736	0.00%
Other Contracted Services	10,000	-	-	10,000	-	10,000	0.00%
Total Contracted Services	$ 349,367	$ -	$ 12,000	$ 361,367	$ 58,936	$ 302,431	16.31%
Investment Expenses	25,000	-	-	25,000	10,286	14,714	41.14%
Total Expenditures	**$ 853,279**	**$ -**	**$ 38,100**	**$ 891,379**	**$ 231,114**	**$ 660,265**	**25.93%**

California Earthquake Authority
Annual Capital Accumulated from Premium
as of December 31, 2012

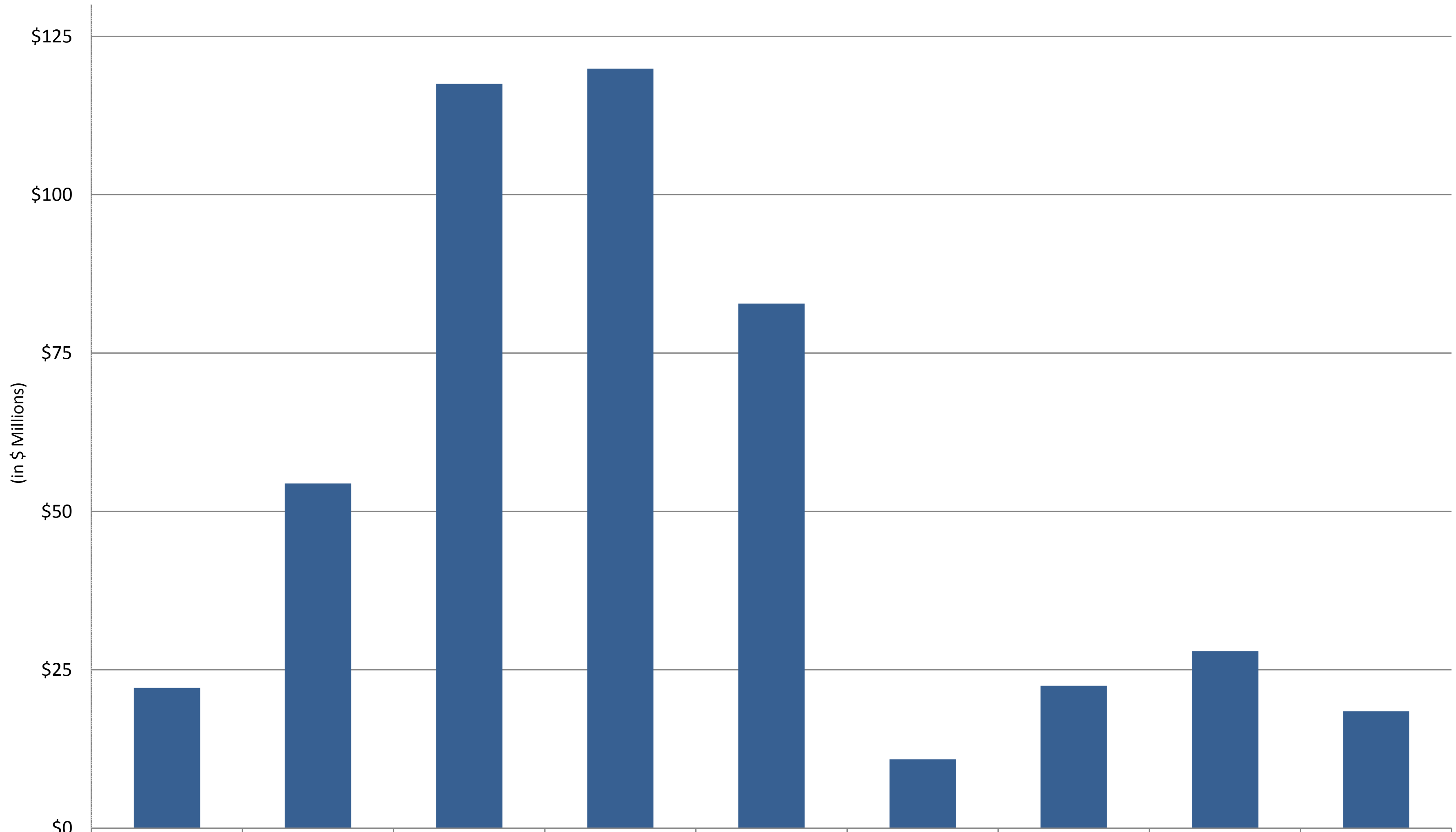


2004	2005	2006	2007	2008	2009	2010	2011	2012
$245.2	$283.1	$234.1	$225.5	$255.7	$258.6	$249.3	$275.0	$236.7

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

Investments

California Earthquake Authority
Annual Investment Income
as of December 31, 2012

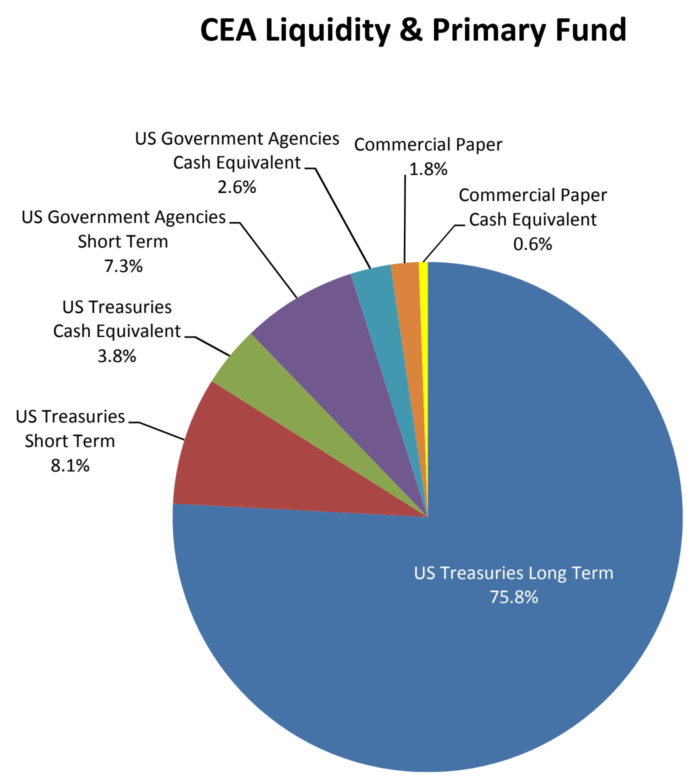


2004	2005	2006	2007	2008	2009	2010	2011	2012
$22.1	$54.4	$117.5	$119.9	$82.8	$10.9	$22.5	$27.9	$18.4

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 at Market Value
as of June 30, 2013

CEA Liquidity & Primary Fund:	**$4,514,265,744**
US Treasuries Long Term	75.8%
US Treasuries Short Term	8.1%
US Treasuries Cash Equivalent	3.8%
US Government Agencies Short Term	7.3%
US Government Agencies Cash Equivalent	2.6%
Commercial Paper	1.8%
Commercial Paper Cash Equivalent	0.6%
Total:	**100.0%**

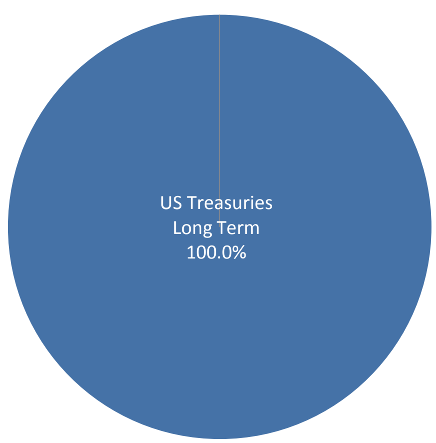


California Earthquake Authority
Investment Portfolio Distribution at Market Value
as of June 30, 2013

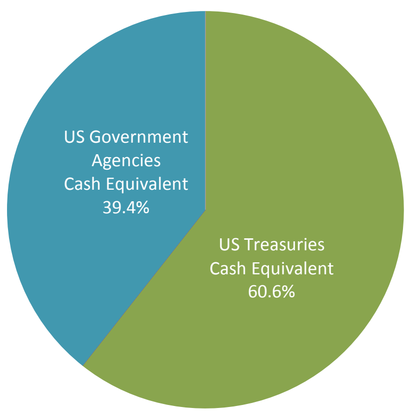
Claim-Paying Fund	**$313,121,446**
US Treasuries Long Term	100.0%
US Treasuries Short Term	0.0%
US Treasuries Cash Equivalent	0.0%
US Government Agencies Short Term	0.0%
US Government Agencies Cash Equivalent	0.0%
Commercial Paper	0.0%
Commercial Paper Cash Equivalent	0.0%
Total:	**100.0%**

Mitigation:	**$24,359,132**
US Treasuries Long Term	0.0%
US Treasuries Short Term	0.0%
US Treasuries Cash Equivalent	60.6%
US Government Agencies Short Term	0.0%
US Government Agencies Cash Equivalent	39.4%
Commercial Paper	0.0%
Commercial Paper Cash Equivalent	0.0%
Total:	**100.0%**

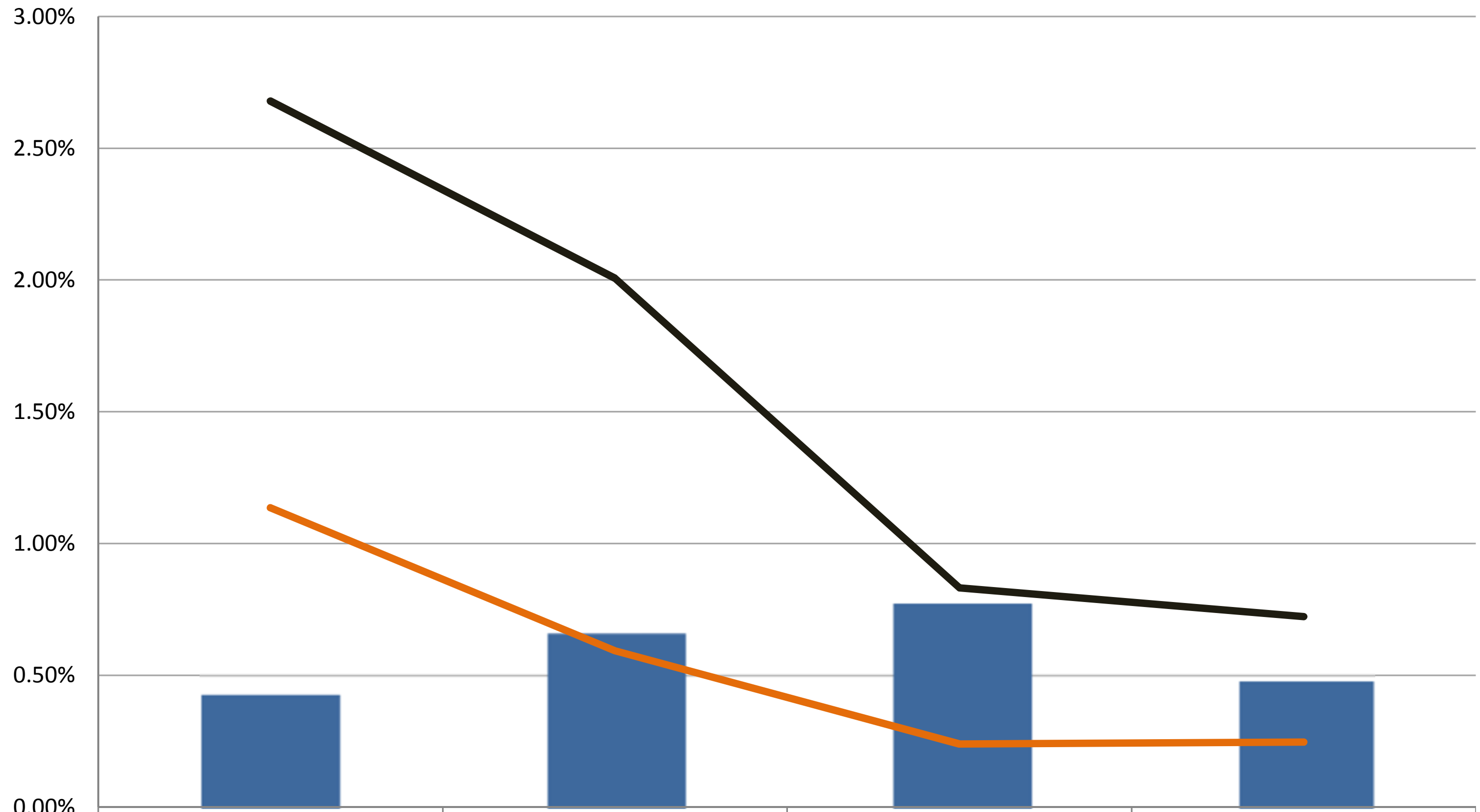
Claim-Paying Fund



Mitigation Fund



California Earthquake Authority
Annual 12-Month Rolling Investment Return
as of December 31, 2012



	2009	2010	2011	2012
CEA Rolling Investment Return	0.43%	0.66%	0.77%	0.48%
2-yr Treasuries	1.14%	0.59%	0.24%	0.25%
5-yr Treasuries	2.68%	2.01%	0.83%	0.72%

NOTE: Gross of Investment Manager Fees

Debt

California Eathquake Authority
Schedule of Outstanding Debt

DEBT	ISSUANCE AMOUNT	INTEREST RATE	NET PROCEEDS	OUTSTANDING PRINCIPAL	AS OF DATE	MOODY'S RATING*	FITCH RATING*
Series 2006 Revenue Bonds	**$ 315,000,000**	**6.169%**	**$ 310,829,067**	**$ 126,000,000**	**30-Jun-2013**	**A3 Outlook Stable**	**A Outlook Stable**

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-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

*Ratings of 'A3' and 'A' since 2006 (These ratings were reaffirmed in 2013)

