KPMG

CALIFORNIA EARTHQUAKE AUTHORITY

Financial Statements

December 31, 2000 and 1999

(With Independent Auditors' Report Thereon)

Three Embarcadero Center
San Francisco, CA 94111

Independent Auditors' Report

The Board of Directors
California Earthquake Authority:

We have audited the accompanying balance sheets of the California Earthquake Authority (the Authority) as of December 31, 2000 and 1999, and the related statements of income, equity and comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California Earthquake Authority as of December 31, 2000 and 1999, 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

February 23, 2001

CALIFORNIA EARTHQUAKE AUTHORITY

Balance Sheets

December 31, 2000 and 1999

Assets	**2000**	**1999**
Investments and cash:		
Cash and cash equivalents (note 8)	$ 735,371,488	546,642,398
Available for sale investment securities, at fair value (amortized cost of $211,207,723 and $113,193,830 at December 31, 2000 and 1999, respectively)	211,200,358	113,203,185
Total investments and cash	946,571,846	659,845,583
Premiums receivable, net	35,463,931	34,107,872
Assessments receivable	9,993,911	17,001,172
Interest receivable (note 8)	8,156,426	2,988,546
Unearned ceded premiums	116,140,685	148,067,310
Prepaid reinsurance premiums	62,740,588	130,610,872
Prepaid line of credit fees	2,151,500	2,151,500
Reinsurance premiums receivable	28,896,403	80,651,271
Equipment, net	284,443	361,052
Deferred policy acquisition costs	27,741,921	28,129,807
Other assets	90,828	37,247
Total assets	$ 1,238,232,482	1,103,952,232
Liabilities and Equity		
Unearned premiums, net	$ 216,733,753	219,764,114
Claim and claim expense reserves	287,203	742,772
Reinsurance premiums payable	3,461,914	2,882,995
Accounts payable and accrued expenses (note 8)	1,385,342	1,617,784
Total liabilities	221,868,212	225,007,665
Commitments and contingencies (notes 1, 4, 5 and 8)		
Equity:		
Contributed capital	700,028,490	700,028,490
Additional paid-in capital	31,220,093	21,602,438
Mitigation Fund (note 8)	844,747	2,624,367
Retained earnings	284,278,305	154,679,917
Accumulated other comprehensive (loss) income	(7,365)	9,355
Total equity	1,016,364,270	878,944,567
Total liabilities and equity	$ 1,238,232,482	1,103,952,232

See accompanying notes to financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Income

Years ended December 31, 2000 and 1999

	2000	1999
Underwriting income:		
Premiums written	$ 432,770,846	417,507,589
Less premiums ceded – reinsurance	(239,758,292)	(194,942,098)
Net premiums written	193,012,554	222,565,491
Change in unearned premiums	3,030,361	(11,119,844)
Change in unearned premiums ceded – reinsurance	(31,926,625)	(16,844,870)
Net unearned premiums	(28,896,264)	(27,964,714)
Net premiums earned	164,116,290	194,600,777
Expenses:		
Claims and claim expenses	(297,370)	824,719
Participating insurer commissions	43,649,481	40,707,276
Participating insurer operating costs	12,214,986	13,945,562
Reinsurance broker commissions	10,850,000	10,850,000
Pro forma premium taxes	9,617,655	8,528,088
Line of credit fees	4,951,320	5,224,720
Mitigation Fund expenses	3,499,500	393,299
Other underwriting expenses	7,068,243	8,805,050
Total expenses	91,553,815	89,278,714
Underwriting profit	72,562,475	105,322,063
Net investment income	51,409,865	26,880,760
Supplemental commission income, net	3,382,762	819,785
Other income	463,666	381,738
Net income	$ 127,818,768	133,404,346

See accompanying notes to financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Equity and Comprehensive Income

