CALIFORNIA EARTHQUAKE AUTHORITY

Financial Statements
December 31, 2009 and 2008

With Independent Auditors' Report Thereon

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LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Governing Board
California Earthquake Authority

We have audited the accompanying balance sheets of the California Earthquake Authority (CEA) as of December 31, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the CEA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As more fully described in Note 2 to the financial statements, pro forma premium tax in the amount of $11.4 million and the corresponding contribution by the State of California in the amount of $11.4 million were recognized in the financial statements for the year ended December 31, 2009 due to a correction of an error in the premium tax calculation related to the prior periods since the CEA's inception in 1997 through 2008. In our opinion, the cumulative effect of this correction to premium tax and the corresponding contribution should have been recognized in these periods prior to 2009 to conform with generally accepted accounting principles in the United States of America. The cumulative effect of this correction from inception has a material impact on the 2009 financial statements, though the annual impact of this correction on the stand alone financial statements for 2008 was not material nor in the judgment of management was it material to any of the individual periods back to inception.

In our opinion, except for the effects on the statements of revenues, expenses, and changes in net assets and cash flows of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the California Earthquake Authority as of December 31, 2009 and 2008, and the changes in its financial position and cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis, on pages 3 to 9, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of participating insurer capital contributions, participating insurer premiums written, participating insurer unearned premiums, participating insurer commissions and participating insurer operating costs, on pages 24 to 28, are presented for purposes of additional analysis and are 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.

Larson & Rosenberger LLP

Glendale, California
August 16, 2010

History and Financing

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

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

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

The CEA uses its capital (net assets) to leverage approximately $9.682 billion in claims-paying capacity at December 31, 2009. The CEA's claims-paying capacity is determined from the CEA's net assets, reinsurance coverage, available letters of credit, debt, and post event prospective participating insurance company assessments. The CEA derives its capital from participating insurer capital contributions and from increases in net assets generated from the sale of earthquake insurance policies. The CEA is exempt from federal income tax and from state insurance-premium tax. California Insurance Code section 10089.44 provides, in pertinent part, that "… premiums collected by the authority shall be exempt from collection of the state's insurance premium tax, and the amount of tax foregone by the state shall be considered for all purposes a contribution by the state and its citizens to the capital and operating revenues of the authority."

The CEA has approximately 800,930 policyholders at December 31, 2009, most of whom insure single-family dwellings through the CEA. The CEA offers a base residential earthquake policy to homeowners, which includes coverage for the insured dwelling and limited coverage for contents and loss-of-use if the residence is uninhabitable due to an earthquake. The CEA also offers policies to condominium unit owners and renters. For an additional premium, CEA policyholders can significantly increase insured limits on contents and for loss of use, and homeowners can lower their CEA policy deductible from 15 percent to 10 percent.

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

Using the Report

While the CEA is an instrumentality of the state, the State of California's General Fund is not liable for CEA claims, losses, or other liabilities. However, the CEA meets the definition of a governmental organization, as defined by accounting principles generally accepted in the United States of America. The CEA's financial statements for the years ended December 31, 2009 and 2008 have been prepared using accounting standards applicable to governmental entities. This financial report consists of three financial statements with accompanying notes. The balance sheets, prepared on the accrual basis of accounting, include all assets, liabilities and net assets of the CEA. The statements of revenues, expenses, and changes in net assets, also prepared on the accrual basis, take into account all revenues and expenses for the CEA regardless of when cash is received or paid. The statements of cash flows reflect the actual cash receipts and disbursements for a specified period of time.

Condensed Balance Sheets

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

	2009	2008	2007
Assets			
Cash and investments	$ 4,002,726,319	$ 3,647,869,259	$ 3,375,302,116
Premium receivable, net	52,838,052	73,323,947	27,816,455
Unearned ceded premiums	-	28,016,192	-
Deferred policy acquisition costs	40,154,994	41,235,858	35,010,913
Other assets	22,519,031	69,942,077	17,432,583
Total assets	$ 4,118,238,396	$ 3,860,387,333	$ 3,455,562,067
Liabilities and Net Assets			
Unearned premiums	$ 298,994,745	$ 303,428,212	$ 257,622,610
Revenue bonds payable	220,500,000	252,000,000	283,500,000
Other liabilities	8,503,359	9,609,054	10,402,212
Total liabilities	527,998,104	565,037,266	551,524,822
Net assets:			
Restricted, expendable	133,264,871	97,780,077	62,854,379
Unrestricted	3,456,975,421	3,197,569,990	2,841,182,866
Total net assets	3,590,240,292	3,295,350,067	2,904,037,245
Total liabilities and fund balance	$ 4,118,238,396	$ 3,860,387,333	$ 3,455,562,067

Condensed Balance Sheets (Continued)

Assets

Total assets grew $257.9 million (7%) in 2009 and $404.8 million (12%) in 2008. The 2009 and 2008 increases were primarily due to an increase in net assets of $294.9 million and $391.3 million, respectively. Cash and investments grew $354.9 million (10%) and $272.6 million (8%), in 2009 and 2008, respectively. Investments are managed by external managers under the guidance of the CEA. U.S. Treasuries, short-term investments and cash-equivalent securities comprise 100% of the CEA's investment portfolio.

