CALIFORNIA EARTHQUAKE AUTHORITY

Financial Statements
December 31, 2013 and 2012

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Independent Auditor's Report

To the Governing Board
California Earthquake Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the California Earthquake Authority (CEA), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the CEA's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

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

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the California Earthquake Authority as of December 31, 2013, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, the CEA adopted new accounting guidance for policy acquisition costs.

Report on Prior Year Financial Statements

The financial statements of the California Earthquake Authority as of and for the year ended December 31, 2012 were audited by other auditors, whose report dated August 20, 2013 expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the California Earthquake Authority's basic financial statements. The accompanying schedules of participating insurer capital contributions, participating insurer premiums written, participating insurer unearned premiums, participating insurer commissions, and participating insurer operating costs are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of participating insurer capital contributions, participating insurer premiums written, participating insurer unearned premiums, participating insurer commissions, and participating insurer operating costs are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 2013 information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2013 schedules of participating insurer capital contributions, participating insurer premiums written, participating insurer unearned premiums, participating insurer commissions, and participating insurer operating costs are fairly stated in all material respects in relation to the basic financial statements as a whole.

The 2012 supplemental schedules were subjected to the auditing procedures applied in the 2012 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2012 financial statements as a whole.

Plante & Moran, PLLC

September 26, 2014

CALIFORNIA EARTHQUAKE AUTHORITY

Management's Discussion and Analysis

History and Financing

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

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

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

The CEA uses its available capital (net position) to leverage approximately $9.9 billion in claims-paying capacity at December 31, 2013. The CEA's claims-paying capacity is determined from the CEA's available capital, risk-transfer coverage, available letters of credit, debt, and post-event prospective participating insurance company assessments. The CEA derives its capital from participating insurer capital contributions and from increases in net position 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 had approximately 842,000 policyholders at December 31, 2013, most of whom insure single-family dwellings through the CEA. The CEA offers a basic residential earthquake policy to homeowners, which includes coverage for the insured dwelling and limited coverage for contents and loss-of-use if the residence is uninhabitable due to an earthquake. The CEA also offers policies to condominium unit owners and renters. For an additional premium, CEA policyholders can significantly increase insured limits on contents and for loss-of-use, and homeowners can lower their CEA policy deductible from 15 percent to 10 percent.

The CEA employs contract employees and employees subject to civil-service provisions. On June 28, 2013, legislation was passed that removed the staffing cap of a maximum 25 CEA employees subject to civil service provisions. Historically, because of its limited staff size, the CEA has used an extensive network of contract vendors to perform functions on behalf of the CEA. The use of contract vendors will continue while the CEA transitions to a staff size that will be able to handle these functions.

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 as of and for the years ended December 31, 2013 and 2012 have been prepared using accounting standards applicable to governmental entities. This financial report consists of three financial statements with accompanying notes. The balance sheets, prepared on the accrual basis of accounting, include all assets, liabilities and net position of the CEA. The statements of revenues, expenses, and changes in net position, also prepared on the accrual basis, take into account all revenues and expenses for 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 position as of December 31 are summarized as follows:

	2013	2012	2011
Assets			
Current			
Cash and investments	$ 5,018,527,573	$ 4,804,687,807	$ 4,508,924,403
Premiums receivable, net	45,192,923	42,878,950	41,893,958
Prepaid reinsurance premium	5,367,911	1,325,001	-
Deferred policy acquisition costs	-	39,031,916	41,619,480
Other current assets	14,816,634	18,285,153	100,880,639
Total current assets	5,083,905,041	4,906,208,827	4,693,318,480
Noncurrent			
Reinsurance deposit	14,661,400	14,634,112	5,029,836
Capital assets, net	1,017,092	458,543	499,468
Total assets	$ 5,099,583,533	$ 4,921,301,482	$ 4,698,847,784
Liabilities and Net Position			
Current			
Unearned premiums	$ 296,410,225	$ 290,632,289	$ 309,899,331
Other current liabilities	48,514,115	47,571,589	42,317,010
Total current liabilities	344,924,340	338,203,878	352,216,341
Noncurrent			
Revenue bonds payable, noncurrrent portion	63,000,000	94,500,000	126,000,000
Compensated absences	551,684	559,767	96,041
Total liabilities	408,476,024	433,263,645	478,312,382
Net position:			
Net investment in capital assets	1,017,092	458,543	499,468
Restricted, expendable	274,488,211	237,918,554	205,889,564
Unrestricted	4,415,602,206	4,249,660,740	4,014,146,370
Total net position	4,691,107,509	4,488,037,837	4,220,535,402
Total liabilities and net position	$ 5,099,583,533	$ 4,921,301,482	$ 4,698,847,784