Years ended December 31, 2000 and 1999

		Contributed capital	Additional paid-in capital	Mitigation Fund (note 8)	Retained earnings	Accumulated other comprehensive (loss) income	Total equity
Balances at December 31, 1998	$	700,028,490	13,074,350	1,723,295	22,176,643	(72,682)	736,930,096
Comprehensive income:							
Net income		—	—	—	133,404,346	—	133,404,346
Other comprehensive income:							
Unrealized holding gains arising during the year		—	—	—	—	82,037	82,037
Comprehensive income							133,486,383
Contribution to the Mitigation Fund		—	—	1,214,130	(1,214,130)	—	—
Allocations of Mitigation Fund costs		—	—	(313,058)	313,058	—	—
State of California premium tax contribution		—	8,528,088	—	—	—	8,528,088
Balances at December 31, 1999		700,028,490	21,602,438	2,624,367	154,679,917	9,355	878,944,567
Comprehensive income:							
Net income		—	—	—	127,818,768	—	127,818,768
Other comprehensive loss:							
Unrealized holding losses arising during the year		—	—	—	—	(15,821)	—
Less reclassification adjustments for gains included in net income		—	—	—	—	(899)	—
Other comprehensive loss		—	—	—	—	(16,720)	(16,720)
Comprehensive income							127,802,048
Contribution to the Mitigation Fund		—	—	1,568,614	(1,568,614)	—	—
Allocations of Mitigation Fund costs		—	—	(3,348,234)	3,348,234	—	—
State of California premium tax contribution		—	9,617,655	—	—	—	9,617,655
Balances at December 31, 2000	$	700,028,490	31,220,093	844,747	284,278,305	(7,365)	1,016,364,270

See accompanying notes to financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Cash Flows

Years ended December 31, 2000 and 1999

		2000	1999
Cash flows from operating activities:			
Net income	$	127,818,768	133,404,346
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and accretion		(3,285,498)	(734,193)
Pro forma premium tax expense		9,617,655	8,528,088
Loss on disposal of equipment		—	853
Changes in operating assets and liabilities:			
Premiums receivable		(1,356,059)	(3,004,559)
Interest receivable		(5,167,880)	(1,645,118)
Unearned ceded premiums		31,926,625	16,844,870
Prepaid reinsurance premiums		67,870,284	113,505,943
Prepaid line of credit fees		—	(269,118)
Reinsurance premiums receivable		51,754,868	(79,653,629)
Deferred policy acquisition costs		387,886	245,815
Other assets		(53,581)	(8,159)
Unearned premiums, net		(3,030,361)	11,119,844
Reinsurance premiums payable		578,919	2,882,995
Claims and claim expense reserves		(455,569)	742,772
Accounts payable and accrued expenses		(232,442)	(335,877)
Accrued liability for estimated policy refunds		—	(1,027,610)
Net cash provided by operating activities		276,373,615	200,597,263
Cash flows from investing activities:			
Proceeds from maturities of available for sale investment securities		1,155,185,647	546,082,959
Proceeds from sales of available for sale investment securities		179,427,344	—
Purchases of available for sale investment securities		(1,429,159,658)	(624,784,070)
Purchases of equipment		(105,119)	(226,727)
Net cash used in investing activities		(94,651,786)	(78,927,838)
Cash flows provided by financing activities – assessments received from participating insurers		7,007,261	6,780,161
Net increase in cash and cash equivalents		188,729,090	128,449,586
Cash and cash equivalents, beginning of year		546,642,398	418,192,812
Cash and cash equivalents, end of year	$	735,371,488	546,642,398

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

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. Effective July 1, 1999, the CEA also provides supplemental insurance coverage for earthquake damage.

In September 1996, legislation to create the CEA was approved by the California State Legislature. On November 26, 1996, the State of California Insurance Commissioner certified that all statutory conditions necessary for the CEA to become operational had been met, and the CEA began writing earthquake policies on December 1, 1996.