Premium receivable balances decreased $20.5 million (-28%) and increased $45.5 million (164%) in 2009 and 2008, respectively. The 2009 decrease in premium receivables was due to the normalization of this balance as compared to 2008. The 2008 increase in premium receivables was due to the CEA's participating insurers transmitting December 2008 written premium to the CEA later than usual because of the implementation and testing of the CEA's new data system that was implemented on December 1, 2008. The CEA does not anticipate any unusual collection problems with respect to outstanding premium balances.

The CEA does not have a prepaid reinsurance premium payable for 2009 since all reinsurance contracts expired on December 31, 2009 and all reinsurance premiums were earned as of the contract expiration.

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 $1.1 million (-3%) in 2009 that correspond with the decrease in policies that were not effective at the end of 2009. Deferred policy acquisition costs only increased $6.2 million (18%) during 2008 that corresponds with the increase in premium written and unearned premiums for the year. The operating cost reimbursement rate decreased during 2008 from 3.59% to 3.43% which also had an impact on defered acquisition costs.

Liabilities

Unearned premiums represent the pro-rata portion of the premiums written related to the remaining term of policies in force. Unearned premiums decreased $4.4 million (-2%) and increased $45.8 million (18%) in 2009 and 2008, respectively. The 2009 decrease was due to the decrease in premiums on policies that were not effective by the end of 2009. The 2008 increase was due to the increase in written premiums and the smoothing effect of premiums submitted by CEA's participating companies.

Revenue bonds payable decreased by $31.5 million (12%) in 2009 resulting from the annual 10% principal reduction payment. The bonds were initially issued in June 2006, totaling $315 million. The revenue bonds bear interest at a fixed rate of 6.196% and mature in 2016 requiring annual 10% principal reduction payments.

Other liabilities include claims and claims expense reserves, which are not significant since California has not suffered a major earthquake during the CEA's existence. Other liabilities remained at relatively the same amount for 2009 as for 2008 with a decrease of $1.1 million (-12%) in 2009. The main reason for the decrease in 2009 was due to revenue bond interest payable being lower as the outstanding principle decreased causing the interest to decrease as well.

Net Assets

The CEA classifies its net assets into two components, restricted-expendable and unrestricted net assets. Restricted net assets include the net assets of the Earthquake Loss Mitigation Fund (Mitigation Fund), unspent bond proceeds restricted for payment of claims as defined in the debt agreements offset by underlying debt, funds held for debt service by the revenue bond trustee and investment income earned on the bond proceeds restricted as pledged revenue for debt service. The Mitigation Fund was created by statute and related funds must be used solely for the establishment and operation of earthquake mitigation programs. The remaining net assets of the CEA are classified as unrestricted. The CEA's net assets grew $294.9 million (9%) and $391.3 million (13%) in 2009 and 2008, respectively. The 2009 increase was comprised primarily of an underwriting profit of $258.6 million, and premium tax contributions from the State of California of $25.1 million. The 2008 increase was comprised primarily of an underwriting profit of $206 million, an increase in unrealized gains on investments of $48.1 million, premium tax contributions from the State of California of $11.2 million, and a $46.5 million capital contribution from Safeco Insurance Company of America (Safeco) that joined the CEA as of December 1, 2008.

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

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

	2009	%	2008	%	2007	%
Underwriting income:						
Premium written	$ 585,520,749	100%	$ 546,307,715	100%	$ 499,286,834	100%
Less premium ceded – reinsurance	(194,697,154)		(185,054,138)		(174,153,907)	
Net premium written	390,823,595	67%	361,253,577	66%	325,132,927	65%
Change in net unearned Premiums	4,433,465		(45,805,600)		(36,878,796)	
Net premium earned	395,257,060	68%	315,447,977	58%	288,254,131	58%
Other underwriting income:						
Supplemental commission income, net	-		-		4,144,682	
Expenses:						
Claims and claims expense	137,637		32,410		12,920	
Mitigation fund expenses	376,472		440,730		1,593,569	
Other underwriting expenses	136,168,302		109,024,673		98,041,276	
Total expenses	136,682,411	23%	109,497,813	20%	99,647,765	20%
Underwriting profit	258,574,649	44%	205,950,164	38%	192,751,048	39%
Net investment income	10,864,785		127,242,391		119,884,374	
Capital contributions	-		46,500,000		-	
Other income	25,450,791		11,620,267		11,325,781	
Increase in net assets	294,890,225	50%	391,312,822	72%	323,961,203	65%
Net assets, beginning of year	3,295,350,067		2,904,037,245		2,580,076,042	
Net assets, end of year	$ 3,590,240,292		$ 3,295,350,067		$ 2,904,037,245	

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

The increase in net assets was $294.9 million in 2009, which resulted in a net profit margin of 50%, and $391.3 million in 2008, which resulted in a net profit margin of 72%. Net investment income decreased $116.4 million (-91%) in 2009. The decrease was largely due to $85.7 million decrease in unrealized investment gains on U.S. Treasuries and a decrease of $29.0 million in investment income. The CEA's net premiums written increased $29.6 million (8%) in 2009 and increased $36.1 million (11%) in 2008. The 2009 increase is due to a $39.2 million (7%) growth in written premiums while premiums ceded for reinsurance only grew $9.6 million (5%). The 2008 increase is due to a $47.0 million (9%) growth in written premiums while premiums ceded for reinsurance only grew $10.9 million (6%).