Condensed Balance Sheets (Continued)

Assets

Total assets grew $178.3 million (4%) in 2013 and $222.5 million (5%) in 2012. The 2013 and 2012 increases were primarily due to an increase in net position of $242.1 million and $267.5 million, respectively. Cash and investments grew $213.8 million (5%) and $295.8 million (7%), in 2013 and 2012, 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 increased $2.3 million (5%) and increased $1.0 million (2%) in 2013 and 2012, respectively. The 2013 increase in premium receivables was largely due to timing with a few participant insurers having significantly larger balances at the end of 2013 compared to 2012. The 2012 increase in premium receivables was due to a significant reduction in the allowance for doubtful accounts at year end.

Deferred policy acquisition costs, consisting of unearned participating insurer commissions and operating costs, were deferred and amortized ratably over the terms of the underlying policies during 2012. In 2013, the CEA adopted new accounting guidance for policy acquisition costs, as described in Note 1 to the basic financial statements. As a result, deferred policy acquisition costs and beginning net position decreased $39 million (100%) in 2013. Deferred policy acquisition costs decreased $2.6 million (6%) in 2012, which corresponds with the decrease in policies that were unearned at the end of 2012. The operating cost reimbursement rate during 2013 and 2012 was 3.09%.

The 2013 decrease in other current assets of $3.5 million (19%) was primarily due to a reduction of $3.0 million in the prepaid transformer maintenance premium, and $0.7 million decrease in interest income receivable. The 2012 decrease in other current assets of $82.6 million (82%) was primarily due to a combination of no security receivable at year end, which was a reduction of $68.5 million, and no capital contributions receivable at year end, which was a reduction of $17.3 million.

The reinsurance deposit had an insignificant increase in 2013, with the increase due to earnings on the deposit. In 2012, there was an increase of $9.6 million due to the CEA entering into two new reinsurance agreements that required a deposit during the year.

Liabilities

Unearned premiums represent the pro rata portion of the premiums written related to the remaining term of policies in force. Unearned premiums increased $5.8 million (2%) and decreased $19.3 million (6%) in 2013 and 2012, respectively. The 2013 increase was due to the increase in premiums written by the end of 2013. The 2012 decrease was due to the decrease in premiums written by the end of 2012.

Other current liabilities include loss and loss adjustment expense reserves, which are not significant since California has not suffered a major earthquake during the CEA's existence. Other current liabilities increased $0.9 million (2%) in 2013 largely due to an increase in accounts payable and accrued expenses at year-end of $1.8 million, which was offset by a decrease in revenue bond interest payable at year-end of $1.0 million. Other current liabilities increased $5.3 million (12%) in 2012 largely due to an increase in accrued reinsurance premium expense of $4.3 million.

Condensed Balance Sheets (Continued)

Revenue bonds payable decreased by $31.5 million (25%) in 2013 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 6.169% and mature in 2016 requiring annual 10% principal reduction payments.

Compensated absences – noncurrent was essentially unchanged in 2013, with the 2012 balance increasing by $0.5 million (483%). Prior to 2012 civil service leave was not included in the financial statements due to the fact that the liability was only payable by the CEA if an employee left civil service, which was not a common occurrence since the CEA's inception. However, due to employees leaving civil service in 2012, it was deemed appropriate to recognize this liability in addition to the contract employees that was already recognized. As such, in 2012, the entire balance was treated as a current year addition to the CEA.