The CEA is overseen by a 3-member governing board consisting of designees of the Governor, the Treasurer, and the Insurance Commissioner. Designees of the Speaker of the Assembly and the Chairperson of the Senate Rules Committee serve on the governing board as nonvoting members. The governing board is advised by an 11-member advisory panel, consisting of consumer and insurance industry representatives.

CEA policies are sold to policyholders by participating insurance carriers of the CEA. Insurance companies admitted to write residential property insurance in California and who elected to become participating members of the CEA signed Insurer Participation Agreements with the CEA. Under these agreements, participating insurers act as independent contractor agents on behalf of the CEA by performing policy and claims services which include underwriting, policy issuance, premium collection, and claims adjustment.

Under the agreements, the CEA reimburses participating insurers for nonclaims-related operating costs incurred by these companies in servicing CEA policies. The operating cost reimbursement is equal to 3.65% of premiums written for CEA policies for the period from inception through April 30, 1999 and 2.80% of premiums written for the period from May 1, 1999 through December 31, 2000. Additionally, participating insurers receive reimbursement for expenses associated with servicing CEA claims equal to 9% of the paid claim, as well as a producer commission equal to 10% of premiums written for CEA policies. As of December 31, 2000, there were 18 participating insurance carriers of the CEA, who have commenced writing CEA policies.

(b) Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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.

(Continued)

(c) Revenue Recognition

The CEA's premium rates are required to be actuarially sound and are based on the modeling of potential loss scenarios due to a major earthquake event. Premiums are recognized as earned on a pro rata basis over the contract period. Unearned premiums represent amounts collected which relate to coverage in future periods.

Premiums paid or accrued by the CEA under reinsurance agreements, net of estimated return premiums, are accounted for as a reduction in the related premium revenue earned and are amortized over the remaining contract period in proportion to the amount of insurance protection provided.

(d) Cash and Cash Equivalents

For purposes of the statement of cash flows, the CEA considers investments in certificates of deposits, U.S. government money market accounts, banker's acceptances, repurchase agreements and commercial paper with original maturities of three months or less, to be cash equivalents. In order to reduce counterparty exposure, the CEA maintains collateral of generally 105% on repurchase agreements.

(e) Investments

All of the CEA's investments are classified as available-for-sale securities and are carried at fair value with the corresponding unrealized gains and losses excluded from earnings and reported in other comprehensive income. Declines in market value considered to be other than temporary are charged to realized losses. Net realized investment gains and losses on sales of investments are reported in the statements of income based on the specific identification method.

(f) Deferred Policy Acquisition Costs

Acquisition costs, consisting of participating insurer commissions and operating costs, are deferred and amortized ratably 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.

(g) Claims and Claim Expense Reserves

Reserves for insurance claims and claim adjustment expenses include the accumulation of case estimates for claims reported, claims incurred but not reported, and estimates of expenses for investigating and adjusting all incurred claims. The reserve is established at a level that management estimates to be sufficient to satisfy those claims. Estimations are revised as more information becomes available.

(h) ***Reinsurance***

Reinsurance receivables (including amounts related to losses incurred but not reported) and prepaid reinsurance premiums are reported as assets. Estimated reinsurance receivables are recognized in a manner consistent with the liabilities relating to the underlying reinsured contracts. Reinsurance agreements which do not transfer risk to the reinsurer are accounted for as financing arrangements.

(i) ***Participating Insurer Capital Contributions***

Each insurer that elected to participate in the CEA during its first year of operations was required to contribute as its share of the CEA's initial operating capital, an amount equal to $1,000,000,000 multiplied by the percentage representing that insurer's residential earthquake insurance market share as of January 1, 1994. Participating insurers retained the risk of earthquake losses on individual earthquake policies until the polices were renewed into the CEA. Participating insurers were given the option to pay capital contribution assessments in 12 or 60 monthly installments, depending on their residential property insurance market share percentage. Installments are payable on the first day of each successive calendar month after the insurer begins to transfer risk of earthquake losses on individual earthquake polices to the CEA. In the event of a major earthquake and if the CEA's available funds are inadequate to meet claims liabilities, the entire amount of capital contributions will become due and payable within 30 days after notification by the CEA.