The variance in the change in unearned premiums increased $50.2 million and decreased $8.9 million in 2009 and 2008, respectively. The 2009 variance is due to a decrease in unearned premium due to the large decrease in premiums for policies not effective at the end of 2009. The 2008 variance is due to an increase in unearned premium as a result of an increase in written premium.

Supplemental commission income was zero in 2009 and 2008 as a result of the CEA's discontinuing the supplemental quota-share reinsurance contract. The CEA now purchases reinsurance related to supplemental coverages through aggregate excess-of-loss reinsurance contracts that are combined with the CEA's base reinsurance program. Due to regulation changes by the California Department of Insurance that were effective May 2008, the CEA is no longer required to finance its supplemental coverages separately from the CEA's base policies. Therefore, with the termination of the 2008 supplemental reinsurance contracts on November 30, 2008, the CEA finances both its base policies and supplemental coverages using one combined financial structure.

In 2009 and 2008, the CEA's claims and claims expenses were essentially zero due to California not experiencing any significant earthquakes.

In 2009, the increase in other underwriting expense of $27.2 million (25%) was due to a $11.9 million increase in participating insurer commissions and operating expense, and a $13.8 million increase in pro forma premium taxes. The increase in pro forma premium taxes resulted from the 2009 increase in written premiums and an adjustment for an error in the calculation of the pro forma premiums taxes from the CEA's inception through 2008.

Adjustment to pro forma premium taxes:

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

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

In 2008, the increase in other underwriting expense of $11.0 million (11%) is largely due to a $10.8 million decrease in investment income from revenue bond proceeds that directly offsets financing expenses for the revenue bonds. The lower return on investments was a result of the financial market conditions in general.

Net investment income for 2009 was $11 million, a decrease of $116 million (91%) from 2008, due to a $38 million decline in unrealized gains for the CEA's investment portfolio and an all-time low in interest rates for U.S. Treasuries in 2009 as markets moved to purchase and hold U.S. Treasuries. The CEA's annual investment return net of investment manager fees for 2008 was 3.23% compared to 0.43% in 2009.

The CEA intends to hold all investments to maturity unless there is an earthquake or series of earthquakes causing significant damage in California where the CEA needs to liquidate securities to pay policyholder claims.

Other income remained relatively flat in 2009 and 2008.

Condensed Statements of Cash Flows

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

The cash flows of the CEA are summarized as follows:

	2009	2008	2007
Net cash provided by operating activities	$ 328,499,565	$ 182,507,012	$ 221,793,577
Net cash (used in) provided by noncapital financing activities	(31,104,301)	(31,122,228)	(31,098,789)
Net cash provided by capital and related financing activities	43,332,709	2,695,377	766,167
Net cash (used in) provided by investing activities	(397,870,084)	(2,189,968,563)	26,986,142
Net increase in cash and cash equivalents	(57,142,111)	(2,035,888,402)	218,447,097
Cash and cash equivalents, beginning of year	112,295,514	2,148,183,917	1,929,736,820
Cash and cash equivalents, end of year	$ 55,153,403	$ 112,295,515	$ 2,148,183,917

Cash from operating activities increased $146.0 million (80%) in 2009 and decreased $39.2 million (-18%) in 2008. The 2009 increase resulted from increased cash received from premiums of $105.2 million, a decrease in payments for reinsurance of $46.4 million and an increase in payments for operating expenses of $5.6 million. The 2008 decrease in cash resulted from increased payments for reinsurance of $28.8 million and an increase in payments for operating expenses of $16.5 million.

Cash used in non-capital financing activities for 2009 and 2008 is a result of the CEA annual principal reduction payment of $31.5 million for its outstanding revenue bonds.

Condensed Statements of Cash Flows (Continued)

The change in cash provided by capital and related financing activities was $40.6 million (1,508%) was a result of a $38.8 million capital contribution installment received from Safeco and $1.9 million decrease in purchases of equipment during 2009 as compared to 2008. The 2008 increase of 1.9 million was due to $3.9 million capital contribution installment received from Safeco, offset by $1.9 million cash outflow for the acquisition of equipment which consisted largely of software and hardware for the CEA's new policy and claims information system.

The change in cash flows used by investing activities in 2009 were $1.8 billion, which was a result of a change in investment philosophy to gradually slow transition of the CEA's investment portfolio from securities maturing in less than 90 days, which are classified as cash-equivalent securities, to short-term and long-term investments. The CEA slowed the transition of cash equivalent securities to longer-term securities because of the all-time low federal funds rate and the possible increase in interest rates in the future. In addition, because of the flatness in the shorter portion of the Treasury bond yield curve, and relatively low spreads for CEA permitted security types other than treasuries, management did not foresee a benefit to increase the duration of the CEA's portfolio. The change in cash flows used by investing activities in 2008 were $2.2 billion, which was a result of the transition of the CEA's investment portfolio from securities maturing in less than 90 days and classified as cash-equivalent securities to short-term and long-term investments. The transition resulted in a CEA portfolio that consisted almost entirely of U.S. Treasuries of longer duration to protect against the credit risk that management perceived was in the financial market during 2008 and to increase the CEA's investment yield by increasing the duration of the portfolio without sacrificing liquidity.