Net Position

The CEA classifies its net position into three components, invested in capital assets, net of related debt; restricted-expendable and unrestricted. Invested in capital assets, net of related debt consists of equipment and leasehold improvements, and there is no debt related to the purchase of these assets. Restricted net position includes the net position of the Earthquake Loss Mitigation Fund (Mitigation Fund), unspent bond proceeds restricted for payment of claims as defined in the debt agreements offset by underlying debt, funds held for debt service by the revenue bond trustee, and investment income earned on the bond proceeds restricted as pledged revenue for debt service. The Mitigation Fund was created by statute and related funds must be used solely for the establishment and operation of earthquake loss mitigation programs. The remaining net position of the CEA is classified as unrestricted. The CEA's net position grew $203 million (5%) and $267.5 million (6%) in 2013 and 2012, respectively. The 2013 increase was comprised of the underwriting profit of $232.3 million, premium tax contributions from the State of California of $13.8 million, and net investment income of $2.1 million. The 2012 increase was comprised of the underwriting profit of $243.8 million, premium tax contributions from the State of California of $13.1 million, and net investment income of $18.4 million.

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

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

	2013		2012		2011	
Underwriting income:						
Premiums written	$ 574,507,234	100%	$ 569,235,337	100%	$ 612,830,953	100%
Less premiums ceded - reinsurance	(212,741,709)		(222,817,695)		(200,622,675)	
Net premiums written	361,765,525	63%	346,417,642	61%	412,208,278	67%
Change in net unearned premiums	(5,777,936)		19,267,042		(7,037,110)	
Net premiums earned	355,987,589	62%	365,684,684	64%	405,171,168	66%
Expenses:						
Losses and loss adjustment expenses	373,311		649,221		299,164	
Other underwriting expenses	123,303,996		121,284,705		122,142,585	
Total expenses	123,677,307	22%	121,933,926	21%	122,441,749	20%
Underwriting profit	232,310,282	40%	243,750,758	43%	282,729,419	46%
Non-operating income and expenses:						
Net investment income	2,133,304		18,435,449		27,893,141	
Other non-operating income	14,222,199		13,564,995		14,935,389	
Other non-operating expenses	(6,564,197)		(8,248,767)		(7,733,154)	
Total non-operating income and expenses	9,791,306	2%	23,751,677	4%	35,095,376	6%
Capital Contributions	-		-		20,772,000	
Increase in net position	242,101,588	42%	267,502,435	47%	338,596,795	55%
Net position, beginning of year - 2013 as restated	4,449,005,921		4,220,535,402		3,881,938,607	
Net position, end of year	$ 4,691,107,509		$ 4,488,037,837		$ 4,220,535,402	

The increase in net position was $242.1 million in 2013, which resulted in a net profit margin of 42%, and $267.5 million in 2012, which resulted in a net profit margin of 47%. Net investment income decreased $16.3 million (88%) in 2013. The decrease was largely due to a $12.5 million decrease in the change of unrealized investment gains on U.S. Treasuries and a decrease of $3.6 million in investment income. Net investment income decreased $9.5 million (34%) in 2012. The decrease was largely due to a $4.2 million decrease in the change of unrealized investment gains on U.S. Treasuries and a decrease of $7.1 million in investment income. The CEA's net premiums written increased $15.3 million (4%) in 2013 and decreased $65.8 million (16%) in 2012. The 2013 increase is due to a $5.3 million increase in written premiums and a decrease in premiums ceded of $10.1 million. The 2012 decrease is due to a $43.6 million reduction in written premiums and an increase in premiums ceded of $22.2 million.

The variance of the change in unearned premiums decreased $25.0 million and increased $26.3 million in 2013 and 2012, respectively. The 2013 variance is due to an increase in unearned premium caused by a increase in premiums written which relate to coverage in future periods at the end of 2013. The 2012 variance is due to a decrease in unearned premium caused by a decrease in premiums written which relate to coverage in future periods at the end of 2012.