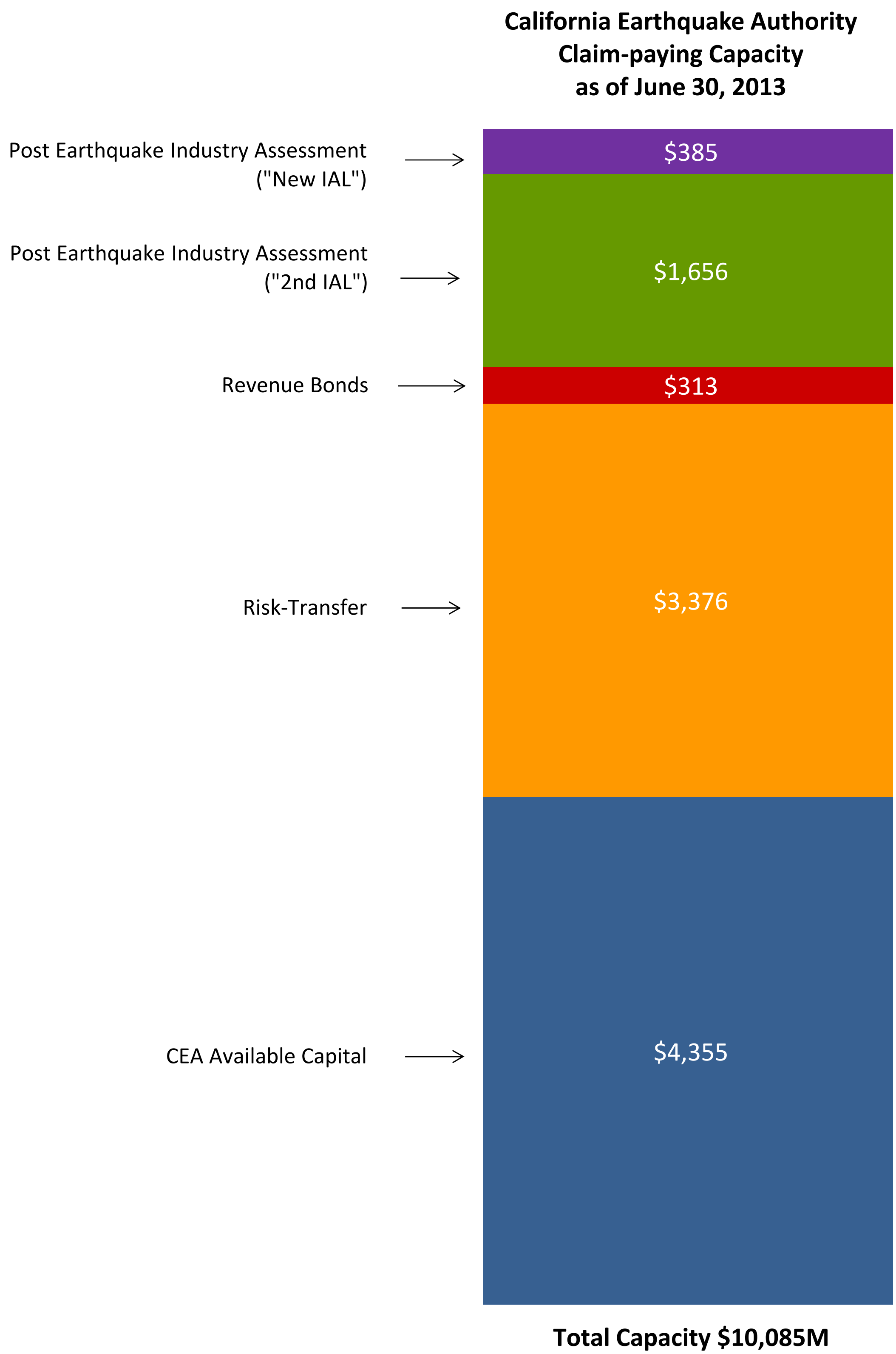
Claim-Paying Capacity

California Earthquake Authority
Available Capital Report

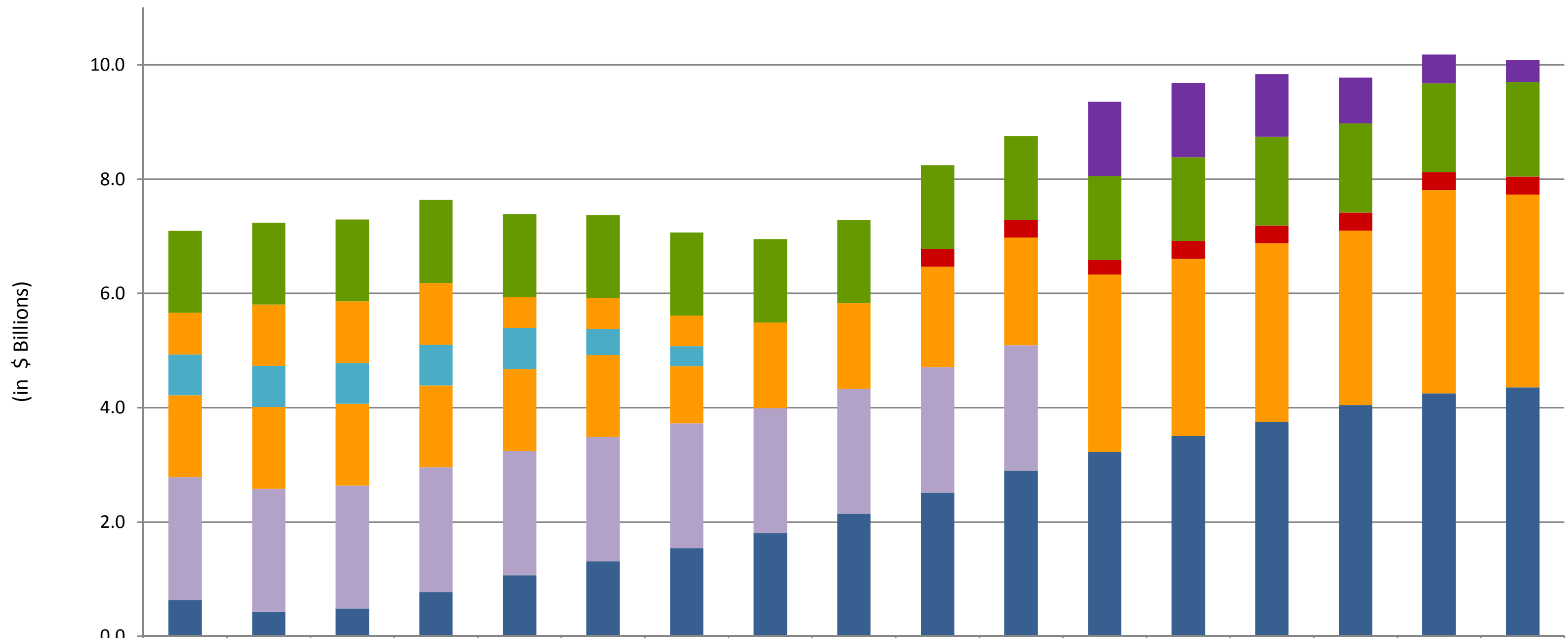
Capital as of June 30, 2013

Cash & Investments (includes capital contributions and premiums)	$	4,868,002,931 *
Interest, Securities & Restricted Securities Receivable	$	26,506,118
Premium Receivable	$	40,311,191
Risk Capital Surcharge & Capital Contributions Receivable	$	-
Other Assets	$	13,270
Revenue Bonds	$	(313,400,617)
Debt Service (Interest, Principal & Debt Service (Min. Bal.))	$	(45,738,242)
Unearned Premium Collected	$	(211,451,586)
Accrued Reinsurance Premium Expense	$	(6,096,197)
Accounts and Securities Payable, and Accrued Expenses	$	(3,365,906)
CEA Available Capital	**$**	**4,354,780,963**

* Does not include Earthquake Loss Mitigation Fund cash and investments of $24,416,785


California Earthquake Authority
Claim-paying Capacity
as of June 30, 2013
Post Earthquake Industry Assessment ("New IAL")
$385
Post Earthquake Industry Assessment ("2nd IAL")
$1,656
Revenue Bonds
$313
Risk-Transfer
$3,376
CEA Available Capital
$4,355
Total Capacity $10,085M

California Earthquake Authority
Total Claim-Paying Capacity (CPC)
as of June 30, 2013



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Total CPC	$7.095	$7.240	$7.293	$7.635	$7.390	$7.373	$7.069	$6.948	$7.284	$8.244	$8.752	$9.354	$9.685	$9.840	$9.777	$10.179	$10.085
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	0.385
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	1.656
Revenue Bonds	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.311	0.311	0.254	0.311	0.311	0.317	0.314	0.313
Risk-Transfer, 2nd Layer	0.727	1.075	1.075	1.075	0.538	0.538	0.538	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Line of Credit	0.716	0.716	0.716	0.716	0.716	0.456	0.348	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Risk Transfer, 1st Layer	1.433	1.433	1.433	1.433	1.433	1.433	1.000	1.500	1.500	1.756	1.885	3.100	3.100	3.123	3.050	3.557	3.376
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	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	4.250	4.355

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

*as of June 30, 2013

Risk-Transfer Programs

California Earthquake Authority
Risk-Transfer Program Summary
as of June 30, 2013

Traditional Reinsurance Contracts	Contract Period	Reinsurance Limit	12-Month Rate-on-Line	12-Month Premium
2013 August Program Contract 1	January 1, 2013 - July 31, 2013	500,000,000	7.20%	36,000,000
2013 August Program Contract 2	January 1, 2013 - July 31, 2013	200,000,000	7.15%	14,300,000
2013 August Program Contract 3	January 1, 2013 - July 31, 2013	250,000,000	7.20%	18,000,000
2013 January Contract	January 1, 2013 - December 31, 2013	725,595,310	6.90%	50,066,076
2013-2014 April Program Contract 1	April 1, 2013 - March 31, 2014	765,000,000	5.30%	40,545,000
2013-2015 April Program Contract 2	April 1, 2013 - March 31, 2015	84,999,960	5.30%	4,504,998
2013-2015 June Program	June 1, 2013 - May 31, 2015	50,000,000	5.65%	2,825,000
September Program Contract #1	September 1, 2012 - August 31, 2015	100,000,000	5.70%	5,700,000
2013-2016 May Program	May 1, 2013 - April 30, 2016	100,000,000	5.60%	5,600,000

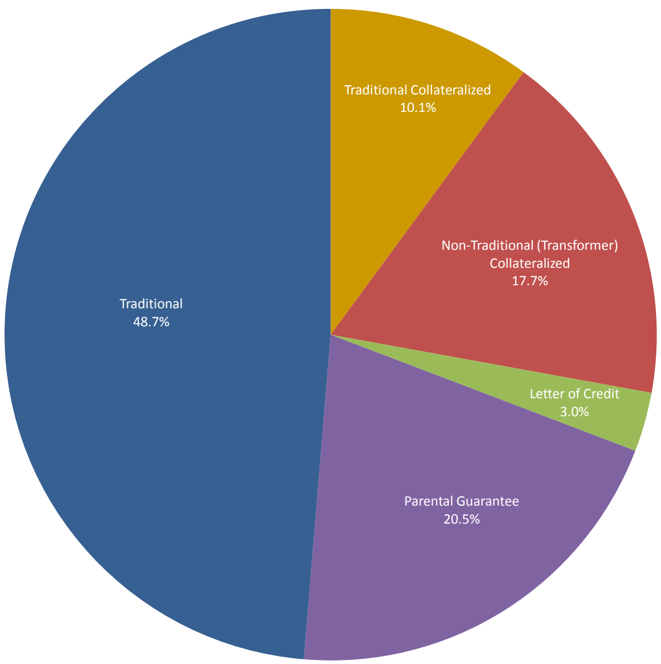
Total Traditional Reinsurance	**2,775,595,270**

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 1, 2012 – July 31, 2015	300,000,000	5.64%	16,923,000
Total Transformer Reinsurance		**600,000,000**		

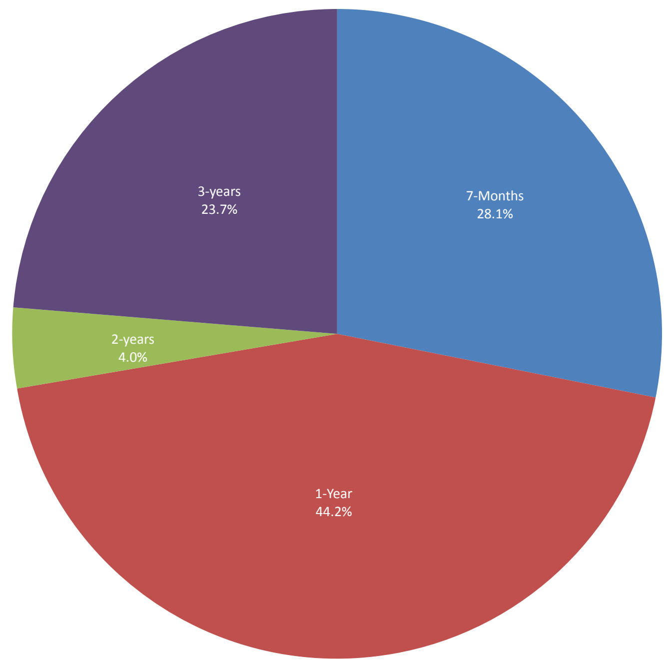
Total Risk-Transfer Program	**3,375,595,270**

Risk-Transfer Program
as of June 30, 2013

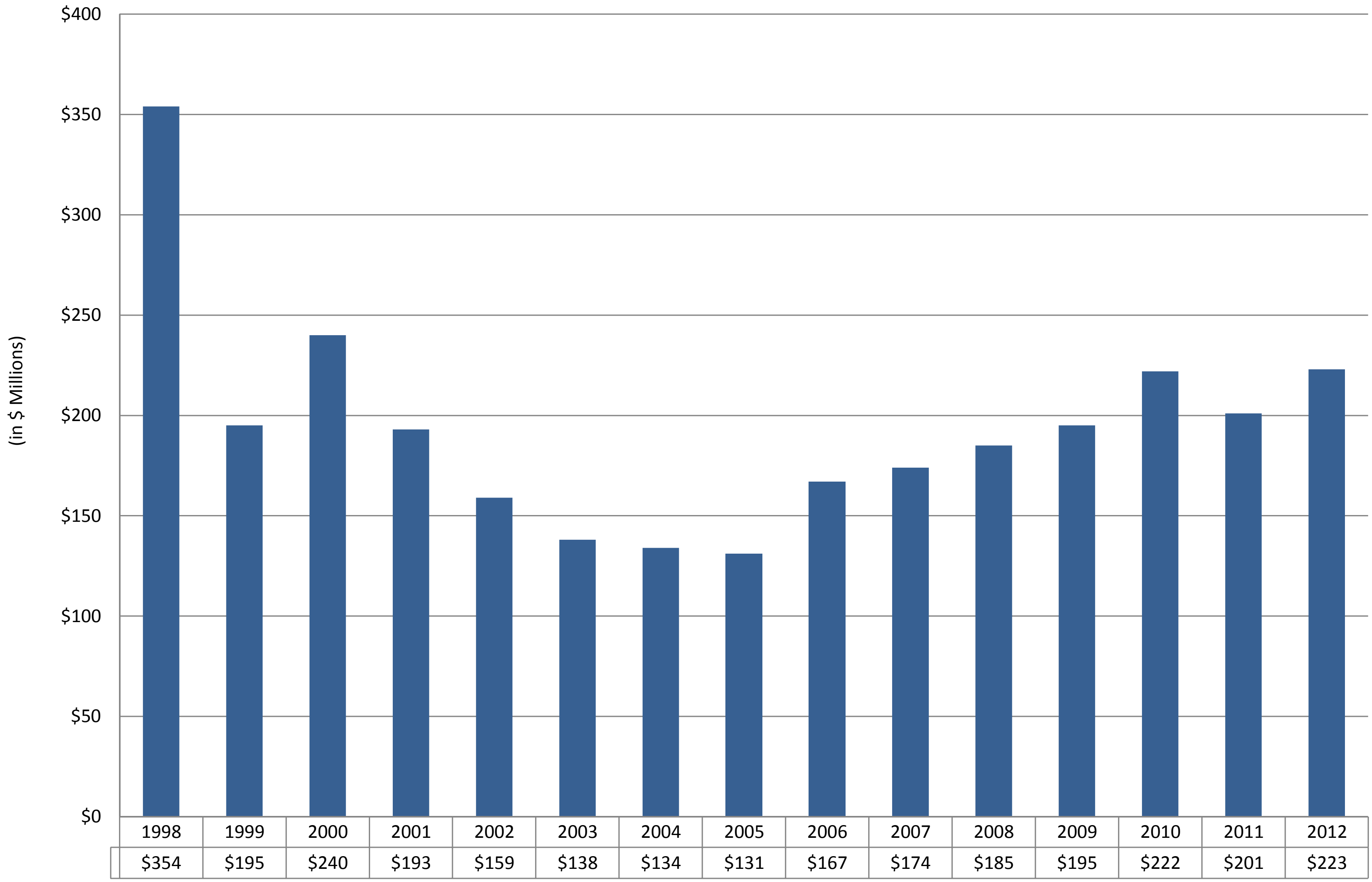
Credit Enhancements



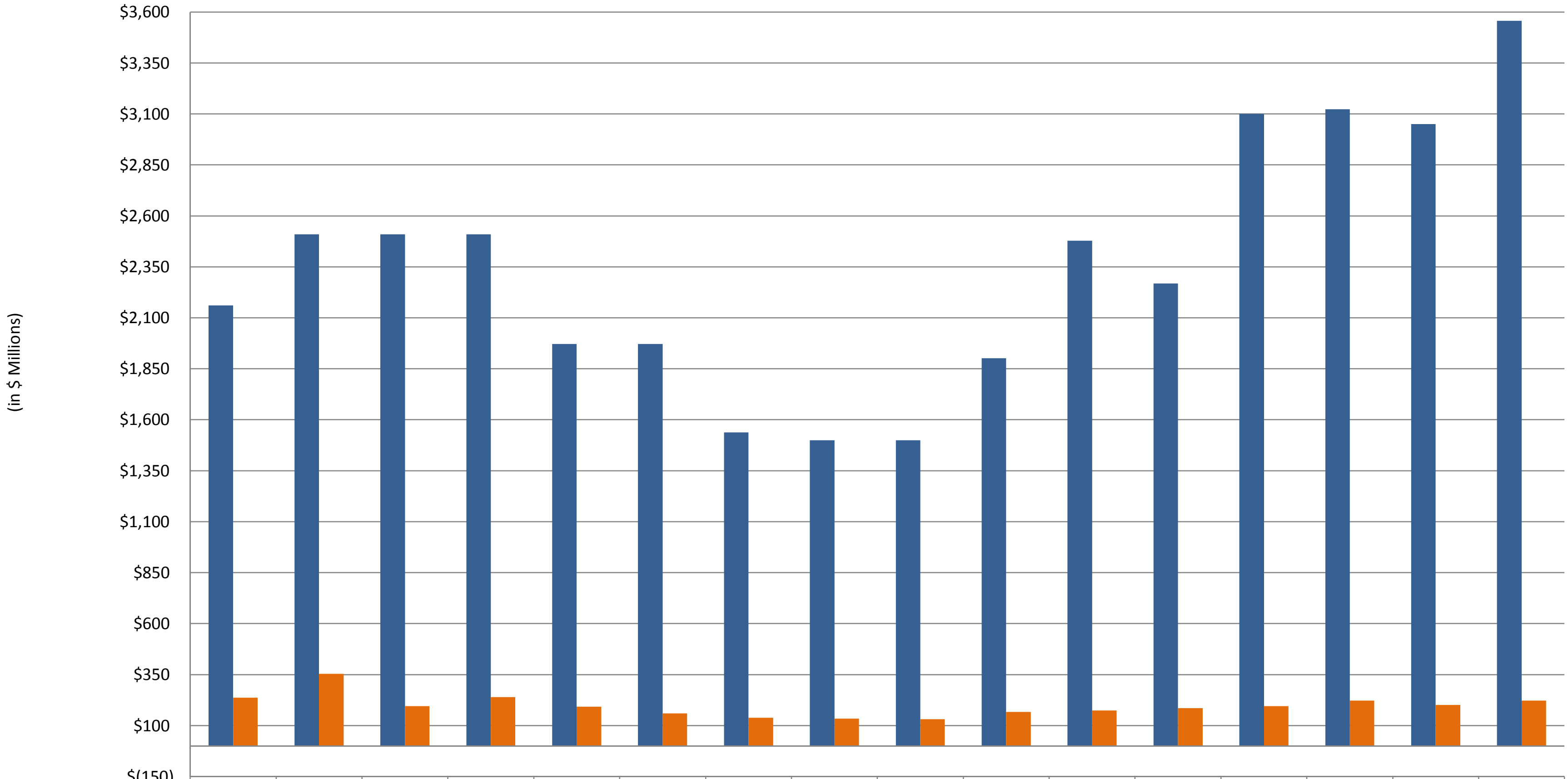
7 Months, 1-Year, 2-Years, and 3-Years
Contract Program Limits



California Earthquake Authority
Annual Risk-Transfer Premium
as of December 31, 2012