Insurers that elect to participate in the CEA after December 1, 1996 are required to make an initial capital contribution calculated using their residential earthquake insurance market share as of January 1, 1994, or the latest date for which such market share information is available to the CEA, whichever contribution amount is greater.

A minimum of $700,000,000 in capital commitments was required in order for the CEA to become operational. As of December 31, 2000 and 1999, participating insurer capital contributions totaled $700,028,490, of which $9,993,911 and $17,001,172 were unfunded and are classified as assessments receivable in the accompanying financial statements as of December 31, 2000 and 1999, respectively.

(j) ***Equipment***

Equipment is stated at cost less accumulated depreciation of $612,756 and $431,028 as of December 31, 2000 and 1999, respectively. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is calculated using the straight-line method over the lives of the related assets, not to exceed the lease term. Maintenance and repairs are charged against income as incurred.

(k) ***Income taxes***

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

(Continued)

(l) ***State of California Premium Tax Contribution***

For California tax purposes, California Insurance Code Section 10089.44 provides that "premiums collected by the CEA 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 CEA." As a result, an amount equivalent to the 2.35% California premium tax is included in the premium rate base for CEA policies collected from policyholders. As premiums are earned, the associated premium tax equivalent is recorded as pro forma premium tax expense and as a capital contribution from the state of California.

(m) ***Recent Accounting Pronouncements***

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities.* This Statement, as amended by SFAS No. 137 and No. 138, requires the CEA to recognize all derivatives on the balance sheet at fair value. The CEA adopted SFAS No. 133 on January 1, 2001. SFAS No. 133 has no impact on the financial statements.

In September 2000, the FASB issued SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities – an amendment of FASB Statement No. 125.* This Statement revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosure, but it carries over most of the provisions of SFAS No. 125 without reconsideration. The Statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Adoption of this Statement is not expected to have a significant impact on the financial statements.

(2) Investments and Fair Value of Financial Instruments

Interest income for the years ended December 31, 2000 and 1999 was as follows:

		2000	1999
Certificates of deposit	$	12,326,989	5,590,871
U.S. agency securities and government money market accounts		947,892	1,578,071
Repurchase agreements		14,057,795	10,445,130
Corporate bonds		5,685,933	1,396,351
Other short-term investments		19,258,542	8,545,360
Interest income		52,277,151	27,555,783
Less investment expenses		(867,286)	(675,023)
Net investment income	$	51,409,865	26,880,760

The amortized cost and estimated fair values of available for sale investment securities as of December 31 are as follows:

	2000				
		Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. agency securities	$	73,397,439	—	—	73,397,439
Corporate bonds		109,663,439	—	(7,365)	109,656,074
Certificates of deposit		25,204,082	—	—	25,204,082
Bankers' acceptances		2,942,763	—	—	2,942,763
Total available for sale investment securities	$	211,207,723	—	(7,365)	211,200,358

	1999				
		Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. agency securities	$	44,551,374	1,597	(19)	44,552,952
Corporate bonds		53,656,809	7,777	—	53,664,586
Certificates of deposit		11,996,766	—	—	11,996,766
Bankers' acceptances		2,988,881	—	—	2,988,881
Total available for sale investment securities	$	113,193,830	9,374	(19)	113,203,185

All of the fixed maturity securities are due, by contractual maturity, within one year or less. Fair values for available for sale investment securities are based on quoted market prices.

Proceeds from maturities of available for sale securities during the years ended December 31, 2000 and 1999 were $1,155,185,647 and $546,082,959, respectively. Proceeds from sales of available for sale securities during 2000 and 1999 were $179,427,344 and $0, respectively. Gross gains of $899 and $0, respectively, were realized on those sales and are included in net investment income in the accompanying statements of income.