Liquidity

The CEA maintains a highly liquid investment portfolio in order to be able to quickly pay claims in the event of a large earthquake. As of December 31, 2009, 16.43% of the portfolio was scheduled to mature in 90 days or less, securities maturing between 91 days and one year accounted for 61.22% of the portfolio, while securities maturing between one to five years accounted for the remaining 22.36% of the portfolio, with a total portfolio modified duration of less than one year. Based on earthquake modelers' results of analyzing the CEA's portfolio, management believes the CEA has sufficient liquidity to meet its obligations as they become due resulting from an earthquake or series of earthquakes. The probability of an earthquake or series of earthquakes occurring that would deplete CEA's liquidity and the associated claims-paying capacity is estimated to be .2% in any one year. The CEA pays policyholder claims from its claims-paying capacity. The following depicts the CEA's claims-paying capacity in effect as of December 31, 2009, in millions of dollars:

CEA capital available for claims	$	3,502
Risk transfer financial products (reinsurance only at December 31, 2009)		3,100
Revenue Bonds		311
Post Earthquake Industry Assessments (2nd Layer)		1,465
Post Earthquake Industry Assessments (New Layer)		1,304
Total	$	9,682

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

CALIFORNIA EARTHQUAKE AUTHORITY

Balance Sheets
As of December 31, 2009 and 2008

	2009	2008
Assets		
Cash and investments:		
Cash and cash equivalents	$ 9,116,729	$ 69,288,390
Restricted cash	46,036,674	43,007,125
Restricted investments	311,813,156	310,670,234
Investments	3,635,759,760	3,224,903,510
Total cash and investments	4,002,726,319	3,647,869,259
Premiums receivable, net of allowance for doubtful accounts of $7,246,648 and $2,646,961	52,838,052	73,323,947
Assessments receivable	314,019	43,877,263
Interest receivable	20,543,245	23,800,212
Securities receivable	-	7,338
Unearned ceded premiums	-	28,016,192
Deferred policy acquisition costs	40,154,994	41,235,858
Equipment, net	1,540,153	2,154,771
Other assets	121,614	102,493
Total assets	$ 4,118,238,396	$ 3,860,387,333
Liabilities and Net Assets		
Unearned premiums	$ 298,994,745	$ 303,428,212
Revenue bond payable	220,500,000	252,000,000
Revenue bond interest payable	6,801,323	7,772,940
Accounts payable and accrued expenses	1,702,036	1,836,114
Total liabilities	527,998,104	565,037,266
Net assets:		
Restricted, expendable	133,264,871	97,780,077
Unrestricted	3,456,975,421	3,197,569,990
Total net assets	3,590,240,292	3,295,350,067
Total liabilities and net assets	$ 4,118,238,396	$ 3,860,387,333

See accompanying notes to financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended December 31, 2009 and 2008

	2009	2008
Underwriting income:		
Premiums written	$ 585,520,749	$ 546,307,715
Less premiums ceded	(194,697,154)	(185,054,138)
Net premiums written	390,823,595	361,253,577
Change in unearned premiums	4,433,465	(45,805,600)
Net premiums earned	395,257,060	315,447,977
Expenses:		
Claim and claims expense	137,637	32,410
Participating insurer commissions	59,038,013	50,082,113
Participating insurer operating costs	20,695,908	17,734,835
Reinsurance broker commissions	5,000,002	5,500,003
Pro forma premium taxes	25,055,093	11,242,495
Financing expenses, net	9,572,948	13,178,142
Mitigation fund expenses	376,472	440,730
Other underwriting expenses	16,806,338	11,287,085
Total expenses	136,682,411	109,497,813
Underwriting profit	258,574,649	205,950,164
Net investment income	10,864,785	127,242,391
Other income	395,698	377,772
Contributed capital	-	46,500,000
State of California premium tax contribution	25,055,093	11,242,495
Increase in net assets	294,890,225	391,312,822
Net assets, beginning of year	3,295,350,067	2,904,037,245
Net assets, end of year	$ 3,590,240,292	$ 3,295,350,067

See accompanying notes to financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities:		
Cash received from premiums	$ 606,006,642	$ 500,800,225
Cash payments for premiums ceded - reinsurance	(166,680,962)	(213,070,330)
Cash payments for operating expenses	(110,826,115)	(105,222,883)
Net cash provided by operating activities	328,499,565	182,507,012
Cash Flows from Noncapital Financing Activities:		
Repayment of revenue bonds	(31,500,000)	(31,500,000)
Other income	395,699	377,772
Net cash used in investing activities	(31,104,301)	(31,122,228)
Cash Flows from Capital and Related Financing Activities:		
Capital contributions received from participating insurers	43,563,244	4,813,244
Acquisition of equipment	(230,535)	(2,117,867)
Net cash provided by capital and related financing activities	43,332,709	2,695,377
Cash Flows from Investing Activities:		
Proceeds from maturities of investments	3,409,183,060	371,545,560
Purchases of investments	(3,892,353,936)	(2,632,885,091)
Net investment income	85,293,454	71,378,306
Change in securities receivable	7,338	(7,338)
Net cash provided by investing activities	(397,870,084)	(2,189,968,563)
Net increase in cash and cash equivalents	(57,142,111)	(2,035,888,402)
Cash and cash equivalents, beginning of year	112,295,514	2,148,183,917
Cash and cash equivalents, end of year	$ 55,153,403	$ 112,295,515
Reconciliation to statement of net assets:		
Cash and cash equivalent	$ 9,116,729	$ 69,288,390
Restricted cash	46,036,674	43,007,125
	$ 55,153,403	$ 112,295,515