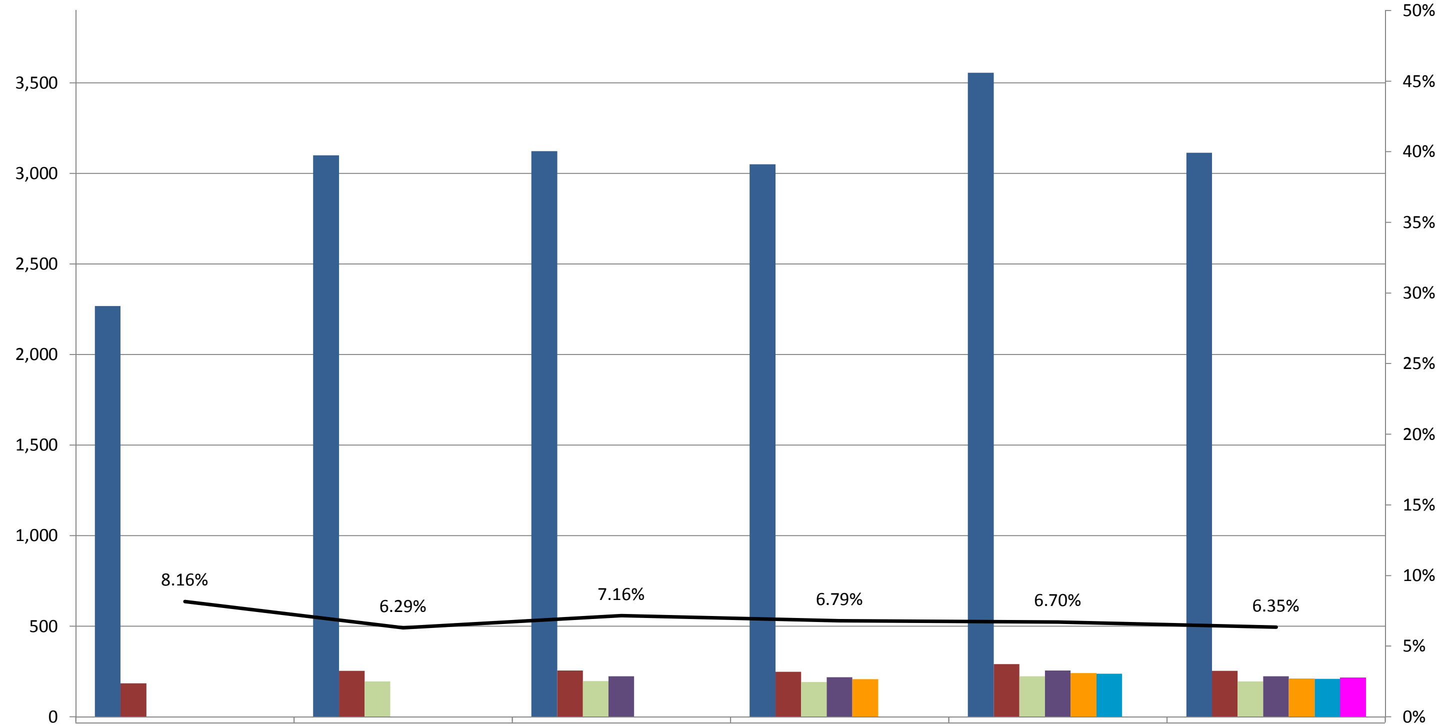
California Earthquake Authority
Annual Risk-Transfer Premium and Limit
as of December 31, 2012



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Limit	$2,160	$2,509	$2,509	$2,509	$1,971	$1,971	$1,538	$1,500	$1,500	$1,902	$2,478	$2,268	$3,100	$3,123	$3,050	$3,557
Premium	$237	$354	$195	$240	$193	$159	$138	$134	$131	$167	$174	$185	$195	$222	$201	$223

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

California Earthquake Authority
Annual Risk-Transfer Premium and Limit
as of December 31, 2013



	2008	2009	2010	2011	2012	2013
Limit (in $ millions)	2,268	3,100	3,123	3,050	3,557	3,115
Annual limit increase/decrease	-8.5%	36.7%	0.7%	-2.3%	16.6%	-12.4%
2008 ROL Premium (in $ millions)	185	253	255	249	290	254
2009 ROL Premium (in $ millions)	-	195	196	192	224	196
2010 ROL Premium (in $ millions)	-	-	224	218	255	223
2011 ROL Premium (in $ millions)	-	-	-	207	242	212
2012 ROL Premium (in $ millions)	-	-	-	-	238	209
2013 ROL Premium (in $ millions	-	-	-	-	-	214
Average Rate-on-Line*	8.16%	6.29%	7.16%	6.79%	6.70%	6.35%

*Average Rate-on-Line based on weighted calculation

Governing Board Memorandum

August 29, 2013

Agenda Item 5:	Proposed 2013 CEA Marketing-Budget Augmentation
Recommended Action:	Approve augmentation of 2013 CEA Marketing-Services Budget to produce advertising for 2014

Background:

CEA marketing will complete its third year of annualized programming in 2013. Central to this programming have been television and radio ads produced in 2011 and online ads produced in 2012. All existing ads were designed to roll out CEA's brand, *The Strength to Rebuild*®.

Analysis:

Although CEA's TV "Blueprint" brand ad outperformed 85 percent of TV ads tested in the Los Angeles and Sacramento markets, and CEA's online ads generated 600,000 online minutes in 2012 alone from people considering earthquake insurance, the multimedia campaigns including these ads now are ready to be replaced with refreshed messaging and creative executions—the refreshed ads will re-motivate consumers to take action to prepare for earthquakes.

The new messaging and creative execution will feature risk education about potential residential earthquake damage, with a solid connection to family recovery through insurance protection.

Comparing proposed 2014 expenditures to support for present programming, CEA staff recommends shifting more of the available budget to television production while producing fewer online campaigns—this will reduce overall 2014 ad-production costs by about 35 percent.

Augmented funding for 2014 CEA advertising production should not exceed $480,000, as follows:

- Television $200,000
- Radio $40,000
- Trade $20,000
- Online $200,000
- Consulting $20,000

Recommendation:

Approve proposed augmentation of 2013 CEA Marketing-Services Budget to cover the costs of producing 2014 television, radio, trade, and online advertising (including related consulting) not to exceed $480,000.

Governing Board Memorandum

August 29, 2013

Agenda Item 6: CEA Advisory Panel update—Mark Simmonds

Recommended Action: No action required - information only

CEA Advisory Panel Chair Mark Simmonds will provide a summary of the proceedings from the July 25, 2013, Advisory Panel meeting.

Governing Board Memorandum

August 29, 2013

Agenda Item 7:	Reports of Audits of CEA's 2012 Financial Statements
Recommended Action:	No action required – information only

Background:

JLK Rosenberger, LLP, California Earthquake Authority's independent auditor, has performed and completed audits of CEA's financial statements for the year ended December 31, 2012.

- 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 2012 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 JLK Rosenberger, LLP, will present to the Board the independent auditor's Management Comment Letter (*Attachment C*).

Recommended Action: No action required – information only.

JLK Rosenberger
Certified Public Accountants

CALIFORNIA EARTHQUAKE AUTHORITY

Financial Statements and Independent Auditors' Report

December 31, 2012 and 2011

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JLK Rosenberger
Certified Public Accountants

JLK Rosenberger, LLP

801 North Brand Boulevard, Suite 550
Glendale, California 91203

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Independent Auditors' Report

To the Governing Board
California Earthquake Authority

Report on the Financial Statements

We have audited the accompanying balance sheets of California Earthquake Authority (CEA) as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of California Earthquake Authority as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 30 to 34, 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.

JLK Rosenberger, LLP

Glendale, California
August 20, 2013

History and Financing

This discussion provides an assessment by management of the financial position, revenues, expenses, changes in net position, cash flows and liquidity of 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 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 CEA to become operational had been met, and CEA began writing earthquake policies on December 1, 1996. 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.

CEA uses its available capital (net position) to leverage approximately $10.2 billion in claims-paying capacity at December 31, 2012. CEA's claims-paying capacity is determined from CEA's available capital, risk-transfer coverage, available letters of credit, debt, and post-event prospective participating insurance company assessments. CEA derives its capital from participating insurer capital contributions and from increases in net position generated from the sale of earthquake insurance policies. 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."

CEA has approximately 842,000 policyholders at December 31, 2012, most of whom insure single-family dwellings through CEA. 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. 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.

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. On June 28, 2013 legislation was signed that eliminated this staffing cap.

Using the Report

While 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, CEA meets the definition of a governmental organization, as defined by accounting principles generally accepted in the United States of America. CEA's financial statements for the years ended December 31, 2012 and 2011 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 position of CEA. The statements of revenues, expenses, and changes in net position, also prepared on the accrual basis, take into account all revenues and expenses for 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

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

	2012	2011	2010
Assets			
Cash and investments	$ 4,804,687,807	$ 4,508,924,403	$ 4,273,041,274
Premium receivable, net	42,878,950	41,893,958	49,595,737
Unearned ceded premiums	1,325,001	-	-
Deferred policy acquisition costs	39,031,916	41,619,480	40,674,396
Other current assets	18,285,153	100,880,639	17,283,960
Total current assets	4,906,208,827	4,693,318,480	4,380,595,367
Reinsurance deposit	14,634,112	5,029,836	-
Capital assets	458,543	499,468	1,413,255
Total assets	$ 4,921,301,482	$ 4,698,847,784	$ 4,382,008,622
Liabilities and Net Position			
Unearned premiums	$ 290,632,289	$ 309,899,331	$ 302,862,221
Other current liabilities	47,571,589	42,317,010	39,616,100
Total current liabilities	338,203,878	352,216,341	342,478,321
Revenue bonds payable, noncurrent portion	94,500,000	126,000,000	157,500,000
Compensated absences, noncurrent portion	559,767	96,041	91,694
Total liabilities	433,263,645	478,312,382	500,070,015
Net position:			
Invested in capital assets, net of related debt	458,543	499,468	1,413,225
Restricted, expendable	237,918,554	205,889,564	168,559,583
Unrestricted	4,249,660,740	4,014,146,370	3,711,965,799
Total net position	4,488,037,837	4,220,535,402	3,881,938,607
Total liabilities and net position	$ 4,921,301,482	$ 4,698,847,784	$ 4,382,008,622

Condensed Balance Sheets (Continued)

Assets

Total assets grew $222.5 million (5%) in 2012 and $316.8 million (7%) in 2011. The 2012 and 2011 increases were primarily due to an increase in net position of $267.5 million and $338.6 million, respectively. Cash and investments grew $295.8 million (7%) and $235.9 million (6%), in 2012 and 2011, respectively. Investments are managed by external managers under the guidance of CEA. U.S. Treasuries, short-term investments and cash-equivalent securities comprise 100% of CEA's investment portfolio.

Premium receivable balances increased $1.0 million (2%) and decreased $7.7 million (16%) in 2012 and 2011, respectively. The 2012 increase in premium receivables was due to a significant reduction in the allowance for doubtful accounts at year end. The 2011 decrease in premium receivables was due to CEA receiving a larger portion of weekly premiums remitted by CEA participating insurers in the last week of the year than in the last week of the previous year.

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 decreased $2.6 million (6%) in 2012, which corresponds with the decrease in policies that were unearned at the end of 2012. 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. The operating cost reimbursement rate during 2012 was 3.09% and 2011 was 3.43%.

The 2012 decrease in other current assets of $82.6 million (82%) was primarily due to a combination of no security receivable at year end, which was a reduction of $68.5 million, and no capital contributions receivable at year end, which was a reduction of $17.3 million. The 2011 increase in other current assets of $83.6 million (484%) was primarily due to a combination of a security receivable of $68.5 million, and an increase in the capital contributions receivable of $14.1 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.

Reinsurance deposit increased $9.6 million in 2012 and $5.0 million in 2011. The 2012 increase was due to CEA entering into two new reinsurance agreements that required a deposit during the year. The 2011 increase was due to CEA entering into the 1st reinsurance agreement that required a deposit.

Liabilities

Unearned premiums represent the pro rata portion of the premiums written related to the remaining term of policies in force. Unearned premiums decreased $19.3 million (6%) and increased $7.0 million (2%) in 2012 and 2011, respectively. The 2012 decrease was due to the decrease in premiums written caused by a rate reduction that became effective January 1, 2012. The 2011 increase was due to the increase in premiums written by the end of 2011.

Other current liabilities include loss and loss adjustment expense reserves, which are not significant since California has not suffered a major earthquake during CEA's existence. Other current liabilities increased $5.3 million (12%) in 2012 largely due to an increase in accrued reinsurance premium expense of $4.3 million related to new reinsurance contracts. Other current liabilities increased $2.7 million (7%) in 2011 largely due to an accrued reinsurance premium expense of $1.7 million.

Condensed Balance Sheets (Continued)

Liabilities (Continued)

Revenue bonds payable decreased by $31.5 million (25%) in 2012 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.

Compensated absences – noncurrent increased by $0.5 million (483%) in 2012 due to recognizing civil service leave as part of this balance. Prior to 2012 civil service leave was not included in the financial statements due to the fact that the liability was only payable by CEA if an employee left civil service, which was not a common occurrence since CEA's inception. However, due to employees leaving civil service in 2012, it is deemed appropriate to recognize this liability in addition to the contract employees that was already recognized. As such, the entire balance is treated as a current year addition to CEA.

Net Position

CEA classifies its net position into three components, invested in capital assets, net of related debt; restricted-expendable and unrestricted. Invested in capital assets, net of related debt consists of equipment and leasehold improvements, and there is no debt related to the purchase of these assets. Restricted net position includes the net position 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 position of CEA is classified as unrestricted. CEA's net position grew $267.5 million (6%) and $338.6 million (9%) in 2012 and 2011, respectively. The 2012 increase was comprised of the underwriting profit of $243.8 million, premium tax contributions from the State of California of $13.1 million, and net investment income of $18.4 million. The 2011 increase was comprised of the underwriting profit of $282.7 million, premium tax contributions from the State of California of $14.4 million, and the increase in contributed capital of $20.8 million.

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

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

	2012	%	2011	%	2010	%
Underwriting income:						
Premium written	$ 569,235,337	100%	$ 612,830,953	100%	$ 603,127,689	100%
Less premium ceded – Reinsurance	(222,817,695)		(200,622,675)		(221,788,128)	
Net premium written	346,417,642	61%	412,208,278	67%	381,339,561	63%
Change in net unearned Premiums	19,267,042		(7,037,110)		(3,867,476)	
Net premium earned	365,684,684	64%	405,171,168	66%	377,472,085	63%
Expenses:						
Loss and loss adjustment expenses	649,221		299,164		75,036	
Other underwriting expenses	121,284,705		122,142,585		118,816,262	
Total expenses	121,933,926	21%	122,441,749	20%	118,891,298	20%
Underwriting profit	243,750,758	43%	282,729,419	46%	258,580,787	43%
Non-operating income and expenses:						
Net investment income	18,435,449		27,893,141		22,486,654	
Other non-operating income	13,564,995		14,935,389		14,447,146	
Other non-operating expenses	(8,248,767)		(7,733,154)		(9,286,272)	
Total non-operating income and expenses	23,751,677	4%	35,095,376	6%	27,647,528	5%
Capital contributions	-		20,772,000		5,470,000	
Increase in net position	267,502,435	47%	338,596,795	55%	291,698,315	48%
Net position, beginning of year	4,220,535,402		3,881,938,607		3,590,240,292	
Net position, end of year	$ 4,488,037,837		$ 4,220,535,402		$ 3,881,938,607	

The increase in net position was $267.5 million in 2012, which resulted in a net profit margin of 47%, and $338.6 million in 2011, which resulted in a net profit margin of 55%. Net investment income decreased $9.5 million (34%) in 2012. The decrease was largely due to a $4.2 million decrease in the change of unrealized investment gains on U.S. Treasuries and a decrease of $7.1 million in investment income. 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. CEA's net premiums written decreased $65.8 million (16%) in 2012 and increased $30.8 million (8%) in 2011. The 2012 decrease is due to a $43.6 million reduction in written premiums and an increase in premiums ceded of $22.2 million. The 2011 increase is due to a $9.7 million growth in written premiums and a decrease in premiums ceded of $21.2 million.

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

The variance of the change in unearned premiums increased $26.3 million and decreased $3.2 million in 2012 and 2011, respectively. The 2012 variance is due to a decrease in unearned premium caused by a decrease in premiums for policies not effective at the end of 2012. The 2011 variance is due to an increase in unearned premium was caused by a slight increase in premiums for policies not effective at the end of 2011.

In 2012 and 2011, CEA's loss and loss adjustment expenses were essentially zero due to California not experiencing any significant earthquakes.

In 2012, the decrease in other underwriting expense of $0.9 million was largely due to a $4.3 million decrease in participating insurer commissions and operating expense, a $1.3 million decrease in pro forma premium taxes, $4.1 million increase in marketing services and $0.7 million increase in compensated absences expense. In 2011, the increase in other underwriting expense of $3.3 million was largely due to a $0.9 million increase in participating insurer commissions and operating expense, a $0.5 million increase in pro forma premium taxes, and a $1.9 million total increase in various underwriting expenses.

Other non-operating income decreased $1.4 million in 2012 and increased $0.5 million in 2011 primarily due to the change in the State of California premium tax contribution. Other non-operating expenses increased $0.5 million in 2012 due primarily to the contribution to the California Residential Mitigation Program. The 2011 decrease of $1.6 million is due primarily to a reduction in net financing expenses.

Capital contributions decreased $20.8 million in 2012 and increased $15.3 million in 2011. The 2012 decrease was due to no capital contributions necessary in the current year. The 2011 increase was due to Nationwide Insurance Company joining CEA as a participating insurer as of November 2011.