The fair value of assessments receivable from participating insurers as of December 31, 2000 and 1999, of $9,936,753 and $16,574,560, respectively, is determined as the discounted value of expected future cash flows. The discount rate is estimated using rates currently offered on notes with similar characteristics. 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) Line of Credit

The CEA has available up to $716,810,000 of loans and/or letters of credit through a committed catastrophe contract entered into on July 1, 1999 with a consortium of insurance and reinsurance companies. Available borrowings under this contract will be provided if claims paid by the CEA following an earthquake exhaust the total of the CEA's available capital, the maximum amount of all participating insurer capital contributions and the first aggregate level of reinsurance available and under contract to the CEA.

These borrowings were previously available under a credit agreement with a consortium of banks administered by Chase Manhattan Bank. The CEA capitalized expenses relating to the arrangement of the line of credit, which it amortized over the three-year term of the agreement.

Prepaid line of credit fees are $2,151,500 as of December 31, 2000 and 1999. The total amount of expense associated with the committed catastrophe contract and credit agreement, including arrangement, commitment, and administrative fees, was $4,951,320 and $5,224,720 during the years ended December 31, 2000 and 1999, respectively. There were no amounts outstanding under these arrangements as of December 31, 2000 and 1999.

(4) Reinsurance

The CEA cedes insurance to reinsurers under two catastrophe excess of loss reinsurance contracts and a supplemental policy reinsurance contract, for purposes of limiting its maximum exposure on any one loss. All contracts provide coverage for losses as well as allocated loss adjustment expenses. Although the ceding of insurance does not discharge the CEA from its primary responsibility to its policyholders, the insurance company that assumes the coverage assumes responsibility to reimburse the CEA for the related liability. Management believes that its reinsurers are and will continue to be able to satisfy their obligations under the reinsurance agreements. No losses have been ceded under these contracts as of December 31, 2000.

The first aggregate excess reinsurance contract expires on December 31, 2001. The contract provides coverage of a maximum of $1.434 billion in excess of the CEA's claims paying ability, representing $2 billion multiplied by the total residential property insurance market share of CEA's participating insurers of 71.681%. Additionally, effective January 1, 1999, a reinstatement provision allows an additional limit of liability equal to the amount of reinsurance exhausted, subject to an aggregate maximum limit of $1.434 billion.

The second aggregate excess reinsurance contract is a four-year contract, expiring March 31, 2001. The contract provides maximum coverage of $1.075 billion, equal to $1.5 billion multiplied by the total residential property insurance market share of CEA's participating insurers of 71.681%. On April 1, 2000, this second aggregate excess reinsurance contract was extended for an additional year, effective April 1, 2001 and expiring March 31, 2002. The CEA exercised its option to reduce the coverage under this agreement to a maximum of $537.6 million in excess of the CEA's claims paying ability. The related reinsurance premium of $35,616,497, which was paid on April 1, 2000, is included in the balance sheet as prepaid reinsurance premiums as of December 31, 2000.

The CEA also entered into a supplemental policy quota share reinsurance contract effective July 1, 1999, expiring on June 30, 2002. Under the terms of this contract, the CEA cedes 100% of its gross liability under supplemental insurance policies to the reinsurer, in return for ceding 100% of premiums written on this business. The reinsurer allows the CEA a 20% commission on all premiums ceded.

The first aggregate excess reinsurance contract requires the CEA to pay minimum premiums of $359,063,100 payable in installments over the three-year life of the contract. The minimum payments remaining under this contract as of December 31, 2000 and 1999 are $117,347,700 and $237,205,400, respectively. There were no minimum payments remaining under the second aggregate excess reinsurance contract as of December 31, 2000 or 1999.