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

In 2013 and 2012, the CEA's losses and loss adjustment expenses were essentially zero due to California not experiencing any significant earthquakes.

In 2013, the increase in other underwriting expense of $2.0 million was largely due to a $1.9 million decrease in participating insurer commissions and operating expense, a $0.6 million increase in pro forma premium taxes and $3.3 million increase in various underwriting expenses. In 2012, the decrease in other underwriting expense of $0.9 million was largely due to a $4.3 million decrease in participating insurer commissions and operating expense, a $1.3 million decrease in pro forma premium taxes, $4.1 million increase in marketing services and $0.7 million increase in compensated absences expense.

Other non-operating income increased $0.7 million in 2013 and decreased $1.4 million in 2012 primarily due to the change in the State of California premium tax contribution. Other non-operating expenses decreased $1.7 million in 2013, largely due to an increase in the contribution to the California Residential Mitigation Program of $0.5 million and a decrease in net financing expenses of $2.1 million. Other non-operating expenses increased $0.5 million in 2012 due primarily to the contribution to the California Residential Mitigation Program.

As no capital contributions were necessary in 2013 or 2012 the balance was unchanged in 2013 and decreased $20.8 million in 2012.

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:

	2013	2012	2011
Net cash provided by operating activities	$ 249,028,501	$ 234,419,608	$ 308,461,371
Net cash used in noncapital financing activities	(37,168,461)	(21,991,315)	(32,719,584)
Net cash used in capital and related financing activities	(851,209)	(316,030)	(80,424)
Net cash used in investing activities	(223,925,379)	(43,888,910)	(211,457,391)
Net (decrease) increase in cash and cash equivalents	(12,916,548)	168,223,353	64,203,972
Cash and cash equivalents, beginning of year	328,884,187	160,660,834	96,456,862
Cash and cash equivalents, end of year	$ 315,967,639	$ 328,884,187	$ 160,660,834

Cash from operating activities increased $14.6 million (6%) in 2013 and decreased $74.0 million (24%) in 2012. The 2013 increase resulted primarily from an increase in cash received from premiums of $3.9 million, a decrease in payments for reinsurance of $16.4 million and an increase in payments for operating expenses of $7.2 million. The 2012 decrease resulted from a decrease in cash received from premiums of $54.0 million and an increase in payments for reinsurance of $23.7 million.

Condensed Statements of Cash Flows (Continued)

The $15.2 million (69%) change in cash used in noncapital financing activities for 2013 was a result of $17.3 million decrease in capital contribution installments received from Nationwide Insurance Company, and the change in interest paid and interest income on revenue bond proceeds in 2013 compared to 2012. The $10.7 million (33%) change in cash used in noncapital financing activities for 2012 was a result of $10.7 million increase in capital contribution installments received from Nationwide Insurance Company, and the change in interest paid and interest income on revenue bond proceeds in 2012 compared to 2011.

The change in cash used in investing activities was $180.0 million (410%) and $167.6 million (79%) for 2013 and 2012, respectively, and reflects the CEA's decision to continue to prudently extend the duration of its portfolio as a result of the lagging economy, continued all-time low Treasury rates, and the Federal Reserve's postponement of any monetary tightening.

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, 2013, 19.41% of the portfolio was scheduled to mature in 90 days or less, securities maturing between 91 days and one year accounted for 26.15% of the portfolio, while securities maturing between one to five years accounted for the remaining 54.44% of the portfolio, with a total portfolio modified duration of approximately 1.4 years. Based on earthquake modelers' results of analyzing the CEA's portfolio, management believes the CEA has sufficient liquidity to meet its obligations as they become due resulting from an earthquake or series of earthquakes. The probability of an earthquake or series of earthquakes occurring that would deplete CEA's liquidity and the associated claims-paying capacity is estimated to be 0.21% 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, 2013, in millions of dollars:

CEA capital available for claims	$	4,416
Risk transfer financial products		3,115
Revenue bonds		314
Post-earthquake industry assessments (2nd Layer)		1,656
Post-earthquake industry assessments (New Layer)		385
Total	$	9,886

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

Capital Assets and Debt Activity

Capital Assets

The CEA's investment in capital assets as of December 31, 2013 was $1,017,092 (net of accumulated depreciation). No major capital asset purchases were made in the current year and none are expected in the coming year.