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 CEA are summarized as follows:

	2012	2011	2010
Net cash provided by operating activities	$ 234,419,608	$ 308,461,371	$ 277,639,512
Net cash used in noncapital financing activities	(21,991,315)	(32,719,584)	(37,229,465)
Net cash used in capital and related financing activities	(316,030)	(80,424)	(774,371)
Net cash used in investing activities	(43,888,910)	(211,457,391)	(198,332,217)
Net increase in cash and cash equivalents	168,223,353	64,203,972	41,303,459
Cash and cash equivalents, beginning of year	160,660,834	96,456,862	55,153,403
Cash and cash equivalents, end of year	$ 328,884,187	$ 160,660,834	$ 96,456,862

Cash from operating activities decreased $74.0 million (24%) in 2012 and increased $30.8 million (11%) in 2011. The 2012 decrease resulted from a decrease in cash received from premiums of $54.0 million and an increase in payments for reinsurance of $23.7 million. 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.

Condensed Statements of Cash Flows (Continued)

The $10.7 million (33%) change in cash used in noncapital financing activities for 2012 was a result of $10.7 million increase in capital contribution installments received from Nationwide Insurance Company, and the change in interest paid and interest income on revenue bond proceeds in 2012 compared to 2011. The $4.5 million (12%) change in cash used by noncapital financing activities for 2011 was a result of $4.0 million in capital contribution installments received from Nationwide Insurance Company and the change in interest paid and interest income on revenue bond proceeds in 2011 compared to 2010.

The change in cash used in investing activities for 2012 was $167.6 million (79%) and $13.1 million (7%) for 2012 and 2011, respectively, and reflects CEA's decision, fully implemented in 2012, 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.

Liquidity

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, 2012, 21.06% of the portfolio was scheduled to mature in 90 days or less, securities maturing between 91 days and one year accounted for 25.96% of the portfolio, while securities maturing between one to five years accounted for the remaining 52.98% of the portfolio, with a total portfolio modified duration of approximately one and half years. Based on earthquake modelers' results of analyzing the CEA's portfolio, management believes 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 0.19% in any one year. CEA pays policyholder claims from its claims-paying capacity. The following depicts CEA's claims-paying capacity in effect as of December 31, 2012, in millions of dollars:

CEA capital available for claims	$	4,250
Risk transfer financial products		3,557
Revenue bonds		314
Post-earthquake industry assessments (2nd Layer)		1,558
Post-earthquake industry assessments (New Layer)		500
Total	$	10,179

Additionally, CEA is able to recover amounts under risk transfer contracts when policyholder claims reach certain levels.

Capital Assets and Debt Activity

Capital Assets

CEA's investment in capital assets as of December 31, 2012 was $458,543 (net of accumulated depreciation). No major capital asset purchases were made in the current year and none are expected in the coming year.

Debt Administration

At December 31, 2012, CEA had total long-term debt obligations of $126,000,000 in the form of revenue bonds. During the year, no additional debt was acquired while $31,500,000 of revenue bonds was retired. Additional information on CEA's long-term debt can be found in Note 3 in the Notes to the Financial Statements.

Capital Assets and Debt Activity (Continued)

Current Economic Factors and Conditions

If the current California unemployment conditions continue, CEA could see in the near future a reduction of Californians purchasing earthquake insurance.

Requests for Information

This financial report is designed to provide a general overview of CEA's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to California Earthquake Authority, 801 K Street, Suite 1000, Sacramento, CA 95814.

CALIFORNIA EARTHQUAKE AUTHORITY

Balance Sheets
As of December 31, 2012 and 2011

	2012	2011
Assets		
Current assets:		
Cash and investments:		
Cash and cash equivalents	$ 276,406,016	$ 111,091,346
Restricted cash	52,478,171	49,569,488
Restricted investments	314,130,654	310,862,316
Investments	4,161,672,966	4,037,401,253
Total cash and investments	4,804,687,807	4,508,924,403
Premiums receivable, net of allowance for doubtful accounts of $6,801,039 and $10,561,115	42,878,950	41,893,958
Capital contributions receivable	-	17,310,000
Interest receivable	14,806,316	12,035,424
Securities receivable	-	68,858,008
Prepaid reinsurance premiums	1,325,001	-
Prepaid transformer maintenance premium	3,365,306	2,546,102
Deferred policy acquisition costs	39,031,916	41,619,480
Other current assets	113,531	131,105
Total current assets	4,906,208,827	4,693,318,480
Transformer reinsurance premium deposit	14,634,112	5,029,836
Capital assets, net	458,543	499,468
Total assets	$ 4,921,301,482	$ 4,698,847,784
Liabilities and Net Position		
Current liabilities:		
Unearned premiums	$ 290,632,289	$ 309,899,331
Accounts payable and accrued expenses	5,849,676	3,370,720
Reinsurance premium payable	6,068,468	1,676,612
Loss and loss adjustment expense reserves	12,909	-
Compensated absences, current	254,066	40,167
Securities payable	-	871,423
Revenue bond payable, current	31,500,000	31,500,000
Revenue bond interest payable	3,886,470	4,858,088
Total current liabilities	338,203,878	352,216,341
Revenue bond payable, noncurrent	94,500,000	126,000,000
Compensated absences, noncurrent	559,767	96,041
Total liabilities	433,263,645	478,312,382
Net Position:		
Invested in capital assets, net of related debt	458,543	499,468
Restricted, expendable	237,918,554	205,889,564
Unrestricted	4,249,660,740	4,014,146,370
Total net position	4,488,037,837	4,220,535,402
Total liabilities and net position	$ 4,921,301,482	$ 4,698,847,784

See accompanying notes to financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2012 and 2011

	2012	2011
Underwriting income:		
Premiums written	$ 569,235,337	$ 612,830,953
Less premiums ceded	(222,817,695)	(200,622,675)
Net premiums written	346,417,642	412,208,278
Change in unearned premiums	19,267,042	(7,037,110)
Net premiums earned	365,684,684	405,171,168
Operating expenses:		
Loss and loss adjustment expense	649,221	299,164
Participating insurer commissions	58,867,335	60,623,577
Participating insurer operating costs	18,237,966	20,776,606
Reinsurance broker commissions	4,800,000	4,800,000
Pro forma premium taxes	13,120,011	14,446,598
Other underwriting expenses	26,259,393	21,495,804
Total operating expenses	121,933,926	122,441,749
Underwriting profit	243,750,758	282,729,419
Non-operating income and expenses:		
Net investment income	18,435,449	27,893,141
Other income	444,984	488,791
Financing expenses, net	(7,274,681)	(7,389,584)
Mitigation fund expenses	(474,086)	(343,570)
California Residential Mitigation Program contribution	(500,000)	-
State of California premium tax contribution	13,120,011	14,446,598
Total non-operating income	23,751,677	35,095,376
Contributed capital	-	20,772,000
Increase in net position	267,502,435	338,596,795
Net position, beginning of year	4,220,535,402	3,881,938,607
Net position, end of year	$ 4,488,037,837	$ 4,220,535,402

See accompanying notes to financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Cash received from premiums	$ 568,250,345	$ 622,232,732
Cash payments for premiums ceded - reinsurance	(230,174,320)	(206,522,001)
Cash payments for operating expenses	(92,603,150)	(98,997,304)
Cash payments to employees for service	(11,053,267)	(8,252,056)
Net cash provided by operating activities	234,419,608	308,461,371
Cash Flows from Noncapital Financing Activities:		
Capital contributions received from participating insurers	17,310,000	6,652,830
Repayment of revenue bonds	(31,500,000)	(31,500,000)
Interest paid on revenue bonds	(10,049,349)	(11,981,989)
Interest income on revenue bonds proceeds	1,803,050	3,620,784
Other income	444,984	488,791
Net cash used in noncapital financing activities	(21,991,315)	(32,719,584)
Cash Flows from Capital and Related Financing Activities:		
Acquisition of equipment	(316,030)	(80,424)
Net cash used in capital and related financing activities	(316,030)	(80,424)
Cash Flows from Investing Activities:		
Proceeds from maturities of investments	4,026,369,413	3,692,317,795
Purchases of investments	(4,120,992,295)	(3,951,135,195)
Investment income	52,816,706	49,263,651
Investment expense	(2,082,734)	(1,903,642)
Net cash used in investing activities	(43,888,910)	(211,457,391)
Net increase in cash and cash equivalents	168,223,353	64,203,972
Cash and cash equivalents, beginning of year	160,660,834	96,456,862
Cash and cash equivalents, end of year	$ 328,884,187	$ 160,660,834
Reconciliation to Balance Sheets:		
Cash and cash equivalent	$ 276,406,016	$ 111,091,346
Restricted cash	52,478,171	49,569,488
Cash and cash equivalents, end of year	$ 328,884,187	$ 160,660,834

See accompanying notes to financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Cash Flows (Continued)
For the Years Ended December 31, 2012 and 2011

	2012	2011
Reconciliation of operating income to net cash provided by operating activities:		
Underwriting profit	$ 243,750,758	$ 282,729,419
Adjustments to reconcile underwriting profit to net cash provided by operating activities:		
Depreciation on equipment	356,955	994,212
Pro forma premium tax expense	13,120,011	14,446,598
Contribution to California Residential Mitigation Program	(500,000)	-
Mitigation Fund Expenses	(474,086)	(343,566)
Changes in operating assets and liabilities:		
Premiums receivable	(984,992)	7,701,779
Risk capital surcharge receivable	-	1,700,000
Deposit with reinsurer	(9,604,276)	(5,029,836)
Prepaid transformer maintenance premium	(819,204)	(2,546,102)
Deferred policy acquisition costs	2,587,564	(945,084)
Other assets	17,574	(88,610)
Unearned ceded premiums	(1,325,001)	-
Unearned premiums	(19,267,042)	7,037,110
Loss and loss adjustment expense reserves	12,909	-
Reinsurance premium payable	4,391,856	1,676,612
Compensated absences payable	677,625	44,514
Accounts payable and accrued expenses	2,478,957	1,084,325
Net cash provided by operating activities	$ 234,419,608	$ 308,461,371

Non-cash Investing, Capital and Financing Activities

The change 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 Position, was $(2.5) million and $1.7 million in 2012 and 2011, 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 Position was $13.1 million and $14.4 million in 2012 and 2011, 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 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 CEA to become operational had been met, and CEA began writing earthquake policies on December 1, 1996. 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 CEA. Insurance companies admitted to write residential property insurance in California and who elected to become participating members of CEA sign Insurer Participation Agreements with the Insurance Commissioner and CEA. Under these agreements, participating insurers act as independent contractor agents on behalf of CEA by performing policy and claims services which include policy issuance, premium collection, and claims adjustment. Under the agreements, CEA reimburses participating insurers for non-claims related costs incurred by these companies in servicing CEA policies. The operating cost reimbursement is 3.09% 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, 2012, there are 21 participating insurers of which 16 insurers are writing CEA policies. Four participating insurers account for 73% of CEA’s written premiums.

CEA has eligibility requirements that compel 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 CEA or to conform the sections of the California Insurance Code regarding CEA to the federal program and recommend an action plan to the CEA Governing Board and the California State Legislature.

Basis of Accounting

While 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, 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)

CEA is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. 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.

Operating revenues are those revenues that are generated from providing earthquake insurance policies. All other revenues are reported as non-operating revenues. Operating expenses are those costs related to providing those earthquake insurance policies. All other expenses are reported as non-operating expenses.

Revenue Recognition

Premiums are recognized as earned on a pro rata basis over the policy contract period. All premium rates charged by 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 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.

Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, CEA’s policy is to apply unrestricted net position before applying any restricted net position available.

CEA’s policy could change if California experiences a major earthquake event.

Cash and Cash Equivalents

For purposes of the statement of cash flows, 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. 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. CEA intends to hold all investments to maturity unless there is an earthquake or series of earthquakes causing significant damage in California warranting CEA's need to liquidate securities to pay policyholder claims.

Capital Assets

Capital assets are stated at historical cost. The capitalization threshold for assets with a useful life beyond one year is $500. Depreciation is computed using the straight-line method over the useful lives as follows:

Leasehold improvements	Shorter of useful life or remaining lease term
Computer equipment and software	3 years
Furniture and other equipment	5 years
Capital leases	Shorter of useful life or remaining lease term

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 CEA. The law provides that each annual risk-capital surcharge must equal CEA's increased cost of providing or securing capacity to insure the new participant's excess earthquake-insurance risk.

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)

Losses and Loss Adjustment Expenses

Reserves for insurance losses and loss 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 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. CEA does not have any significant unpaid claims reported as of December 31, 2012.

If CEA's Governing Board determines that CEA's net position, bond proceeds, additional participating insurer capital contributions and reinsurance proceeds are exhausted and that no source of additional funds is available to 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 CEA to cease renewing or accepting new earthquake insurance policies.

Participating Insurer Capital Contributions

Each insurer that elected to participate in CEA during its first year of operations was required to contribute as its share of 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 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 CEA, whichever contribution amount is greater. As of December 31, 2012, participating insurer capital contributions totaled $777 million and were 100% funded.

Participating Insurer Assessments

The California Insurance Code (Code) states that, subject to certain maximum limits as set forth in the Code, 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. 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 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, 2012, was $500 million. CEA continued to retain its 2nd industry assessment layer of $1.558 billion.

As of December 31, 2012, participating insurers have a cumulative residential property insurance market share of approximately 81% of the total residential property insurance market in California based on written premium. If participating insurers withdraw their participation in 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 CEA.

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

Net Position

CEA classifies its net position into three components, net position invested in capital assets, net of related debt; restricted-expendable and unrestricted net position. There is no debt related to capital assets, so the balance of net position invested in capital assets consists only of the capital assets balance. Restricted net position includes the net position 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 CEA to be an integral part of the State of California for federal income tax purposes. As such, 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 $13,120,011 and $14,446,598 for the years ended December 31, 2012 and 2011, respectively.

Compensated Absences

Employees accrue vacation, holiday and sick leave benefits. However, unused sick leave is not included in compensated absences because they do not vest to employees. CEA contract employees are paid at the time of termination from CEA employment. CEA civil-service employees are paid at the time of termination only for employees that have left civil service employment. CEA civil-service employees that retain employment within civil service are removed as a liability for CEA, without a payout, as CEA is no longer responsible for the vested balance of these employees.

2. Cash and Investments

As of December 31, 2012 and 2011, CEA had the following cash and investments:

	December 31, 2012					
	Investment Maturities (in Years)					
	Less than 1	1-2	2-3	3-4	4-5	Total
U.S. Treasuries	$ 1,759,586,447	$ 746,862,483	$ 942,547,239	$ 600,917,964	$ 236,599,477	$4,286,513,610
U.S. agencies	406,477,430	-	-	-	-	406,477,430
U.S. Gov't money market funds	27,874,662	-	-	-	-	27,874,662
Cash	7,043,183	-	-	-	-	7,043,183
Commercial paper	76,778,922	-	-	-	-	76,778,922
Total	$ 2,277,760,644	$ 746,862,483	$ 942,547,239	$ 600,917,964	$ 236,599,477	$ 4,804,687,807

	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

The table below identifies the investment types that are authorized for CEA by the California Government Code or CEA's investment policy, where more restrictive. The table also identifies certain provisions of CEA's investment policy that address interest rate risk, credit risk, and concentration risk.

Liquidity Fund:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Securities	180 days	None	None
Federal Agency Securities	180 days	50%	25%
Bankers Acceptances (BA)	180 days	25%	5%
Certificates of Deposit	180 days	25%	5%
Commercial Paper	179 days	25%	5%
Corporate Bonds/Notes	180 days	25%	5%

2. Cash and Investments (Continued)

Primary Reserve Fund:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Securities	5 years	None	None
Federal Agency Securities	N/A	None	None
Bankers Acceptances (BA)	N/A	None	None
Certificates of Deposit	N/A	None	None
Commercial Paper	N/A	None	None
Corporate Bonds/Notes	N/A	None	None

Mitigation Fund:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Securities	90 days	None	None
Federal Agency Securities	90 days	50%	25%
Bankers Acceptances (BA)	90 days	25%	5%
Certificates of Deposit	90 days	25%	5%
Commercial Paper	90 days	25%	5%
Corporate Bonds/Notes	90 days	25%	5%

Claims Paying Fund:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Securities	5 years	None	None
Federal Agency Securities	180 days	50%	25%
Bankers Acceptances (BA)	180 days	25%	5%
Certificates of Deposit	180 days	25%	5%
Commercial Paper	179 days	25%	5%
Corporate Bonds/Notes	180 days	25%	5%

Cash Deposits

The only contractual provision that CEA has in regards to cash deposits is that CEA is required, by the CEA Revenue Bond Indenture, to set-aside into a trust account, written premium on a monthly basis of $3.625 million to cover interest and principle payment amounts in case of default.

Interest Rate Risk

As a means of limiting its exposure to fair value losses resulting from rising interest rates, 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 CEA's combined portfolio does not exceed a maximum modified duration of 1.75 years. As of December 31, 2012, CEA's combined portfolio had a maximum modified duration of 1.5 years.

2. Cash and Investments (Continued)

Credit Risk

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, 2012, 90% of the portfolio consisted of U.S. Treasuries and 10% 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.

CEA's investments are rated as follows:

Security Type	Moody's	Standard & Poors
US Treasury	Aaa	AA+
Federal Home Loan Mortgage Corporation	Aaa	AA+
Federal National Mortgage Association	Aaa	AA+
Commercial Paper:		
General Electric Capital Corporation	A1	AA+
JP Morgan Chase & Co.	A1	A
Toyota Motor Credit Corporation	Aa3	AA-

Concentration of Credit Risk

There is no concentration of investments in any one non U. S. Governmental issuer, which is not explicitly guaranteed, that represents 5% or more of total investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, CEA will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. CEA has no policy that would limit the exposure to custodial credit risk for deposits. As of December 31, 2012 and 2011 all CEA deposits were covered by federal depository insurance (FDIC).