See accompanying notes to financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Cash Flows (Continued)
For the Years Ended December 31, 2009 and 2008

		2009		2008
Reconciliation of operating income to net cash provided by operating activities:				
Underwriting profit	$	258,574,649	$	205,950,164
Adjustments to reconcile underwriting profit to net cash provided by operating activities:				
Depreciation on equipment		844,020		134,220
Pro forma premium tax expense		25,055,093		11,242,495
Changes in operating assets and liabilities:				
Premiums receivable		20,485,895		(45,507,492)
Deferred policy acquisition costs		1,080,864		(6,224,945)
Other assets		(17,986)		(83,682)
Unearned premiums		(4,433,467)		45,805,602
Unearned ceded premiums		28,016,192		(28,016,192)
Claim and claim expense reserves		-		(23,928)
Revenue bond interest payable		(971,617)		(971,619)
Accounts payable and accrued expenses		(134,078)		202,389
Net cash provided by operating activities	$	328,499,565	$	182,507,012

Non-cash Investing, Capital and Financing Activities

Net unrealized appreciation in the fair value of investments, which is included as a component of net investment income in the Statements of Revenues, Expenses and Changes in Net Assets, was $(37.6) million and $48.1 million in 2009 and 2008, respectively. Premium tax contributed by the State of California and recognized as a component of expense in the Statements of Revenues, Expenses, and Changes in Net Assets was $25 million and $11.2 million in 2009 and 2008, respectively.

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

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

CEA policies are sold to policyholders by participating insurers of the CEA. Insurance companies admitted to write residential property insurance in California and who elected to become participating members of the CEA sign Insurer Participation Agreements with the Insurance Commissioner and the CEA. Under these agreements, participating insurers act as independent contractor agents on behalf of the CEA by performing policy and claims services which include policy issuance, premium collection, and claims adjustment. Under the agreements, the CEA reimburses participating insurers for non-claims related costs incurred by these companies in servicing CEA policies. The operating cost reimbursement is 3.43% of written premium (as of June 1, 2008). The producer commission is equal to 10.0% of written premium of all new and renewal CEA policies. Additionally, participating insurers receive reimbursement for expenses associated with servicing CEA claims equal to 9.0% of paid claims. As of December 31, 2009, there are 20 participating insurers of which just 15 insurers are writing CEA policies. A small number of participating insurers, four, account for 78% of CEA policies.

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

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

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

Basis of Accounting

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

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

In accordance with governmental accounting standards, the CEA applies all applicable statements issued by the Governmental Accounting Standards Board (GASB). The CEA applies all of the following pronouncements issued on or before November 30, 1989: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins, unless those pronouncements conflict with or contradict GASB pronouncements. In addition, the CEA has elected to apply statements and related interpretations issued by the Financial Accounting Standards Board after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Revenue Recognition

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

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

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

Cash and Cash Equivalents

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

Investments

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

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.

Claims and Claim Expense Reserves

Reserves for insurance claims and claim adjustment expenses include the accumulation of case estimates for claims reported, claims incurred but not reported, and estimates of expenses for investigating and adjusting all incurred claims. The reserve is established at a level that management estimates to be sufficient to satisfy those claims. Estimates are revised as more information becomes available. Since the CEA’s inception, there has not been a major earthquake. If a major California earthquake were to occur, there would be a significant increase in the reserve for claims and claim adjustment expenses. The CEA does not have any unpaid claims reported as of December 31, 2009.

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

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

Participating Insurer Capital Contributions

Each insurer that elected to participate in the CEA during its first year of operations was required to contribute as its share of the CEA's initial operating capital, an amount equal to $1,000,000 multiplied by the percentage representing that insurer's residential earthquake insurance market share as of January 1, 1994. Insurers that elect to participate in the CEA after December 1, 1996, are required to make an initial capital contribution calculated using their residential earthquake insurance market share as of January 1, 1994, or the latest date for which such market share information is available to the CEA, whichever contribution amount is greater. As of December 31, 2009, participating insurer capital contributions totaled $751.1 million and were 99.9% funded.

The California Insurance Code (Code) states that, subject to certain maximum limits as set forth in the Code, the CEA has the power to make additional assessments of participating insurers in the event of a major California earthquake, subject to the approval of the State of California Insurance Commissioner. The CEA's ability to make certain additional assessments for the 1st industry assessment layer pertaining to the participating insurers expired December 1, 2008. However, during 2007 the CEA worked with the state legislature and participating insurers to establish a new industry assessment layer, which commenced on December 1, 2008, with a current maximum assessment of $1.3 billion.

As of December 31, 2009, participating insurers have a cumulative residential property insurance market share of approximately 75.94% of the total residential property insurance market in California. If participating insurers withdraw their participation in the CEA such that the cumulative residential property insurance market share is less than 65%, the Insurance Commissioner is required by law to make recommendations to the California Legislature for the continuation or termination of the CEA.