Effective January 1, 1999, the first aggregate excess reinsurance contract allows for an adjustment of premium, based on the average aggregate insurance in force (AAIIF) and the exposure adjustment limit (EAL), as defined in the contract. The EAL is $203.6 billion in 1999 and $178.8 billion for 2000 and 2001. If the AAIIF is less than 90% of the EAL, the CEA will receive a return premium equal to the percentage point difference between the AAIIF and 90% of the EAL, multiplied by the original ceded premium for that year and subject to a maximum return premium of 10% of the ceded premium. If the AAIIF is more than 110% of the EAL, the CEA will pay an additional premium equal to the percentage point difference between the AAIIF and 110% of the EAL, multiplied by the original ceded premium for that year and subject to a maximum additional premium of 10% of the ceded premium. Additionally, the reinsurance contract was amended in 1999 to provide for a 'no claims bonus' for 1997, 1998 and 1999. Since the reinsurer sustained no loss under the contract as a result of loss occurrences commencing on or before December 31, 1999, the CEA was entitled to additional return premiums representing a 'no claims bonus' for 1997, 1998 and 1999, equal to 12.5% of the total reinsurance premium ceded for those years.

For the years ended December 31, 2000 and 1999, in accordance with these terms, the CEA was entitled to an amount of $0 and $81,858,610, respectively, in return premiums, which was netted against premiums ceded (reinsurance) in the statements of income and $0 and $80,651,271 of which is included in the balance sheets as receivable as of December 31, 2000 and 1999, respectively.

(5) Commitments and Contingencies

(a) Operating Lease

As of December 31, 2000, the CEA occupied office space under an operating lease which extends to the year 2001; however this lease has a provision for early termination. The future minimum lease payment under the operating lease as of December 31, 2000 is as follows:

Year ending December 31:	
2001	$ 146,243

Rental expense of $234,212 and $203,693 for the years ended December 31, 2000 and 1999, respectively, have been charged to operations in the accompanying statements of income.

(b) Litigation

The CEA is party to litigation arising in the ordinary course of business. The outcome of this litigation will not, in the opinion of management, materially affect the results of operations or equity of the CEA.

(c) Recent Legislation

The CEA commenced operations in December 1996, almost three years after the Northridge earthquake. In September 2000, the California legislature passed Senate Bill 1899, which permits certain Northridge earthquake claims to be revived in 2001. It is unclear whether the CEA will have any liability as a result of this legislation. To date, CEA management is not aware of any claims being presented to the CEA arising from Senate Bill 1899. Any loss as a result of this legislation is currently not determinable.

(6) Statutory Compliance

The State of California Insurance Code limits CEA's "operating expenses" to 3% of its "premium income." In calculating this limitation, the CEA has determined that its premium income is its reported gross premium income 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 payment of agent commissions. Operating expenses, as determined by the CEA, for the years ended December 31, 2000 and 1999, totaled $7,068,243 and $8,805,050, respectively and did not exceed 3% of premium income.

(7) Employee Benefit Plans

The CEA's civil service employees are eligible for benefits under the State of California's First-Tier and Second-Tier retirement plans. Both plans are managed by the California Public Employees' Retirement System. Under the First-Tier plan, both the participant and the State of California make contributions, whereas benefits under the Second-Tier plan are funded entirely by the State of California. The CEA is responsible for reimbursing the State of California for the costs associated with providing benefits to its civil service employees. The CEA incurred expenses associated with these plans of approximately $0 and $46,027 during the years ended December 31, 2000 and 1999, respectively.

Officers of the CEA are eligible for benefits under the CEA Retirement Plan, a defined contribution plan designed to comply with all applicable tax qualification requirements. Discretionary contributions to the plan are made semi-annually and participants are fully vested in their individual participant accounts. Contributions to the CEA Retirement Plan were $86,345 and $64,653 for the years ended December 31, 2000 and 1999, respectively.

Officers of the CEA are also eligible for benefits under the CEA Deferred Compensation Plan, an eligible deferred compensation plan as defined in section 457(b) of the Internal Revenue Code of 1986. The plan allows officers of the CEA to defer portions of their annual compensation. Officers' compensation deferred under the CEA Deferred Compensation Plan was $15,000 and $15,625 as of December 31, 2000 and 1999, respectively.