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 position.

2. Cash and Investments (Continued)

Investment income for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
U.S. agency securities and government money market accounts	$ 473,196	$ 634,357
U.S. Treasuries	24,079,425	30,942,605
Other short-term investments	233,416	129,948
Interest income	24,786,037	31,706,910
Change in fair value of investments	(2,464,804)	1,710,656
Less investment expenses	(2,082,734)	(1,903,642)
Total investment income	$ 20,238,499	$ 31,513,924

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

	2012	2011
Investment income included in financing expenses	$ 1,803,050	$ 3,620,783
Net investment income	18,435,449	27,893,141
Total investment income	$ 20,238,499	$ 31,513,924

The change in fair value of investments for the years ended December 31, 2012 and 2011 are calculated as follows:

	2012	2011
Fair value of investments at the end of year	$ 4,475,803,620	$ 4,348,263,569
Add: Proceeds of investments matured	3,957,511,405	3,761,175,803
Add: Amortization of premium and discount	32,724,193	20,862,314
Less: Change in realized gain/loss	(119,581)	-
Less: Cost of investments purchased	(4,120,120,872)	(3,952,006,618)
Less: Fair value of investments at the beginning of year	(4,348,263,569)	(4,176,584,412)
Change in fair value of investments	$ (2,464,804)	$ 1,710,656

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 Liabilities

The following is a summary of long-term liabilities as of December 31, 2012:

	Balance January 1, 2012	Additions	Retirements	Balance December 31, 2012	Due within One Year
Revenue Bond	$ 157,500,000	$ -	$ (31,500,000)	$ 126,000,000	$ 31,500,000
Compensated Absences	136,208	752,833	(75,208)	813,833	254,066
Total	$ 157,636,208	$ 752,833	$ (31,575,208)	$ 126,813,833	$ 31,754,066

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 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. 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 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 CEA. CEA is subject to certain bond covenants, the most restrictive of which requires a debt service coverage ratio of 3:1.

Future scheduled debt service payments, including mandatory sinking-fund payments, for CEA's long-term debt are as follows as of December 31, 2012:

	Principal	Interest	Total
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	$ 126,000,000	$ 15,545,881	$ 141,545,881

Interest paid during the year was $8,744,558 and $10,687,793 for 2012 and 2011, respectively.

4. Net Position

As described in note 1, net position includes restricted and unrestricted portions. The following table details the components of net position as it relates to restricted and unrestricted:

	2012	2011
Restricted:		
Mitigation Fund	$ 25,801,060	$ 25,537,617
Claims Paying Account (bonds)	212,117,494	180,351,947
Total restricted net position	$ 237,918,554	$ 205,889,564
Unrestricted:		
Contributed capital	$ 777,384,796	$ 777,384,796
Premium tax contribution	182,170,089	169,050,078
Other unrestricted	3,290,105,855	3,067,711,496
Total unrestricted net position	$ 4,249,660,740	$ 4,014,146,370

5. Risk Transfer

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 CEA from its primary responsibility to its policyholders, the insurance company that assumes the coverage assumes responsibility to reimburse 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 2012, Embarcadero Reinsurance Ltd. (Embarcadero Re), an independent Bermuda insurance company, completed two offering of catastrophe bonds to unrelated investors of $150 million and $300 million. In connection with the offerings, Embarcadero Re entered into two reinsurance agreements (covering a three year period) with CEA. The first agreement provides up to $150 million of reinsurance coverage defined at 50% of $300 million of losses in excess of a retention of $2.9 billion. The second agreement provides coverage up to $300 million in losses in excess of a retention of $6.2 billion. During 2011, Embarcadero Re 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 CEA, providing reinsurance coverage up to $150 million of losses in excess of a retention of $3.4 billion. Under the terms of the agreements with Embarcadero Re, CEA is obligated to pay annual reinsurance premiums. These agreements are subject to adjustments of the retention at the beginning of the second and third annual contract periods based on exposure adjustments and losses. Reinsurance limits will be reduced by any amounts paid to CEA under the reinsurance agreement. These reinsurance agreements meet the requirements to be accounted for as reinsurance in accordance with the guidance for reinsurance contracts.

CEA has a deposit to ensure its performance under the terms of its agreements with Embarcadero Re. The deposit was $14,634,112 and 5,029,836 at December 31, 2012 and 2011, respectively.

5. Risk Transfer (Continued)

Certain 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, 2012 in accordance with these terms, CEA did not have a premium adjustment expense against the contracts. During 2012, CEA continued to cede insurance to reinsurers under catastrophe excess-of-loss reinsurance contracts provided maximum limits of $3.405 billion at varying attachment points.

6. Statutory Compliance

The State of California Insurance Code limits CEA's "operating expenses" to 3% of its "premium income." In calculating this limitation, 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 CEA, totaled $15.0 million and $11.0 million for the years ended December 31, 2012 and 2011, respectively, and did not exceed 3% of premiums written.

7. Commitments and Contingencies

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.

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 $704,306 and $638,812 for the years ended December 31, 2012 and 2011, respectively. Future minimum rental payments under these agreements are as follows:

	Amount
2013	$ 722,190
2014	709,208
2015	711,446
2016	192,677
Total	$ 2,335,521

8. Mitigation Fund

California Insurance Code (Code) Section 10089.37 created the Earthquake Loss Mitigation Fund (Mitigation Fund) as a "sub-account of 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 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 CEA and of CEA's outside counsel that the monies that reside in the Mitigation Fund sub-account within CEA are by statute not available to pay policyholder or other claims against CEA.

As of December 31, 2012 and 2011, the balance sheets include expendable restricted net position related to the Mitigation Fund totaling $25,801,060 and $25,537,617 respectively. The expendable restricted net position of the Mitigation Fund as of December 31, 2012 includes the potential annual transfer amount of $1,238,300, which is subject to actuarial review and formal approval of CEA's Governing Board as discussed in the previous paragraph.

9. Defined Benefit Pension Plan

All CEA civil-service employees participate in the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities with the State of California. Benefit provisions and all other requirements are established by state statute. Copies of CalPERS' annual financial reports may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy

CEA has civil service employees that are members of the following bargaining units: Professional Administrative, Financial and Staff Service (Bargaining Unit 1); Attorneys and Hearing Officer (Bargaining Unit 2) and Professional Scientific (Bargaining Unit 10), which are required by bargaining unit agreements to contribute 8.0% to 9.0% of their annual covered salary. CEA is required to contribute remaining amounts necessary to fund the benefits for the actuarial members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by CalPERS Board of Administration. For the fiscal year ended December 31, 2012 the employer contribution rate by plan was 20.503% for Tier 1 State Miscellaneous and 20.457% for Tier 2 State Miscellaneous. For the fiscal year ended December 31, 2011 the employer contribution rate by plan was 18.175% for Tier 1 State Miscellaneous and 17.025% for Tier 2 State Miscellaneous. CEA makes the contributions required of CEA civil service employees on their behalf and for their account. All of CEA's civil service employees are classified as members of the State Miscellaneous Plans.

9. Defined Benefit Pension Plan (Continued)

Annual Pension Cost

CEA's employee contributions in 2012 and 2011 were $192,348 or 8.3% of annual covered payroll and $165,756 or 8.2% of annual covered payroll, respectively. The employer's contributions in 2012 and 2011 were $422,532 or 21.6% of annual covered payroll and $321,152 or 16.4% of annual covered payroll, respectively.

Three-Year Trend Information for PERS

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/12	$ 422,532	100%	--
12/31/11	321,152	100%	--
12/31/10	315,595	100%	--

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 CEA for its allocable share of such contributions based on a percentage of payroll. CEA has no legal obligation for benefits under this plan.

10. Defined Contribution Plan

CEA sponsors the California Earthquake Authority Retirement Plan (Plan), a 401(A) defined contribution savings plan for contract employees. The Plan is administered by UBS Financial Services. Employees contribute 5% of base compensation. CEA contributes 12.71% of the employee's base compensation. The maximum base compensation for 2012 and 2011 was $250,000 and $245,000, respectively. The contributions are funded semi-annually and allocated to CEA based on employee contributions.

Employees are fully vested in their account from beginning of employment. CEA has no legal obligation for benefits under this Plan. Only the CEA Board has the authority to amend the Plan provisions. Employee contributions in 2012 and 2011 were $60,967 and $47,344, respectively. CEA's contributions in 2012 and 2011 were $155,115 and $121,624, respectively.

11. Post-Employment Benefits

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 and civil service employees.

12. Risk Management

CEA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. CEA has insurance policies with private insurance companies for the following policies:

Policy Type	Policy Limits
Workers Compensation	$ 1,000,000
Financial Institution Bond	$ 1,500,000
Business Liability	$ 5,000,000
Director and Officers Liability	$10,000,000

Management believes such coverage is sufficient to preclude any significant uninsured losses to CEA.

13. California Residential Mitigation Program

On August 16, 2011, 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 from each, CEA and Cal EMA. Previously, on December 10, 2011, 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 CEA transferred the funds to the CRMP.

14. Subsequent Events

Management has evaluated subsequent events through August 20, 2013, 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, 2012 requiring recording or disclosure in these financial statements.

Subsequent to year end, legislation was passed that removed the staffing cap of a maximum 25 CEA employees subject to civil service provisions.

SUPPLEMENTARY INFORMATION

CALIFORNIA EARTHQUAKE AUTHORITY

Schedule of Participating Insurer Capital Contributions
From Inception through December 31, 2012

	2012
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
Safeco Insurance Company of America[3]	46,500,000
California State Automobile Association Inter-Insurance Bureau[2]	39,013,494
Nationwide Insurance Company[6]	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
Homesite Insurance Company of California	-
Pacific National Insurance[4]	-
Encompass Insurance Company	-
Glen Falls Insurance Company[4]	-
Commerce West Insurance Company	-
Total	$ 777,384,796

[1] Includes Garrison Insurance Company

[2] Includes ACA Insurance Company

[3] Joined CEA as of December 1, 2008

[4] Not currently writing residential property insurance in California

[5] Includes Golden Eagle Insurance Company

[6] Joined CEA as of November 2011

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Premiums Written
For the Years Ended December 31, 2012 and 2011

	2012	2011
State Farm General Insurance Company	$ 192,595,510	$ 219,132,203
Allstate Insurance Company	80,720,903	92,430,246
The Fire Insurance Exchange (Farmers)	69,554,447	75,330,427
United Services Automobile Association[1]	72,504,343	81,720,225
Safeco Insurance Company of America[3]	32,437,920	32,306,958
California State Automobile Association Inter-Insurance Bureau[2]	25,881,034	27,304,761
Nationwide Insurance Company[6]	14,116,866	1,370,877
California FAIR Plan Association	4,528,078	4,715,894
Interinsurance Exchange of the Automobile Club	37,067,111	39,961,992
CNA/Continental[4]	-	-
Prudential[4]	-	-
Liberty Mutual Fire Insurance Company[5]	14,954,323	15,098,844
Foremost Property and Casualty Insurance Company	2,919,379	2,520,191
Mercury Casualty Company	16,838,211	15,506,120
Armed Forces Insurance Exchange	616,769	731,553
GuideOne (formerly Preferred Risk)[4]	-	-
Homesite Insurance Company of California	689,237	521,465
Pacific National Insurance[4]	-	-
Encompass Insurance Company	3,773,243	4,153,175
Glen Falls Insurance Company[4]	-	-
Commerce West Insurance Company	37,963	26,022
Total	$ 569,235,337	$ 612,830,953

[1] Includes Garrison Insurance Company

[2] Includes ACA Insurance Company

[3] Joined CEA as of December 1, 2008

[4] Not currently writing residential property insurance in California

[5] Includes Golden Eagle Insurance Company

[6] Joined CEA as of November 2011

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Unearned Premiums
As of December 31, 2012 and 2011

	2012	2011
State Farm General Insurance Company	$ 97,223,283	$ 108,836,524
Allstate Insurance Company	41,031,050	46,584,860
The Fire Insurance Exchange (Farmers)	34,388,911	37,155,208
United Services Automobile Association[1]	36,606,687	40,815,491
Safeco Insurance Company of America[3]	19,772,570	19,650,543
California State Automobile Association Inter-Insurance Bureau[2]	13,169,677	13,955,939
Nationwide Insurance Company[6]	7,211,421	1,284,332
California FAIR Plan Association	2,343,457	2,416,204
Interinsurance Exchange of the Automobile Club	18,456,072	19,563,131
CNA/Continental[4]	-	-
Prudential[4]	-	-
Liberty Mutual Fire Insurance Company[5]	8,280,790	8,111,551
Foremost Property and Casualty Insurance Company	1,518,157	1,336,556
Mercury Casualty Company	8,213,956	7,581,421
Armed Forces Insurance Exchange	318,059	388,394
GuideOne (formerly Preferred Risk)[4]	-	-
Homesite Insurance Company of California	280,657	233,683
Pacific National Insurance[4]	-	-
Encompass Insurance Company	1,807,096	1,977,670
Glen Falls Insurance Company[4]	-	-
Commerce West Insurance Company	10,446	7,824
Total	$ 290,632,289	$ 309,899,331

[1] Includes Garrison Insurance Company

[2] Includes ACA Insurance Company

[3] Joined CEA as of December 1, 2008

[4] Not currently writing residential property insurance in California

[5] Includes Golden Eagle Insurance Company

[6] Joined CEA as of November 2011

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Commissions
For the Years Ended December 31, 2012 and 2011

	2012	2011
State Farm General Insurance Company	$ 20,417,401	$ 21,603,880
Allstate Insurance Company	8,632,610	9,252,759
The Fire Insurance Exchange (Farmers)	7,236,527	7,754,381
United Services Automobile Association[1]	7,670,867	8,088,164
Safeco Insurance Company of America[3]	3,233,553	3,205,629
California State Automobile Association Inter-Insurance Bureau[2]	2,667,744	2,616,554
Nationwide Insurance Company[6]	820,224	8,728
California FAIR Plan Association	460,341	465,038
Interinsurance Exchange of the Automobile Club	3,820,228	3,936,319
CNA/Continental[4]	-	-
Prudential[4]	-	-
Liberty Mutual Fire Insurance Company[5]	1,478,410	1,430,181
Foremost Property and Casualty Insurance Company	277,005	237,014
Mercury Casualty Company	1,621,286	1,482,192
Armed Forces Insurance Exchange	68,770	73,417
GuideOne (formerly Preferred Risk)[4]	-	-
Homesite Insurance Company of California	64,286	49,570
Pacific National Insurance[4]	-	-
Encompass Insurance Company	394,549	417,460
Glen Falls Insurance Company[4]	-	-
Commerce West Insurance Company	3,534	2,291
Total	$ 58,867,335	$ 60,623,577

[1] Includes Garrison Insurance Company

[2] Includes ACA Insurance Company

[3] Joined CEA as of December 1, 2008

[4] Not currently writing residential property insurance in California

[5] Includes Golden Eagle Insurance Company

[6] Joined CEA as of November 2011

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Operating Costs
(Net of Deferred Acquisition Costs)
For the Years Ended December 31, 2012 and 2011

	2012	2011
State Farm General Insurance Company	$ 6,340,859	$ 7,407,774
Allstate Insurance Company	2,681,598	3,172,508
The Fire Insurance Exchange (Farmers)	2,244,026	2,658,559
United Services Automobile Association[1]	2,382,150	2,773,506
Safeco Insurance Company of America[3]	995,829	1,090,284
California State Automobile Association Inter-Insurance Bureau[2]	826,887	896,465
Nationwide Insurance Company[6]	232,631	2,434
California FAIR Plan Association	142,454	159,132
Interinsurance Exchange of the Automobile Club	1,184,947	1,351,818
CNA/Continental[4]	-	-
Prudential[4]	-	-
Liberty Mutual Fire Insurance Company[5]	459,112	487,858
Foremost Property and Casualty Insurance Company	81,802	80,862
Mercury Casualty Company	500,144	508,943
Armed Forces Insurance Exchange	21,434	25,117
GuideOne (formerly Preferred Risk)[4]	-	-
Homesite Insurance Company of California	20,382	17,595
Pacific National Insurance[4]	-	-
Encompass Insurance Company	122,590	142,963
Glen Falls Insurance Company[4]	-	-
Commerce West Insurance Company	1,121	788
Total	$ 18,237,966	$ 20,776,606

[1] Includes Garrison Insurance Company

[2] Includes ACA Insurance Company

[3] Joined CEA as of December 1, 2008

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[5] Includes Golden Eagle Insurance Company

[6] Joined CEA as of November 2011

JLK Rosenberger
Certified Public Accountants

CALIFORNIA EARTHQUAKE AUTHORITY

Statutory Financial Statements and
Independent Auditors' Report

December 31, 2012 and 2011

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Certified Public Accountants

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Independent Auditors' Report

To the Board of Governors
California Earthquake Authority

Report on the Statutory Financial Statements

We have audited the accompanying statutory financial statements of California Earthquake Authority (CEA), which comprise the statutory statements of admitted assets, liabilities, and surplus as of December 31, 2012 and 2011, and the related statutory statements of operations, changes in surplus, and cash flow for the years then ended, and the related notes to statutory financial statements.