Net Assets

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

Income Taxes

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

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

State of California Premium Tax Contributions

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, the amounts that the state would otherwise impose on the CEA as premium tax are collected by the CEA as premium and retained by the CEA as a contribution by the state; as premium is earned, the portion attributable to the premium-tax exemption is included in the CEA's net assets. State premium-tax-exemption contributions were $25,055,093 and $11,242,495 for the years ended December 31, 2009 and 2008, respectively. Since inception of the CEA to December 31, 2009, state premium-tax contributions total $140,695,240.

2. Correction of Error

State premium tax contributions were $25,055,093 and $11,242,495 for the years ended December 31, 2009 and 2008 respectively. The increase in 2009 is a result of recalculation of pro forma premium taxes for the years 1997 through 2008. Since inception of the CEA through December 31, 2009, state premium tax contributions total $140,695,240 which reflect the adjustments for the years 1997 through 2008.

3. Cash and Investments

As of December 31, 2009 and 2008, the CEA had the following cash and investments:

December 31, 2009

	Investment Maturities (in Years)					
	Less than 1	1-2	2-3	3-4	4-5	Total
U.S. Treasuries	$3,072,690,825	$ 691,995,169	$ 156,279,221	$ 46,593,000	$ -	$3,967,558,215
U.S. agencies	7,900,000	-	-	-	-	7,900,000
U.S. Gov't money market funds	26,051,324	-	-	-	-	26,051,324
Cash	1,216,780	-	-	-	-	1,216,780
Total	$ 3,107,858,929	$ 691,995,169	$ 156,279,221	$ 46,593,000	$ -	$4,002,726,319

December 31, 2008

	Investment Maturities (in Years)					
	Less than 1	1-2	2-3	3-4	4-5	Total
U.S. Treasuries	$ 2,454,385,870	$ 658,005,856	$ 326,665,007	$ 127,842,558	$ 48,289,500	$ 3,615,188,791
U.S. agencies	2,099,790	-	-	-	-	2,099,790
U.S. Gov't money market funds	27,023,133	-	-	-	-	27,023,133
Cash	3,557,545	-	-	-	-	3,557,545
Total	$ 2,487,066,338	$ 658,605,856	$ 326,665,007	$ 127,842,558	$ 48,289,500	$ 3,647,869,259

3. Cash and Investments (Continued)

Certain amounts in the above schedule of investment maturity as of December 31, 2008 have been reclassified to conform to the current year's presentation with no impact on previously reported total cash and investments.

Interest Rate Risk

As a means of limiting its exposure to fair value losses resulting from rising interest rates, the CEA's investment policy limits all securities purchased to a maximum maturity duration of 181 days, except for U.S. Treasuries. U.S. Treasuries are allowed to have maturities of up to 5 years as long as the CEA's combined portfolio does not exceed a maximum modified duration of 1.75 years. As of December 31, 2009, the CEA's combined portfolio has a maximum modified duration of less than 1 year.

Credit Risk

The CEA investment policy limits investments in banker's acceptances and commercial paper to issuers with the highest rating category by all rating agencies that rate the issuer. The policy limits investments in corporate bonds to the top three ratings issued by nationally recognized rating services. As of December 31, 2009, over 99% of the CEA portfolio consisted of U.S. Treasuries with less than 1% of the portfolio in U.S. Agency securities. On August 8, 2007, the CEA purchased the commercial paper, which was then rated A1+ by Standard & Poors (S&P) and P1 by Moody's Investor Service. The security was downgraded to A3 (from superior to adequate) by S&P without prior notice on August 21, 2007. As of December 31, 2007, the security was no longer rated. During the year ended December 31, 2007, the CEA recorded a $44 million loss on the commercial paper security, representing 70% of the original investment. On September 18, 2008, the assets underlying the commercial paper security were sold at auction. As a result, the CEA received 24% of its original investment. During 2008, the CEA recognized an additional $3.6 million loss, representing 6% of the original investment. The CEA carries this interest in the commercial paper as zero until all transactions relating to the security are finalized.

Concentration of Credit Risk

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

3. Cash and Investments (Continued)

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 statement of revenues, expenses, and changes in net assets.

Investment income for the years ended December 31, 2009 and 2008 were as follows:

	2009	2008
Certificates of deposit	$ -	$ 5,704,220
US agency securities and government money market accounts	82,880	1,331,104
Repurchase agreements	-	5,824,229
Corporate bonds	-	2,208,033
US treasuries	55,387,371	69,207,914
Other short-term investments	34,868	474,867
Interest income	55,502,119	84,750,367
Change in fair value of investments	(37,644,911)	48,084,767
Less investment expenses	(1,674,388)	(1,987,600)
Total investment income	$ 16,182,820	$ 130,847,534

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

	2009	2008
Investment income included in financing expenses	$ 5,318,035	$ 3,605,143
Net investment income	10,864,785	127,242,391
Total investment income	$ 16,182,820	$ 130,847,534

The change in fair value of investments for the years ended December 31, 2009 and 2008 is calculated as follows:

	2009	2008
Fair value of investments at the end of year	$ 3,947,572,916	$ 3,535,573,744
Add: Proceeds of investments matured	3,409,183,060	371,545,560
Add: Amortization of premium (discount)	33,526,793	19,787,892
Less: Cost of investments purchased	(3,892,353,936)	(2,632,885,091)
Less: Fair value of investments at the beginning of year	(3,535,573,744)	(1,227,118,199)
Realized loss on investments	-	(18,819,139)
Change in fair value of investments	$ (37,644,911)	$ 48,084,767

3. Cash and Investments (Continued)

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.