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(8) Mitigation Fund

California Insurance Code Section 10089.37 creates the Earthquake Loss Mitigation Fund (Mitigation Fund) as a subaccount of the CEA. By statute, the Mitigation Fund must be used solely for the establishment and operation of the mitigation program. In compliance with statutory requirements, the CEA's actuary has opined that the setting aside of these monies into the Mitigation Fund does not impair the actuarial soundness of the CEA. The transfer and setting aside of those monies into the Mitigation Fund subaccount have been formally approved by the CEA governing board. It is the opinion of the general counsel of the CEA and of the CEA's outside counsel that the monies that are resident in the Mitigation Fund subaccount within the CEA are by statute not available to pay policyholder or other claims against the CEA. Accordingly, equity related to the Mitigation Fund has been segregated in the accompanying balance sheets and statements of equity.

As of December 31, 2000 and 1999, the balance sheets of the CEA include the following amounts related to the Mitigation Fund:

	2000	1999
Cash and cash equivalents	$ 1,383,961	2,824,217
Interest receivable	9,726	—
Accounts payable	(548,940)	(199,850)
	$ 844,747	2,624,367

In February 2001, the CEA governing board approved an additional contribution to the Mitigation Fund of $1,462,532 with respect to the six-month period ended December 31, 2000.

CALIFORNIA EARTHQUAKE AUTHORITY

Schedule of Participating Insurer Assessments

	December 31, 2000	
	Assessment	**Assessments receivable**
Allstate Insurance Company	$ 145,612,517	—
Farmers Insurance Company	143,280,000	—
State Farm Insurance Company	249,188,275	—
United Services Automobile Association	58,992,512	—
Liberty Mutual Insurance Company	6,812,984	1,476,146
California Fair Plan	15,029,487	—
California State Automobile Association	39,013,493	—
GuideOne (formerly Preferred Risk)	123,133	30,784
Automobile Insurance Exchange of Southern California	14,443,651	—
Armed Forces	783,685	195,921
CNA/Continental	13,924,609	3,481,151
Prudential Insurance Company	11,531,456	4,228,200
Mercury Insurance Company	1,292,688	581,709
Total	$ 700,028,490	9,993,911

	December 31, 1999	
	Assessment	**Assessments receivable**
Allstate Insurance Company	$ 145,612,517	—
Farmers Insurance Company	143,280,000	—
State Farm Insurance Company	249,188,275	—
United Services Automobile Association	58,992,512	—
Liberty Mutual Insurance Company	6,812,984	2,952,293
California Fair Plan	15,029,487	—
California State Automobile Association	39,013,493	—
GuideOne (formerly Preferred Risk)	123,133	55,410
Automobile Insurance Exchange of Southern California	14,443,651	—
Armed Forces	783,685	352,658
CNA/Continental	13,924,609	6,266,073
Prudential Insurance Company	11,531,456	6,534,491
Mercury Insurance Company	1,292,688	840,247
Total	$ 700,028,490	17,001,172

See accompanying independent auditors' report.

CALIFORNIA EARTHQUAKE AUTHORITY

Schedule of Participating Insurer Premiums Written and Unearned

	Year ended December 31, 2000	
	Premiums written	Unearned premiums
Allstate Insurance Company	$ 92,286,130	56,963,714
Farmers Insurance Company	68,577,129	32,594,952
State Farm Insurance Company	157,781,662	72,909,027
United Services Automobile Association	53,635,757	24,826,625
Liberty Mutual Insurance Company	5,600,328	2,750,817
California Fair Plan	8,477,589	3,975,307
California State Automobile Association	10,949,066	5,134,442
GuideOne (formerly Preferred Risk)	25,130	10,803
Automobile Insurance Exchange of Southern California	21,846,954	10,305,572
Armed Forces	666,941	328,675
Encompass Glen Falls (formerly CNA/Continental)	4,940,102	2,845,502
Prudential Insurance Company	4,716,604	2,447,592
Mercury Insurance Company	2,474,193	1,219,384
Merastar (affiliated with Prudential Insurance Company)	9,700	5,209
Golden Eagle (affiliated with Liberty Mutual Insurance Company)	766,924	407,435
Homesite Insurance	1,696	1,345
Workmen's Auto Insurance	5	4
Pacific National Insurance	14,936	7,348
Total	$ 432,770,846	216,733,753