Management's Responsibility for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with accounting practices prescribed or permitted by the California Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these statutory 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 statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the statutory financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the statutory financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 of the statutory financial statements, the statutory financial statements are prepared by CEA on the basis of accounting practices prescribed or permitted by the California Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the California Department of Insurance. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America are described in Note 2.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the statutory financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of California Earthquake Authority as of December 31, 2012 and 2011, or the results of its operations or its cash flow for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the statutory financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities, and surplus of California Earthquake Authority as of December 31, 2012 and 2011, and the results of its operations and its cash flow for the years then ended, on the statutory basis of accounting described in Note 2.

Report on Supplementary Information

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 18 to 20 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 statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic statutory financial statements taken as a whole.

JLK Rosenberger, LLP

Glendale, California
June 18, 2013

CALIFORNIA EARTHQUAKE AUTHORITY

Statutory Statements of Admitted Assets, Liabilities, and Surplus
As of December 31, 2012 and 2011

	2012	2011
Admitted Assets		
Debt securities, at book/adjusted carrying value	$ 3,566,205,640	$ 3,300,076,517
Cash, cash equivalents, and short-term investments	1,197,966,197	1,166,491,512
Total cash and invested assets	4,764,171,837	4,466,568,029
Investment income receivable	14,802,291	12,033,296
Receivable for securities	-	68,858,008
Premiums receivable	37,627,875	36,945,836
Electronic data processing equipment and software, net	343,622	296,236
Other assets	14,648,079	22,355,384
Total admitted assets	$ 4,831,593,704	$ 4,607,056,789
Liabilities and Surplus		
Liabilities:		
Losses and loss adjustment expenses payable	$ 12,909	$ -
Accounts payable and accrued expenses	6,000,410	3,506,928
Collateral loan and interest payable	129,886,470	162,358,088
Unearned premiums	283,233,985	305,072,292
Advance premiums	2,965,376	1,424,318
Ceded reinsurance premiums payable	1,378,162	(869,490)
Payable for securities	-	871,423
Total liabilities	423,477,312	472,363,559
Surplus:		
Gross paid-in and contributed surplus	777,394,246	777,394,246
Unassigned surplus	3,630,722,146	3,357,298,984
Total surplus	4,408,116,392	4,134,693,230
Total liabilities and surplus	$ 4,831,593,704	$ 4,607,056,789

See accompanying notes to statutory financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statutory Statements of Operations and Changes in Surplus
For the Years Ended December 31, 2012 and 2011

	2012	2011
Underwriting income:		
Premiums earned, net	$ 365,684,684	$ 405,171,167
Losses and loss adjustment expenses	649,220	299,163
Other underwriting expenses	130,526,530	135,805,536
Total underwriting and other deductions	131,175,750	136,104,699
Net underwriting income	234,508,934	269,066,468
Investment income and other:		
Net investment income	22,584,492	29,808,911
Net realized capital gain	119,583	170
Net gain from agents' balances	3,760,076	1,509,095
Other income	444,984	488,795
Total investment income and other	26,909,135	31,806,971
Net income	$ 261,418,069	$ 300,873,439
Surplus, beginning of year	$ 4,134,693,230	$ 3,800,994,498
Net income	261,418,069	300,873,439
Change in nonadmitted assets	4,229,830	(401,942)
Paid-in surplus	-	20,772,000
Mitigation program funding per statute	(1,584,672)	(2,019,253)
Premium tax contribution	13,120,011	14,446,598
Change in unearned premiums over 90 days	(3,760,076)	27,890
Surplus, end of year	$ 4,408,116,392	$ 4,134,693,230

See accompanying notes to statutory financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statutory Statements of Cash Flow
For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash flow from operating activities:		
Premiums collected, net	$ 347,279,552	$ 420,911,074
Losses and loss adjustment expenses paid, net	(636,311)	(299,163)
Underwriting expenses paid	(129,004,665)	(135,648,315)
Net cash provided by underwriting activities	217,638,576	284,963,596
Investment income received, net	51,020,631	50,065,116
Other income	4,205,060	2,025,785
Net cash provided by operating activities	272,864,267	337,054,497
Cash flow from investing activities:		
Payments for purchase of bonds	(2,088,527,231)	(1,704,650,692)
Proceeds from sales and maturities of bonds	1,859,299,142	1,266,453,994
Miscellaneous proceeds	-	170
Net cash used in investing activities	(229,228,089)	(438,196,528)
Cash flow from financing activities:		
Repayment of borrowed funds	(31,500,000)	(31,500,000)
Capital contributions	30,430,011	21,099,428
Other cash applied	(11,091,504)	(5,864,855)
Net cash used in financing activities	(12,161,493)	(16,265,427)
Net increase (decrease) in cash, cash equivalents, and short-term investments	31,474,685	(117,407,458)
Beginning cash, cash equivalents, and short-term investments	1,166,491,512	1,283,898,970
Ending cash, cash equivalents, and short-term investments	$ 1,197,966,197	$ 1,166,491,512

See accompanying notes to statutory financial statements.

1. Organization and Description of Business

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 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 CEA to become operational had been met, and CEA began writing earthquake policies on December 1, 1996. 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 CEA. Insurance companies admitted to write residential property insurance in California and who elected to become participating members of CEA signed Insurer Participation Agreements with the Insurance Commissioner and CEA. Under these agreements, participating insurers act as independent contractor agents on behalf of CEA by performing policy and claims services which include policy issuance, premium collection, and claims adjustment. Under the agreements, CEA reimburses participating insurers for non-claims related costs incurred by these companies in servicing CEA policies. As of December 31, 2012, the operating cost reimbursement is 3.09% 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, 2012, there are 21 participating insurers of which just 16 insurers are writing CEA policies. Four participating insurers account for 73% of CEA's written premiums.

CEA eligibility requirements compel 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 CEA or to conform the sections of the California Insurance Code regarding CEA to the federal program and recommend an action plan to CEA Governing Board and the California State Legislature.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying statutory 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). CEA is not a licensed insurer in California but prepares those statutory financial statements on a voluntary basis.

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

As 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 CEA" is excluded from these statutory 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	
	2012	2011	2012	2011
SAP basis	$ 261,418,069	$ 300,873,439	$4,408,116,392	$4,134,693,230
Investments	(2,466,370)	1,711,398	15,912,415	18,378,785
Nonadmitted assets	-	-	8,870,732	13,100,560
Deferred acquisition costs	(2,932,885)	1,143,482	38,038,324	40,971,209
Allowance for doubtful accounts	-	-	(6,801,039)	(10,561,115)
Mitigation fund	(973,291)	(350,119)	24,564,112	23,952,733
Compensated absences	(663,099)	-	(663,099)	-
Premium tax contribution	13,120,011	14,446,598	-	-
Contributed surplus	-	20,772,000	-	-
Governmental GAAP basis	$ 267,502,435	$ 338,596,798	$4,488,037,837	$4,220,535,402

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 statements 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 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. CEA does not have any unpaid claims reported as of December 31, 2012 and 2011.

2. Summary of Significant Accounting Policies (Continued)

Participating Insurer Capital Contributions

Each insurer that elected to participate in CEA during its first year of operations was required to contribute as its share of 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 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 CEA, whichever contribution amount is greater. As of December 31, 2012, participating insurer capital contributions totaled $777 million and were 100% funded.

The California Insurance Code (Code) states that, subject to certain maximum limits as set forth in the Code, 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. 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, 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, 2012 was $500 million.

As of December 31, 2011, participating insurers have a cumulative residential property insurance market share of approximately 80.31% of the total residential property insurance market in California based on written premium. If participating insurers withdraw their participation in 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 State Legislature for the continuation or termination of CEA.

Risk-Capital Surcharge

Under California Insurance Code section 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 with CEA. The law provides that each annual risk-capital surcharge must equal CEA's increased cost of providing or securing capacity to insure the new participant's excess earthquake-insurance risk.

2. Summary of Significant Accounting Policies (Continued)

Income Taxes

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

3. Fair Value Disclosures

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

	2012		2011	
	Statement Value	Fair Value	Statement Value	Fair Value
Debt securities	$ 3,566,205,640	$ 3,582,042,917	$ 3,300,076,517	$ 3,318,400,622
Borrowed funds	126,000,000	142,159,500	157,500,000	177,593,850

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 for the years ended December 31:

	2012	2011
Bonds	$ 23,225,019	$ 29,823,036
Short-term investments	1,421,400	1,870,237
Total investment income before expenses	24,646,419	31,693,273
Less investment expenses	2,061,927	1,884,362
Net investment income	$ 22,584,492	$ 29,808,911

4. Investments (Continued)

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
2012				
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 3,566,205,640	$ 15,917,302	$ (80,025)	$ 3,582,042,917
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

The book/adjusted carrying values and estimated fair values of investments in bonds at December 31, 2012, by contractual maturity, are shown below.

	Book/Adjusted Carrying Value	Fair Value
Due in one year or less	$ 1,053,596,733	$ 1,055,115,754
Due in years two through five	2,512,608,907	2,526,927,163
Total	$ 3,566,205,640	$ 3,582,042,917

4. Investments (Continued)

Other-than-Temporary Impairment

The following table shows the gross unrealized losses and fair value of 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
2012				
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 21,330,008	$ (79,432)	$ 10,404,160	$ (593)

	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)

5. Long-Term Debt

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 years ended December 31:

	2012	2011
Balance at January 1,	$ 157,500,000	$ 189,000,000
Payments made on July 1,	(31,500,000)	(31,500,000)
Balance at December 31,	$ 126,000,000	$ 157,500,000

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 Guidelines. 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 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 CEA. CEA is subject to certain bond covenants, the most restrictive of which requires a debt service coverage ratio of 3:1.

Future scheduled debt service payments, including mandatory sinking fund payments, for CEA's long-term debt are as follows as of December 31, 2012:

	Principal	Interest	Total
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	971,618	32,471,618
Total	$ 126,000,000	$ 15,545,882	$ 141,545,882

Interest paid during the year was $8,744,558 and $10,687,793 for 2012 and 2011, respectively.

6. Risk Transfer

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 CEA from its primary responsibility to its policyholders, the insurance company that assumes the coverage assumes responsibility to reimburse 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 2012, Embarcadero Reinsurance Ltd. (Embarcadero Re), an independent Bermuda insurance company, completed two offerings of catastrophe bonds to unrelated investors of $150 million and $300 million. In connection with these offerings, Embarcadero Re entered into two reinsurance agreements (covering a three year period) with CEA. The first agreement provides up to $150 million of reinsurance coverage defined at 50% of $300 million of losses in excess of a retention of $2.9 billion. The second agreement provides coverage up to $300 million of losses in excess of a retention of $6.2 billion. During 2011, Embarcadero Re 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 CEA, providing reinsurance coverage up to $150 million of losses in excess of a retention of $3.4 billion.

6. Risk Transfer (Continued)

Under the terms of its agreements with Embarcadero Re, CEA is obligated to pay annual reinsurance premiums. These agreements are subject to adjustment of CEA's retention at the beginning of the second and third annual contract periods based on exposure adjustments and losses. Reinsurance limits under these agreements will be reduced by any amounts paid to CEA under the reinsurance agreement. These reinsurance agreements meet the requirements to be accounted for as reinsurance in accordance with the guidance for reinsurance contracts.

CEA had a deposit to ensure its performance under the terms of its agreements with Embarcadero Re. This deposit was $14,634,112 and $5,029,835 at December 31, 2012 and 2011, respectively.

Certain 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, 2012, in accordance with these terms, CEA did not have a premium adjustment expense against the contracts. During 2012, CEA continued to cede insurance to reinsurers under catastrophe excess-of-loss reinsurance contracts provided maximum limits of $3.405 billion at varying attachment points.

The effect of reinsurance on premiums is as follows:

	2012		2011	
	Written	Earned	Written	Earned
Direct	$ 566,664,072	$ 588,502,381	$ 614,308,227	$ 605,793,843
Ceded	222,817,695	222,817,697	200,622,676	200,622,676
Net	$ 343,846,377	$ 365,684,684	$ 413,685,551	$ 405,171,167

7. Commitments and Contingencies

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.

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 $704,306 and $638,812 for the years ended December 31, 2012 and 2011, respectively. Future minimum rental payments under these agreements are as follows:

	Amount
2013	$ 722,190
2014	709,208
2015	711,446
2016	192,677
Total	$ 2,335,521

8. Mitigation Fund

California Insurance Code section 10089.37 created the Earthquake Loss Mitigation Fund (Mitigation Fund) as a "sub-account of 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 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 CEA's actuary employed or hired by CEA. 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 CEA and of CEA's outside counsel that the monies that reside in the Mitigation Fund sub-account within CEA are by statute not available to pay policyholder claims or other claims against CEA. Accordingly, the mitigation fund has been excluded from the determination of statutory net income and surplus in these statutory financial statements. As of December 31, 2012, the potential annual transfer calculated at 5% of investment income was $1,238,300 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:

	2012	2011
Nonadmitted assets	$ (8,870,730)	$ (13,100,560)
Inception to date transfers to mitigation fund	(36,497,998)	(34,913,326)

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

Defined Benefit Pension Plan

All CEA civil service employees participate in the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities with the State of California. Benefit provisions and all other requirements are established by state statute. Copies of CalPERS' annual financial reports may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

CEA has civil service employees that are members of the following bargaining units: Professional Administrative, Financial and Staff Service (Bargaining Unit 1); Attorneys and Hearing Officer (Bargaining Unit 2) and Professional Scientific (Bargaining Unit 10), which are required by bargaining unit agreements to contribute 8.0% to 9.0% of their annual covered salary. CEA is required to contribute remaining amounts necessary to fund the benefits for the actuarial members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by CalPERS Board of Administration. For the fiscal year ended December 31, 2012 the employer contribution rate by plan was 20.503% for Tier 1 State Miscellaneous and 20.457% for Tier 2 State Miscellaneous. For the fiscal year ended December 31, 2011 the employer contribution rate by plan was 18.175% for Tier 1 State Miscellaneous and 17.025% for Tier 2 State Miscellaneous. CEA makes the contributions required of CEA civil service employees on their behalf and for their account. All of CEA's civil service employees are classified as members of the State Miscellaneous Plans.

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

Defined Benefit Pension Plan (Continued)

CEA's employee contributions in 2012 and 2011 were $192,348 or 8.3% of annual covered payroll and $165,756 or 8.2% of annual covered payroll, respectively. The employer's contributions in 2012 and 2011 were $422,532 or 21.6% of annual covered payroll and $321,152 or 16.4% of annual covered payroll, respectively.

Three Year Trend Information for CalPERS

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/12	$ 422,532	100%	$ --
12/31/11	321,152	100%	--
12/31/10	315,595	100%	--

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 CEA for its allocable share of such contributions based on a percentage of payroll. CEA has no legal obligation for benefits under this plan.

Defined Contribution Plan

CEA sponsors the California Earthquake Authority Retirement Plan (Plan), a 401(A) defined contribution savings plan for contract employees. The Plan is administered by UBS Financial Services. Employees contribute 5% of base compensation. CEA contributes 12.71% of the employee's base compensation. The maximum base compensation for 2012 and 2011 was $250,000 and $245,000, respectively. The contributions are funded semi-annually and allocated to CEA based on employee contributions. Employees are fully vested in their account from beginning of employment. CEA has no legal obligation for benefits under this Plan. Only the CEA Board has the authority to amend the Plan provisions. Employee contributions in 2012 and 2011 were $60,967 and $47,344, respectively. CEA's contributions in 2012 and 2011 were $155,115 and $121,624, respectively.

Post-Employment Benefit

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 and civil service employees.

11. Statutory and Regulatory Compliance

The State of California Insurance Code limits CEA's "operating expenses" to 3% of its "premium income." In calculating this limitation, 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 CEA, totaled $14.9 million and $11.0 million for the years ended December 31, 2012 and 2011, 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. CEA has calculated its risk-based capital requirement as of December 31, 2012 and has capital in excess of any regulatory action or reporting level.

12. California Residential Mitigation Program

On August 16, 2011, 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 CEA and Cal EMA. Previously, on December 10, 2010, CEA's Governing Board approved a $500,000 transfer from the CEA Mitigation Fund to CRMP when certain conditions were met, mostly relating to the formation of CRMP. In April 2012, those conditions were met and CEA transferred the funds to CRMP.

13. Subsequent Events

Management has evaluated subsequent events through June 18, 2013, which is the date the statutory financial statements were made available to be issued. No events have occurred subsequent to December 31, 2012 requiring recording or disclosure in these statutory financial statements.

SUPPLEMENTARY INFORMATION

CALIFORNIA EARTHQUAKE AUTHORITY

Summary Investment Schedule
December 31, 2012

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement *	
	Amount	%	Amount	%
Bonds:				
U.S. treasury securities	$ 3,566,205,640	74.85	$ 3,566,205,640	74.85
Cash, cash equivalents, and short-term investments	1,197,966,197	25.15	1,197,966,197	25.15
Total cash and invested assets	$ 4,764,171,837	100.00	$ 4,764,171,837	100.00

** CEA has no securities lending reinvested capital.*

CALIFORNIA EARTHQUAKE AUTHORITY

Supplemental Investment Risk Interrogatories
December 31, 2012

1. The total admitted assets as reported on page 2 of CEA's annual statement are $4,831,593,702.

2. The following are 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 CEA, and policy loans:

Issuer	Investment Category	Amount	% of Total Admitted Assets
Freddie Mac	Short-Term Bond	$ 206,341,072	4.27%
Fannie Mae	Short-Term Bond	200,136,358	4.14
Toyota Motor Credit CP	Short-Term Bond	27,330,165	0.57
JP Morgan Chase & Co CP	Short-Term Bond	24,969,506	0.52
GE Capital Corp CP	Short-Term Bond	24,479,252	0.51

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

Bonds	Amount	% of Total Admitted Assets
NAIC-1	$ 4,729,254,833	98%

4. CEA does not hold any foreign investments.

5. CEA does not hold any Canadian investments.

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

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

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

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

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

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

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

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

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

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

CALIFORNIA EARTHQUAKE AUTHORITY

Supplemental Reinsurance Interrogatories
December 31, 2012

1. 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. CEA ceded risk under reinsurance contracts for which during the year ended December 31, 2012: (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:

   - CEA cedes risk to reinsurers under catastrophe excess-of-loss reinsurance contracts for purposes of limiting its maximum exposure. In 2012, CEA entered into reinsurance contracts that provided a maximum limit of $3.405 billion, which resulted in an aggregate financial impact of $223 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 and the September 2012 agreement that is also a three year contract.