4. Long-Term Debt

The CEA issued its first long-term debt, $315 million in fixed rate revenue bonds on July 20, 2006 to enhance claims paying capacity. The following reflects activity in the long-term debt accounts during the years ended December 31, 2009 and 2008, respectively:

	2009	2008
Balance at January 1,	$ 252,000,000	$ 283,500,000
Payments made in July	(31,500,000)	(31,500,000)
Balance at December 31,	$ 220,500,000	$ 252,000,000

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

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

Future scheduled debt service payments, including mandatory sinking fund payments, for the CEA's long-term debt are as follows as of December 31, 2009:

	Principal	Interest	Total
2010	$ 31,500,000	$ 12,631,028	$ 44,131,028
2011	31,500,000	10,687,793	42,187,793
2012	31,500,000	8,744,557	40,244,557
2013	31,500,000	6,801,323	38,301,323
2014	31,500,000	4,858,088	36,358,088
2015 - 2016	63,000,000	3,886,470	66,886,470
Total requirements	$ 220,500,000	$ 47,609,259	$ 268,109,259

4. Long-Term Debt (Continued)

Fair Value

The estimated fair value of the CEA's long-term debt, based on quoted market prices for the same or similar issues at December 31, 2009 is as follows:

Carrying amount	$ 220,500,000
Fair value	218,691,900

5. Reinsurance

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

The 2009 and 2008 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, 2009 in accordance with these terms, the CEA did not have any premium adjustment expense against the contract. For 2009 and 2008, the reinsurance contracts provided maximum limits of $3.1 billion and $2.3 billion, respectively, at varying attachment points.

In 2010, the CEA continues to cede insurance to reinsurers under catastrophe excess-of-loss reinsurance contracts. Effective January 1, 2010, the CEA entered into reinsurance contracts that provide a maximum limit of $3.1 billion. The contracts are 12-month contracts.

6. Statutory Compliance

The State of California Insurance Code limits the CEA's "operating expenses" to 3% of its "premium income." In calculating this limitation, the CEA has determined that its premium income is its reported premiums written and that its operating expenses do not include certain start-up expenses and certain credits and payments, including payments to reinsurers, payments to investment managers and advisors, payments to participating insurers, or payments of agent commissions. Operating expenses, as determined by the CEA, totaled $8.0 million and $10.8 million for the years ended December 31, 2009 and 2008, respectively, and did not exceed 3% of premiums written.

7. Mitigation Fund

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

As of December 31, 2009 and 2008, the balance sheets include expendable restricted net assets related to the Mitigation Fund totaling $22,701,714 and $20,268,514, respectively. The expendable restricted net assets of the Mitigation Fund as of December 31, 2009, include the potential annual transfer amount of $2,772,498, which is subject to actuarial review and formal approval of the CEA's Governing Board as discussed in the previous paragraph.

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

Defined Benefit Plans

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

Defined Contribution Plans

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

Post-Employment Benefits

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

SUPPLEMENTARY INFORMATION

CALIFORNIA EARTHQUAKE AUTHORITY

Schedule of Participating Insurer Capital Contributions
From Inception through December 31, 2009

State Farm General Insurance Company	$	249,188,275
Allstate Insurance Company		145,612,517
The Fire Insurance Exchange (Farmers)		143,280,000
United Services Automobile Association[1]		58,992,512
California State Automobile Association Inter-Insurance Bureau[2]		39,013,494
Safeco Insurance Company of America[3]		46,500,000
California FAIR Plan Association		15,029,487
Interinsurance Exchange of the Automobile Club		14,443,651
CNA/Continental[4]		13,924,611
Prudential[4]		11,531,455
Liberty Mutual Fire Insurance Company[5]		6,699,434
Foremost Property and Casualty Insurance Company		4,614,304
Mercury Casualty Company		1,406,238
Armed Forces Insurance Exchange		783,685
GuideOne (formerly Preferred Risk)[4]		123,133
Merastar[6]		-
Homesite Insurance Company of California		-
Pacific National Insurance[4]		-
Encompass Insurance Company		-
Glen Falls Insurance Company[4]		-
Commerce West Insurance Company		-
Total	$	751,142,796

[1]Includes Garrison Insurance Company

[2]Includes ACA Insurance Company

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

[4]Not currently writing residential property insurance in California

[5]Includes Golden Eagle Insurance Company

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

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Premiums Written
For the Years Ended December 31, 2009 and 2008

	2009	2008
State Farm General Insurance Company	$ 210,715,352	$ 207,879,271
Allstate Insurance Company	98,163,445	95,483,568
The Fire Insurance Exchange (Farmers)	74,429,404	75,986,563
United Services Automobile Association[1]	75,655,533	70,977,238
California State Automobile Association Inter-Insurance Bureau[2]	21,402,761	20,604,482
Safeco Insurance Company of America[3]	31,039,563	5,269,954
California FAIR Plan Association	4,481,010	4,487,943
Interinsurance Exchange of the Automobile Club	36,736,630	34,060,792
CNA/Continental[4]	-	-
Prudential[4]	-	-
Liberty Mutual Fire Insurance Company[5]	13,473,540	13,627,710
Foremost Property and Casualty Insurance Company	1,761,347	2,102,617
Mercury Casualty Company	12,804,714	9,974,809
Armed Forces Insurance Exchange	700,799	756,391
GuideOne (formerly Preferred Risk)[4]	-	-
Merastar[6]	-	3,428
Homesite Insurance Company of California	321,509	428,013
Pacific National Insurance[4]	-	-
Encompass Insurance Company	3,822,379	4,659,128
Glen Falls Insurance Company[4]	-	-
Commerce West Insurance Company	12,763	5,808
Total	$ 585,520,749	$ 546,307,715