(Continued)

CALIFORNIA EARTHQUAKE AUTHORITY

Schedule of Participating Insurer Premiums Written and Unearned

	Year ended December 31, 1999	
	Premiums written	Unearned premiums
Allstate Insurance Company	$ 89,959,942	56,607,581
Farmers Insurance Company	73,953,558	35,304,855
State Farm Insurance Company	147,248,779	73,837,219
United Services Automobile Association	48,030,374	24,386,835
Liberty Mutual Insurance Company	5,515,732	2,783,766
California Fair Plan	10,483,980	4,911,793
California State Automobile Association	10,986,343	5,415,219
GuideOne (formerly Preferred Risk)	29,315	12,613
Automobile Insurance Exchange of Southern California	18,823,642	9,706,079
Armed Forces	684,700	352,183
CNA/Continental	4,991,060	2,918,302
Prudential Insurance Company	4,917,372	2,538,268
Mercury Insurance Company	1,509,032	778,573
Merastar (affiliated with Prudential Insurance Company)	40	31
Golden Eagle (affiliated with Liberty Mutual Insurance Company)	373,720	210,797
Total	$ 417,507,589	219,764,114

See accompanying independent auditors' report.

CALIFORNIA EARTHQUAKE AUTHORITY

Schedule of Participating Insurer Commissions and Operating Costs

	Year ended December 31, 2000	
	Commissions	Operating costs
Allstate Insurance Company	$ 9,214,486	2,577,215
Farmers Insurance Company	7,137,981	2,013,740
State Farm Insurance Company	15,896,747	4,435,234
United Services Automobile Association	5,325,247	1,490,549
Liberty Mutual Insurance Company	564,250	157,514
California Fair Plan	942,137	263,195
California State Automobile Association	1,124,026	314,227
GuideOne (formerly Preferred Risk)	2,704	759
Automobile Insurance Exchange of Southern California	2,127,484	594,973
Armed Forces	69,132	19,314
Encompass Glen Falls (formerly CNA/Continental)	501,679	140,709
Prudential Insurance Company	481,510	134,356
Mercury Insurance Company	203,716	56,853
Merastar (affiliated with Prudential Insurance Company)	456	127
Golden Eagle (affiliated with Liberty Mutual Insurance Company)	57,127	16,002
Homesite Insurance	39	8
Workmen's Auto Insurance	1	—
Pacific National Insurance	759	211
Total	$ 43,649,481	12,214,986

(Continued)

Schedule 3

CALIFORNIA EARTHQUAKE AUTHORITY

Schedule of Participating Insurer Commissions and Operating Costs

		Year ended December 31, 1999	
		Commissions	Operating costs
Allstate Insurance Company	$	9,052,905	3,106,196
Farmers Insurance Company		7,289,043	2,513,520
State Farm Insurance Company		14,047,909	4,785,652
United Services Automobile Association		4,704,786	1,614,864
Liberty Mutual Insurance Company		540,219	186,375
California Fair Plan		1,121,700	386,711
California State Automobile Association		1,053,495	362,941
GuideOne (formerly Preferred Risk)		2,936	1,027
Automobile Insurance Exchange of Southern California		1,712,367	583,724
Armed Forces		66,796	22,848
CNA/Continental		466,844	160,747
Prudential Insurance Company		510,674	175,142
Mercury Insurance Company		121,265	40,931
Merastar (affiliated with Prudential Insurance Company)		1	—
Golden Eagle (affiliated with Liberty Mutual Insurance Company)		16,336	4,884
Total	$	40,707,276	13,945,562

See accompanying independent auditors' report.