3. 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 CEA, or (ii) an association of which one or more unaffiliated policyholders of CEA is a member where:

   - The written premium ceded to the reinsurer by 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 CEA or its affiliates.

4. Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62R, *Property and Casualty Reinsurance*, 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);

   - Accounted for that contract as reinsurance under GAAP and as a deposit under SAP.

JLK Rosenberger
Certified Public Accountants

JLK Rosenberger, LLP

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Glendale, California 91203

Tel: (818) 334-8623
Fax: (818) 241-7353

To the Governing Board
and California Earthquake Authority

In planning and performing our audit of the financial statements of California Earthquake Authority ("CEA") as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered 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 CEA's internal control. Accordingly, we do not express an opinion on the effectiveness of CEA's internal control.

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 material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

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. 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 CEA is subject and is not intended to be, and should not be used by anyone other than these specified parties.

JLK Rosenberger, LLP

Glendale, California
August 20, 2013

Governing Board Memorandum

August 29, 2013

Agenda Item 8: 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 2012 when it authorized a set-aside amount of $1,584,672.

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 $1,238,300 for the CEA Loss Mitigation Fund, as calculated and shown on *Attachment B.*

Recommendation:

Staff recommends the Board authorize a set-aside of $1,238,300 for the CEA Loss Mitigation Fund.

Attachment A

Memorandum

DATE: August 9, 2013

TO: Tim Richison, Chief Financial Officer

FROM: Shawna Ackerman, Chief Actuary

RE: 2012 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 2012 is $1,238,300.

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, 2013 is $4.313 billion and the total claims paying capacity is $10.413 billion. The mitigation funds available to set aside are approximately 0.03% of the CEA's available capital and 0.01% 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.

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

			A	B	C	(A + B + C)
Year	**Investment Income**	**5% of Investment Income**	**Beginning-of-Year Remaining Funds Available for Set Aside**	**Lesser of 5% of Investment Income or $5 million ****	**Funds Set Aside by the Governing Board**	**End-of-Year Remaining Funds Available for Set Aside**
Balance as of December 31, 2000						**$ -**
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
2012	$ 24,766,000.00	$ 1,238,300.00	$ 1,584,672.10	$ 1,238,300.00	$ (1,584,672.10)	$ 1,238,300.00
Balance as of December 31, 2012						**$ 1,238,300.00**

** 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 29, 2013

Agenda Item 9: Groundwork for a proposed new CEA revenue-bond issuance

Recommended Action: Approve steps outlined for proposed CEA revenue-bond issuance

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Background**:**

The CEA law provides express authority for the Authority to use debt to structure its finances and meet its claim-payment-related needs, and the authorized debt may be incurred either before or after the occurrence of an earthquake, or both.

The CEA has not incurred post-event debt (e.g., a bond issuance following an earthquake for the express purpose of paying claims and claim expenses arising from that earthquake).

But $315 million in pre-event revenue bonds that the CEA issued in July 2006 have for a number of years provided an important and highly flexible component of the Authority's financial structure. Those bonds have helped assure CEA's claim-paying capacity for major earthquakes, and as important, have helped the CEA as an organization prepare to survive a major earthquake so the CEA can continue providing post-earthquake financial security for Californians.

Analysis**:**

It is the opinion of the CEA's financial and executive staff that the combination of (1) today's favorable interest-rate environment for high quality debt issuers such as the CEA and (2) CEA's excellent financial health provide an excellent opportunity to issue additional pre-event revenue bonds—the CEA would use bond proceeds to supply claim-paying capacity.

NOTE: The proposed new bond structure would be aligned and executed so as not to interfere with any future indebtedness incurred under a debt facility supported by the limited, committed federal guarantee of post-event CEA debt for which the CEA has actively pursued legislation in Congress. To that end, the pre-event revenue bonds proposed here would have a feature not present in the 2006 revenue bonds: After an agreed period (three, four, or five years), the CEA would have the right, without penalty, to fully repay existing bondholders and redeem outstanding bonds at par value (i.e., at the face amount of the bonds), thus clearing the way for CEA's post-event borrowing under the federally guaranteed facility.

Proposed Revenue-Bond Structure:

Borrower	California Earthquake Authority
Agent for Sale	California State Treasurer
Estimated Par Amount	Up to $300 million
Maturity	To be determined
Tax Status	Federally taxable (not subject to California state income tax)
Bond type	• Floating rate (three-month LIBOR plus a percentage) -or - • Fixed rate
Expected Closing Date	Late fall 2013

Flow of Funds

The CEA would pledge revenue to finance repayment of the proposed revenue bonds; the pledged revenue would consist of the CEA's policyholder premium, less the commissions and participating-insurer operating costs that the CEA's participating insurance companies retain. The revenue pledge for the newly proposed bonds would be subordinate to the similar pledge supporting the 2006 revenue bonds until the 2006 revenue bonds are fully paid—at that point, the pledge supporting the proposed revenue bonds would become primary.

All pledged revenue would be deposited with the existing trustee bank (U.S. Bank) for the original CEA bond transaction. Using the deposited revenue, U.S. Bank will fund the trust accounts already created for repayment of bond principal and interest for the 2006 revenue bonds(the same accounts would be re-purposed for the newly proposed revenue-bond proceeds).

For a more detailed depiction of the flow of funds and the trust accounts, see the flow-of-funds chart that is *Attachment A*.

Disposition of (Proposed) Revenue-Bond Proceeds

CEA can use bond proceeds only to pay policyholder claims and claim-related expenses.

The proposed revenue-bond proceeds will fund a non-trust, claim-paying account at the CEA's custody bank, State Street Bank.

CEA's investment managers would invest the bond proceeds on behalf of the CEA in accordance with investment policies and procedures either (1) similar to the investment policies and procedures pertaining to the CEA's Primary Fund or (2) that segment of CEA investment policies and procedures pertaining to short-term securities held in the CEA's Liquidity Fund.

Using the investment policies established for these two CEA funds allows the CEA to match the outstanding bonds' interest-rate characteristics to minimize any mismatch between investment income and bond-interest payments. Also, because the claim-paying account may be accessed to pay claims before the bonds' maturity, using those investment policies ensures that the claim-paying account will consist of high-quality securities that are readily marketable.

Key Revenue-Bond Documents

The following is a brief description of the key documents for the proposed bond issuance and which the Board will receive when the transaction is ready for final approval:

Indenture of Trust: The bond indenture of trust is an agreement between the borrower (CEA) and the trustee (U.S. Bank) and presents both the general structure of the bond transactions and the respective duties and obligations of the borrower and the trustee.

Supplemental Indenture of Trust: The supplemental indenture of trust is an agreement between the borrower and the trustee and describes both the structure of each bond series in the transaction and, for each such series, the respective duties and obligations of the borrower and the trustee.

Bond Purchase Contract: The bond purchase contract is an agreement among the borrower (CEA), the underwriter(s) (to be determined by California State Treasurer's Office), and the agent for sale (the California State Treasurer) that states the terms and conditions of the bond sale.

Preliminary Official Statement: The preliminary official statement is the bond-transaction disclosure document given to potential investors and which presents the history, background, and financial results of the borrower, a summary of the bond transactions, and the risk factors inherent in the transaction.

Continuing Disclosure Agreement: The continuing disclosure agreement states the borrower's representations regarding periodic reporting requirements during the term of the bonds.

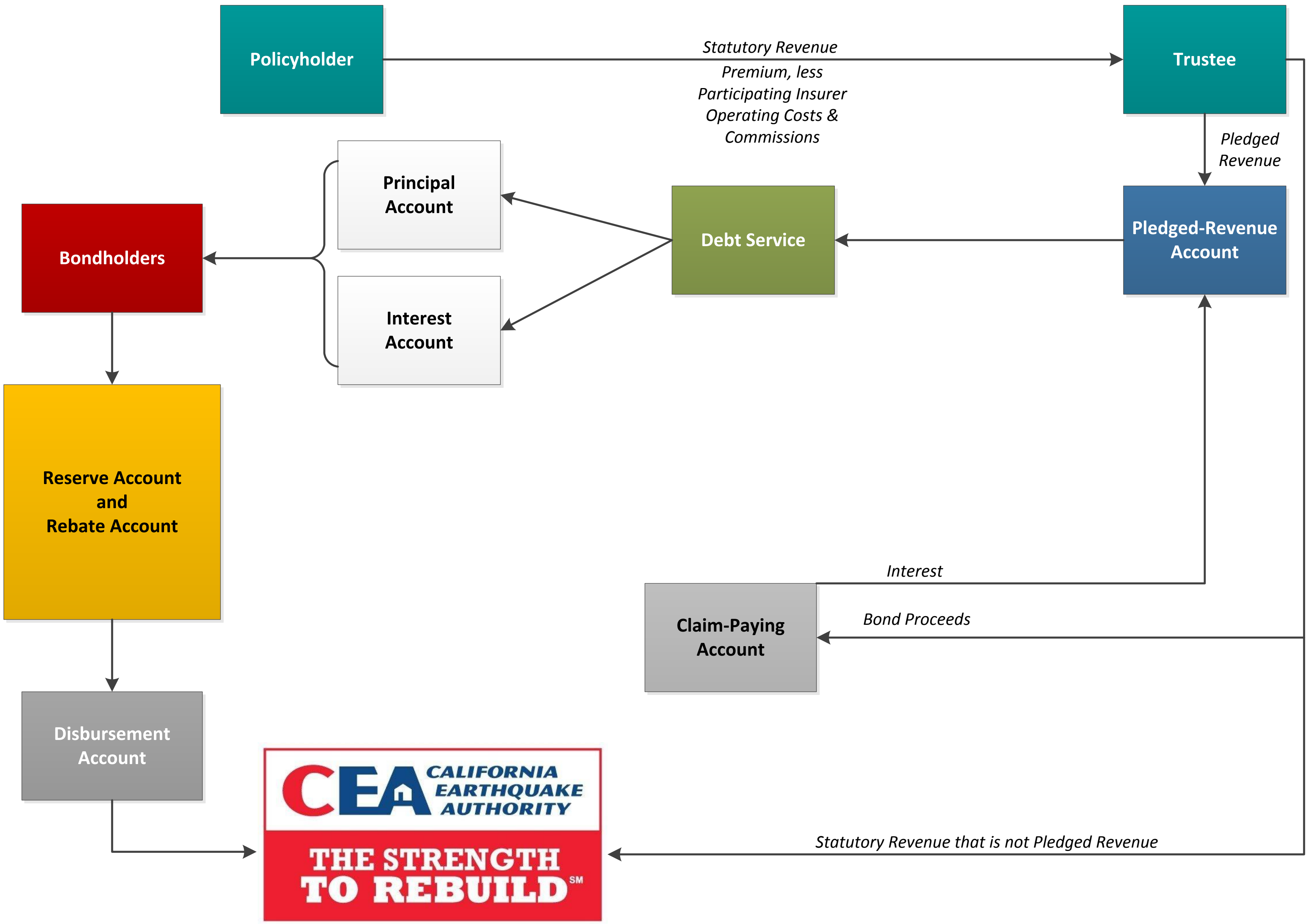
Proposed Timeline

If the Board approves CEA staff's recommendation to start the process of issuing additional pre-event revenue bonds during the fall of 2013, a finance team would be established and work would commence on all steps and documentation necessary to support the bond transaction. Once the documentation is complete, CEA staff would set a meeting of the Board to present and discuss the documentation and seek Board approval to proceed with the bond issuance.

Recommendations:

Staff recommends that the Board approve: (1) staff's forming a financing team to structure an issuance of $300 million in pre-event revenue bonds, as described generally above, and (2) once documentation for the bond transaction is complete, direct staff to bring the documentation to the Board for consideration and approval. If the Board approves the documentation and the transaction, the bonds would be issued and sold by the CEA.

Revenue Bond Flow of Funds



Governing Board Memorandum

August 29, 2013

Agenda Item 10: Progress report: Earthquake Guidelines Development Project

Recommended Action: No action required – information only

Background:

The intent of the earthquake-guidelines-development project is to create statewide retrofit standards that can be used to reduce earthquake damage in single family dwellings.

When complete and adopted, the guidelines will be an extension of Chapter A3 of the International Building Code, which is the current limited standards for retrofitting cripple-wall dwellings currently adopted (by reference) into the California Building Code.

In addition to providing uniform standards for homeowners, contractors, and engineers, the new guidelines will help CEA and others establish and expand (1) incentive programs to encourage seismic retrofits, such as that currently being coordinated under the California Residential Mitigation Program, and (2) to improve the ability of the CEA to develop and provide mitigation discounts for CEA-insured homeowners.

The CEA will fund the project, and CEA chief mitigation officer Janiele Maffei will manage the project jointly with Mike Mahoney of FEMA.

The entity chosen to contract for management of the guidelines project is the Applied Technology Council ("ATC").

Analysis:

ATC has completed a draft scope of work, including a work schedule, a proposed budget for year one, a proposed project team, and a proposed advisory panel. The scope is currently under review by CEA staff.

Once approved by the CEA, the scope of work will become part of a contract between the CEA and ATC, to be presented to the CEA Governing Board.

Recommendation:

No action required.

Governing Board Memorandum

August 29, 2013

Agenda Item 11: CEA Mitigation-Research Project

Recommended Action: No action required – information only

Background and Analysis:

The CEA mitigation-research project has been undertaken to permit the CEA to calculate appropriate mitigation-related earthquake-insurance-premium discounts, to support the seismic building code-related guideline-development process, and inform other strategic mitigation endeavors by both the CEA and the California Residential Mitigation Program operated by the CEA/CalOES joint powers authority.

In January 2013 the CEA hosted a symposium entitled *Workshop for Development of an Experimental and Numerical Modeling Program to Evaluate the Effectiveness of Selected Seismic-Mitigation Measures for Single-Family Dwellings*. At the symposium, engineers, researchers, insurance professionals, and other stakeholders developed recommendations for a mitigation-research program.

The consultants who oversaw the symposium then developed a summary of findings. And these findings were developed into a detailed scope of work for use in creating a Request for Qualifications (RFQ) for research-program management.

CEA staff is now finalizing that scope of work and related RFQ for the mitigation-research project. The RFQ will be publicly advertised, and submissions will be reviewed and evaluated.

Recommendation:

No action required.

Governing Board Memorandum

August 29, 2013

Agenda Item 12: Update: California Residential Mitigation Program

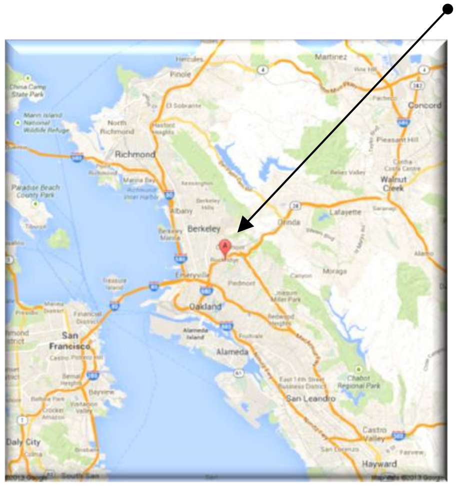
Recommended Action: No action required – information only

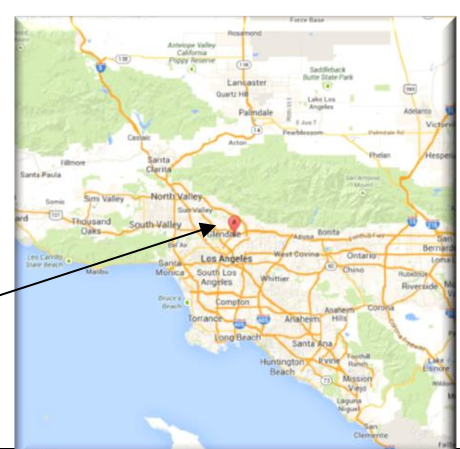
Background and Analysis:

The California Residential Mitigation Program (CRMP) incentive program continues to move forward. All initial operating and consulting contracts are now in place, and steady progress has been made in marketing and Web-site development.

At the July 2013 CRMP board meeting, the board approved a new name and logo for the incentive program. The program is now called the Earthquake Brace + Bolt seismic retrofit incentive program (Earthquake Brace + Bolt or EBB, for short).

The incentive program officially launches on September 23, 2013, with a press event in the Rockridge/Temescal area in Oakland. Homeowners in these areas, as well as in the Eagle Rock community in Los Angeles, will have the opportunity to learn about and apply to participate in the pilot project through the Web site www.earthquakebracebolt.com. Enrollment in the program will be open for 30 days, from September 23rd through October 22nd. The enrollment period closes with a special event in Eagle Rock on October 23, 2013.





Minimum EBB-program qualifications are self-identified by homeowners. The qualifications relate directly to California Existing Building Code, Title 24, Appendix Chapter A3 (as adopted), which specifies how to seismically retrofit houses with raised floors and cripple walls less than four feet tall.