[1]Includes Garrison Insurance Company

[2]Includes ACA Insurance Company

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

[4]Not currently writing residential property insurance in California

[5]Includes Golden Eagle Insurance Company

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

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Unearned Premiums
As of December 31, 2009 and 2008

	2009	2008
State Farm General Insurance Company	$ 106,141,539	$ 113,407,909
Allstate Insurance Company	48,958,977	53,300,471
The Fire Insurance Exchange (Farmers)	38,414,939	43,023,918
United Services Automobile Association[1]	38,518,213	38,603,739
California State Automobile Association Inter-Insurance Bureau[2]	11,009,533	10,960,177
Safeco Insurance Company of America[3]	18,924,219	7,599,386
California FAIR Plan Association	2,360,131	2,565,019
Interinsurance Exchange of the Automobile Club	18,067,271	17,744,841
CNA/Continental[4]	-	-
Prudential[4]	-	-
Liberty Mutual Fire Insurance Company[5]	7,118,808	7,679,286
Foremost Property and Casualty Insurance Company	938,303	942,589
Mercury Casualty Company	6,110,966	4,660,835
Armed Forces Insurance Exchange	364,168	396,085
GuideOne (formerly Preferred Risk)[4]	-	-
Merastar[6]	-	1,250
Homesite Insurance Company of California	205,232	226,640
Pacific National Insurance[4]	-	-
Encompass Insurance Company	1,856,652	2,313,013
Glen Falls Insurance Company[4]	-	-
Commerce West Insurance Company	5,794	3,054
Total	$ 298,994,745	$ 303,428,212

[1]Includes Garrison Insurance Company

[2]Includes ACA Insurance Company

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

[4]Not currently writing residential property insurance in California

[5]Includes Golden Eagle Insurance Company

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

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Commissions
For the Years Ended December 31, 2009 and 2008

	2009	2008
State Farm General Insurance Company	$ 21,813,184	$ 19,046,101
Allstate Insurance Company	10,258,062	9,148,868
The Fire Insurance Exchange (Farmers)	7,909,515	6,763,921
United Services Automobile Association[1]	7,578,732	6,610,525
California State Automobile Association Inter-Insurance Bureau[2]	2,136,660	1,930,587
Safeco Insurance Company of America[3]	1,974,006	(232,352)
California FAIR Plan Association	468,855	435,493
Interinsurance Exchange of the Automobile Club	3,586,902	3,275,416
CNA/Continental[4]	-	-
Prudential[4]	-	-
Liberty Mutual Fire Insurance Company[5]	1,404,541	1,237,570
Foremost Property and Casualty Insurance Company	177,255	274,867
Mercury Casualty Company	1,193,484	1,021,463
Armed Forces Insurance Exchange	73,341	72,321
GuideOne (formerly Preferred Risk)[4]	-	-
Merastar[6]	125	4,523
Homesite Insurance Company of California	34,309	38,299
Pacific National Insurance[4]	-	-
Encompass Insurance Company	428,068	454,176
Glen Falls Insurance Company[4]	-	-
Commerce West Insurance Company	974	335
Total	$ 59,038,013	$ 50,082,113

[1]Includes Garrison Insurance Company

[2]Includes ACA Insurance Company

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

[4]Not currently writing residential property insurance in California

[5]Includes Golden Eagle Insurance Company

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

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Operating Costs
(Net of Deferred Acquisition Costs)
For the Years Ended December 31, 2009 and 2008

	2009	2008
State Farm General Insurance Company	$ 7,662,103	$ 6,812,044
Allstate Insurance Company	3,558,746	3,271,292
The Fire Insurance Exchange (Farmers)	2,780,750	2,349,074
United Services Automobile Association[1]	2,659,966	2,300,895
California State Automobile Association Inter-Insurance Bureau[2]	750,321	671,714
Safeco Insurance Company of America[3]	690,370	(91,606)
California FAIR Plan Association	164,679	155,947
Interinsurance Exchange of the Automobile Club	1,266,732	1,175,995
CNA/Continental[4]	-	-
Prudential[4]	-	-
Liberty Mutual Fire Insurance Company[5]	494,743	430,811
Foremost Property and Casualty Insurance Company	62,179	96,828
Mercury Casualty Company	418,321	357,954
Armed Forces Insurance Exchange	25,769	25,183
GuideOne (formerly Preferred Risk)[4]	-	-
Merastar[6]	45	1,627
Homesite Insurance Company of California	12,650	13,749
Pacific National Insurance[4]	-	-
Encompass Insurance Company	148,193	162,528
Glen Falls Insurance Company[4]	-	-
Commerce West Insurance Company	341	800
Total	$ 20,695,908	$ 17,734,835

[1]Includes Garrison Insurance Company

[2]Includes ACA Insurance Company

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

[4]Not currently writing residential property insurance in California

[5]Includes Golden Eagle Insurance Company

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