At present, these are the only houses covered by a retrofit seismic building code and are, by program rule, the only houses that qualify for the program—using standardized retrofit methods means that homeowners and the program can be assured that retrofits conform to code.

Applications for houses that meet minimum qualifications will be subject to a lottery process for program participation.

Separate lottery processes for the Rockridge/Temescal and Eagle Rock areas will identify the houses for the pilot project, 10 in each area, a total of 20. Each pilot house will be inspected by a CRMP-contracted special inspector to verify minimum qualifications—the inspection also tests whether the self-identification process is workable.

Once a house passes the special inspection, EBB contacts the homeowner to proceed with a permit application and, by and through a homeowner-selected contractor, the retrofit work.

Participating homeowners must establish an EBB Web profile within 15 days of notice of program qualification. Those who fail to establish a profile within 30 days will be replaced by another applicant. This stipulation is intended to ensure full and active participation.

When the building permit is issued, the homeowner updates their profile, and that permit date triggers the project time clock. As a general rule, homeowners will be allowed up to 90 days to complete the retrofit work.

EBB will check in periodically by email, reminding them of due dates for special inspections and required documentation, and providing resource links.

Applicants who did not follow through on initial selection and those not selected initially will be notified they may have an opportunity to participate in the statewide program without having to re-apply.

The EBB-program pilot phase ends on February 28, 2014. A CRMP-contracted program evaluator will review all program components; interview program applicants/participants, contractors, and community stakeholders; and furnish a detailed report on the EBB program.

Statewide roll-out will commence after the evaluation report has been reviewed and accepted by the CRMP board and any recommended program modifications have been made.

The time frame for statewide roll out is expected to be third or fourth quarter 2014.

<u>Recommendation</u>: No action – information only

Governing Board Memorandum

August 29, 2013

Agenda Item 13:	Renewal of the CEA's Directors and Officers and Employment Practices Liability insurance coverages
Recommended Action:	Approve paying renewal premium for renewal of CEA's D&O 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. The policy provides 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 CEA's current D&O/EPL policy expires on August 31, 2013. Staff has obtained a quote for a renewal policy and requests the Board's authorization to renew the policy and purchase the 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 one-year term—from August 31, 2013, through August 31, 2014. As with the previous policy term, the limit of liability for D&O claims is $10 million per claim, and there is a $5 million sublimit for EPL claims. The renewal offer includes minor modifications in the scope of coverages provided: While some are enhancements and some narrow the scope of coverage, the most noteworthy of the coverage reductions is the elimination of $100,000 of coverage (for defense costs only and subject to a $100,000 deductible) of "wage-and-hour claims."

The quoted annual premium for the renewal policy is $113,980, the same annual premium as the CEA paid for the expiring term. CEA staff is satisfied with the terms of the offered coverages and recommends accepting the carrier's renewal offer.

Recommendation:

Authorize the necessary expenditure and signature authority so that staff may (1) renew the CEA's existing D&O/EPL coverage, 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, 2013.

California Earthquake Authority

Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to June 30, 2013

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				2	8,627.67	776.49	$9,404.16
10330	Ferndale	1/9/2010	6.5	27 mi W of Ferndale	3	23,901.50	2,151.13	$26,052.63
10360	Baja California Mexico	4/4/2010	7.2	16 mi SW from Guadalupe Victoria, Mexico	17	81,066.58	7,296.00	$88,362.58
	2010 Minor Quakes				1	225,000.00	0.00	$225,000.00
12410	Brawley	8/26/2012	5.3	4 mi North of Brawley, CA	2	23,833.24	2,145.00	$25,978.24
	2012 Minor Quakes				2	7,819.09	703.72	$8,522.81
				Total	**180**	**$3,994,344.49**	**$338,378.70**	**$4,332,723.19**

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.

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TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Homeowners							
15% Total	584,125	69.4 %	261,536,519,809	82.8 %	446,670,784	79.5 %	765
10% Total	69,046	8.2 %	33,478,956,378	10.6 %	56,544,920	10.1 %	819
Homeowners Total	653,171	77.6 %	295,015,476,187	93.4 %	503,215,704	89.6 %	770
Homeowners Choice							
15% Total	6,545	0.8 %	3,771,944,548	1.2 %	6,456,517	1.1 %	986
10% Total	4,319	0.5 %	2,462,810,456	0.8 %	3,797,953	0.7 %	879
Homeowners Choice Total	10,864	1.3 %	6,234,755,004	2.0 %	10,254,470	1.8 %	944
Manufactured Homes (Mobilehomes)-Homeowners							
15% Total	21,360	2.5 %	2,299,895,880	0.7 %	2,409,354	0.4 %	113
10% Total	4,402	0.5 %	662,092,399	0.2 %	596,413	0.1 %	135
Manufactured Homes (Mobilehomes)-Homeowners Total	25,762	3.1 %	2,961,988,279	0.9 %	3,005,767	0.5 %	117
Manufactured Homes (Mobilehomes)-Homeowners Choice							
15% Total	126	0.0 %	19,222,890	0.0 %	21,631	0.0 %	172
10% Total	139	0.0 %	23,945,989	0.0 %	18,319	0.0 %	132
Manufactured Homes (Mobilehomes)-Homeowners Choice Total	265	0.0 %	43,168,879	0.0 %	39,949	0.0 %	151
Condo Total	103,871	12.3 %	9,848,073,000	3.1 %	39,353,740	7.0 %	379
Renters Total	47,526	5.6 %	1,792,261,500	0.6 %	5,707,629	1.0 %	120
Grand Total	841,459	100.0 %	315,895,722,849	100.0 %	561,577,260	100.0 %	667

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HOMEOWNERS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k	584,125	89.4 %	253,712,532,809	86.0 %	417,975,104	83.1 %	716
BCU 20k	68,668	10.5 %	686,680,000	0.2 %	1,140,843	0.2 %	17
Coverage C 25k	32,414	5.0 %	648,280,000	0.2 %	4,362,599	0.9 %	135
Coverage C 50k	21,031	3.2 %	946,395,000	0.3 %	4,644,062	0.9 %	221
Coverage C 75k	9,515	1.5 %	666,050,000	0.2 %	2,662,738	0.5 %	280
Coverage C 100k	33,805	5.2 %	3,211,475,000	1.1 %	11,608,825	2.3 %	343
Coverage D 10k	38,352	5.9 %	325,992,000	0.1 %	956,289	0.2 %	25
Coverage D 15k	70,844	10.8 %	956,394,000	0.3 %	2,616,589	0.5 %	37
Coverage D 25k	16,286	2.5 %	382,721,000	0.1 %	703,735	0.1 %	43
15% Total	**584,125**	**89.4 %**	**261,536,519,809**	**88.7 %**	**446,670,784**	**88.8 %**	**765**
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k	69,046	10.6 %	29,984,092,878	10.2 %	45,343,394	9.0 %	657
BCU 20k	18,518	2.8 %	185,180,000	0.1 %	257,206	0.1 %	14
Coverage C 25k	11,100	1.7 %	222,000,000	0.1 %	1,588,185	0.3 %	143
Coverage C 50k	8,081	1.2 %	363,645,000	0.1 %	1,531,520	0.3 %	190
Coverage C 75k	4,129	0.6 %	289,030,000	0.1 %	990,599	0.2 %	240
Coverage C 100k	18,725	2.9 %	1,778,875,000	0.6 %	5,680,682	1.1 %	303
Coverage D 10k	13,588	2.1 %	115,498,000	0.0 %	245,110	0.0 %	18
Coverage D 15k	25,115	3.8 %	339,052,500	0.1 %	664,595	0.1 %	26
Coverage D 25k	8,578	1.3 %	201,583,000	0.1 %	243,629	0.0 %	28
10% Total	**69,046**	**10.6 %**	**33,478,956,378**	**11.3 %**	**56,544,920**	**11.2 %**	**819**
Homeowners Total	**653,171**	**100.0 %**	**295,015,476,187**	**100.0 %**	**503,215,704**	**100.0 %**	**770**

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HOMEOWNERS CHOICE	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k[1]	6,545	60.2 %	3,542,571,048	56.8 %	5,477,527	53.4 %	837
BCU 20k	2,131	19.6 %	21,310,000	0.3 %	37,429	0.4 %	18
Coverage C 25k	868	8.0 %	17,360,000	0.3 %	184,111	1.8 %	212
Coverage C 50k	651	6.0 %	29,295,000	0.5 %	171,243	1.7 %	263
Coverage C 75k	230	2.1 %	16,100,000	0.3 %	66,793	0.7 %	290
Coverage C 100k	875	8.1 %	83,125,000	1.3 %	327,117	3.2 %	374
Coverage D 10k	802	7.4 %	6,817,000	0.1 %	32,719	0.3 %	41
Coverage D 15k	524	4.8 %	7,074,000	0.1 %	26,838	0.3 %	51
Coverage D 25k	2,055	18.9 %	48,292,500	0.8 %	132,740	1.3 %	65
15% Total	**6,545**	**60.2 %**	**3,771,944,548**	**60.5 %**	**6,456,517**	**63.0 %**	**986**
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k[1]	4,319	39.8 %	2,221,788,456	35.6 %	2,969,609	29.0 %	688
BCU 20k	1,812	16.7 %	18,120,000	0.3 %	25,937	0.3 %	14
Coverage C 25k	830	7.6 %	16,600,000	0.3 %	144,149	1.4 %	174
Coverage C 50k	684	6.3 %	30,780,000	0.5 %	150,476	1.5 %	220
Coverage C 75k	267	2.5 %	18,690,000	0.3 %	64,827	0.6 %	243
Coverage C 100k	1,065	9.8 %	101,175,000	1.6 %	325,133	3.2 %	305
Coverage D 10k	716	6.6 %	6,086,000	0.1 %	20,145	0.2 %	28
Coverage D 15k	415	3.8 %	5,602,500	0.1 %	15,121	0.1 %	36
Coverage D 25k	1,871	17.2 %	43,968,500	0.7 %	82,556	0.8 %	44
10% Total	**4,319**	**39.8 %**	**2,462,810,456**	**39.5 %**	**3,797,953**	**37.0 %**	**879**
Homeowners Choice Total	**10,864**	**100.0 %**	**6,234,755,004**	**100.0 %**	**10,254,470**	**100.0 %**	**944**

[1]Includes policies with Coverage A, C and D, Coverage A and C, Coverage A and D, and Coverage A only

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MANUFACTURED HOMES (MOBILEHOMES)-HOMEOWNERS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k	21,360	82.9 %	2,105,113,380	71.1 %	2,288,144	76.1 %	107
Coverage C 25k	1,619	6.3 %	32,380,000	1.1 %	35,703	1.2 %	22
Coverage C 50k	1,113	4.3 %	50,085,000	1.7 %	36,687	1.2 %	33
Coverage C 75k	346	1.3 %	24,220,000	0.8 %	13,031	0.4 %	38
Coverage C 100k	486	1.9 %	46,170,000	1.6 %	21,054	0.7 %	43
Coverage D 10k	1,608	6.2 %	13,668,000	0.5 %	5,934	0.2 %	4
Coverage D 15k	1,444	5.6 %	19,494,000	0.7 %	6,735	0.2 %	5
Coverage D 25k	373	1.4 %	8,765,500	0.3 %	2,064	0.1 %	6
15% Total	**21,360**	**82.9 %**	**2,299,895,880**	**77.6 %**	**2,409,354**	**80.2 %**	**113**
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k	4,402	17.1 %	473,817,399	16.0 %	513,208	17.1 %	117
Coverage C 25k	1,407	5.5 %	28,140,000	1.0 %	22,535	0.7 %	16
Coverage C 50k	1,059	4.1 %	47,655,000	1.6 %	24,568	0.8 %	23
Coverage C 75k	327	1.3 %	22,890,000	0.8 %	9,102	0.3 %	28
Coverage C 100k	497	1.9 %	47,215,000	1.6 %	16,177	0.5 %	33
Coverage D 10k	1,335	5.2 %	11,347,500	0.4 %	3,242	0.1 %	2
Coverage D 15k	1,421	5.5 %	19,183,500	0.6 %	5,497	0.2 %	4
Coverage D 25k	504	2.0 %	11,844,000	0.4 %	2,085	0.1 %	4
10% Total	**4,402**	**17.1 %**	**662,092,399**	**22.4 %**	**596,413**	**19.8 %**	**135**
Manufactured Homes (Mobilehomes)-Homeowners Total	**25,762**	**100.0 %**	**2,961,988,279**	**100.0 %**	**3,005,767**	**100.0 %**	**117**

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MANUFACTURED HOMES (MOBILEHOMES)-HOMEOWNERS CHOICE	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k[1]	126	47.5 %	15,100,890	35.0 %	17,917	44.8 %	142
Coverage C 25k	30	11.3 %	600,000	1.4 %	1,064	2.7 %	35
Coverage C 50k	26	9.8 %	1,170,000	2.7 %	1,282	3.2 %	49
Coverage C 75k	4	1.5 %	280,000	0.6 %	209	0.5 %	52
Coverage C 100k	8	3.0 %	760,000	1.8 %	390	1.0 %	49
Coverage D 10k	18	6.8 %	153,000	0.4 %	156	0.4 %	9
Coverage D 15k	11	4.2 %	148,500	0.3 %	114	0.3 %	10
Coverage D 25k	43	16.2 %	1,010,500	2.3 %	499	1.3 %	12
15% Total	**126**	**47.5 %**	**19,222,890**	**44.5 %**	**21,631**	**54.1 %**	**172**
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k[1]	139	52.5 %	16,199,989	37.5 %	14,372	36.0 %	103
Coverage C 25k	52	19.6 %	1,040,000	2.4 %	1,181	3.0 %	23
Coverage C 50k	34	12.8 %	1,530,000	3.5 %	1,007	2.5 %	30
Coverage C 75k	19	7.2 %	1,330,000	3.1 %	429	1.1 %	23
Coverage C 100k	18	6.8 %	1,710,000	4.0 %	543	1.4 %	30
Coverage D 10k	28	10.6 %	238,000	0.6 %	194	0.5 %	7
Coverage D 15k	17	6.4 %	229,500	0.5 %	121	0.3 %	7
Coverage D 25k	71	26.8 %	1,668,500	3.9 %	471	1.2 %	7
10% Total	**139**	**52.5 %**	**23,945,989**	**55.5 %**	**18,319**	**45.9 %**	**132**
Manufactured Homes (Mobilehomes)-Homeowners Choice Total	**265**	**100.0 %**	**43,168,879**	**100.0 %**	**39,949**	**100.0 %**	**151**

[1]Includes policies with Coverage A, C and D, Coverage A and C, Coverage A and D, and Coverage A only

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CONDO	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Coverage A/BCU 10k	76,073	73.2 %	2,662,555,000	27.0 %	8,040,088	20.4 %	106
Coverage C 5k/D 1.5k	34,969	33.7 %	227,298,500	2.3 %	2,497,043	6.3 %	71
Coverage C 5k[1]	9,668	9.3 %	48,340,000	0.5 %	599,089	1.5 %	62
Coverage C 25k	14,854	14.3 %	371,350,000	3.8 %	1,682,529	4.3 %	113
Coverage C 50k	12,310	11.9 %	615,500,000	6.2 %	1,539,430	3.9 %	125
Coverage C 75k	5,643	5.4 %	423,225,000	4.3 %	758,491	1.9 %	134
Coverage C 100k	11,820	11.4 %	1,182,000,000	12.0 %	1,639,029	4.2 %	139
Coverage D 1.5k[2]	7,243	7.0 %	10,864,500	0.1 %	94,879	0.2 %	13
Coverage D 10k	14,391	13.9 %	143,910,000	1.5 %	368,234	0.9 %	26
Coverage D 15k	25,262	24.3 %	378,930,000	3.8 %	691,045	1.8 %	27
Coverage D 25k	7,399	7.1 %	184,975,000	1.9 %	200,790	0.5 %	27
Coverage E 25k	3,201	3.1 %	80,025,000	0.8 %	715,752	1.8 %	224
Coverage E 50k	59,441	57.2 %	2,972,050,000	30.2 %	17,756,277	45.1 %	299
Coverage E 75k	7,294	7.0 %	547,050,000	5.6 %	2,771,066	7.0 %	380
Condo Total	**103,871**	**100.0 %**	**9,848,073,000**	**100.0 %**	**39,353,740**	**100.0 %**	**379**

[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

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RENTERS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Coverage C 5k/D 1.5k	18,218	38.3 %	118,417,000	6.6 %	1,361,018	23.8 %	75
Coverage C 5k[1]	3,665	7.7 %	18,325,000	1.0 %	248,293	4.4 %	68
Coverage C 25k	11,787	24.8 %	294,675,000	16.4 %	1,441,218	25.3 %	122
Coverage C 50k	7,206	15.2 %	360,300,000	20.1 %	963,538	16.9 %	134
Coverage C 75k	2,174	4.6 %	163,050,000	9.1 %	311,277	5.5 %	143
Coverage C 100k	4,476	9.4 %	447,600,000	25.0 %	625,060	11.0 %	140
Coverage D 1.5k[2]	5,223	11.0 %	7,834,500	0.4 %	70,657	1.2 %	14
Coverage D 10k	8,003	16.8 %	80,030,000	4.5 %	223,015	3.9 %	28
Coverage D 15k	10,002	21.0 %	150,030,000	8.4 %	288,599	5.1 %	29
Coverage D 25k	6,080	12.8 %	152,000,000	8.5 %	174,956	3.1 %	29
Renters Total	**47,526**	**100.0 %**	**1,792,261,500**	**100.0 %**	**5,707,629**	**100.0 %**	**120**

[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