Debt Administration

At December 31, 2013, the CEA had total long-term debt obligations of $94,500,000 in the form of revenue bonds. During the year, no additional debt was acquired while $31,500,000 of revenue bonds was retired. Additional information on the CEA's long-term debt can be found in Note 3 in the Notes to the Financial Statements.

Current Economic Factors and Conditions

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

Requests for Information

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

CALIFORNIA EARTHQUAKE AUTHORITY

Balance Sheets
As of December 31, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and investments:		
Cash and cash equivalents	$ 259,465,503	$ 276,406,016
Restricted cash and equivalents	56,502,136	52,478,171
Restricted investments	314,344,303	314,130,654
Investments	4,388,215,631	4,161,672,966
Total cash and investments	5,018,527,573	4,804,687,807
Premiums receivable, net of allowance for doubtful accounts of $ 6,349,145 and $ 6,801,039	45,192,923	42,878,950
Interest receivable	14,108,686	14,806,316
Prepaid reinsurance premium	5,367,911	1,325,001
Prepaid transformer maintenance premium	350,859	3,365,306
Deferred policy acquisition costs (Note 1)	-	39,031,916
Other current assets	357,089	113,531
Total current assets	5,083,905,041	4,906,208,827
Noncurrent assets:		
Transformer reinsurance premium deposit	14,661,400	14,634,112
Capital assets, net	1,017,092	458,543
Total assets	$ 5,099,583,533	$ 4,921,301,482
Liabilities and Net Position		
Current Liabilities:		
Unearned premiums	$ 296,410,225	$ 290,632,289
Accounts payable and accrued expenses	7,649,347	5,849,676
Accrued reinsurance premium expense	6,103,759	6,068,468
Loss and loss adjustment expense reserves	39,513	12,909
Compensated absences - current portion	306,643	254,066
Revenue bond payable - current portion	31,500,000	31,500,000
Revenue bond interest payable	2,914,853	3,886,470
Total current liabilities	344,924,340	338,203,878
Noncurrent liabilities:		
Revenue bond payable	63,000,000	94,500,000
Compensated absences	551,684	559,767
Total liabilities	408,476,024	433,263,645
Net position:		
Net investment in capital assets	1,017,092	458,543
Restricted, expendable	274,488,211	237,918,554
Unrestricted	4,415,602,206	4,249,660,740
Total net position	4,691,107,509	4,488,037,837
Total liabilities and net position	$ 5,099,583,533	$ 4,921,301,482

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2013 and 2012

	2013	2012
Underwriting income:		
Premiums written	$ 574,507,234	$ 569,235,337
Less premiums ceded - reinsurance	(212,741,709)	(222,817,695)
Net premiums written	361,765,525	346,417,642
Change in unearned premiums	(5,777,936)	19,267,042
Net premiums earned	355,987,589	365,684,684
Operating expenses:		
Losses and loss adjustment expenses	373,311	649,221
Participating insurer commissions	57,468,533	58,867,335
Participating insurer operating costs	17,737,053	18,237,966
Reinsurance broker commissions	4,800,000	4,800,000
Pro forma premium taxes	13,757,939	13,120,011
Other underwriting expenses	29,540,471	26,259,393
Total operating expenses	123,677,307	121,933,926
Underwriting profit	232,310,282	243,750,758
Non-operating income and expenses:		
Net investment income	2,133,304	18,435,449
Other income	464,260	444,984
Financing expenses, net	(5,161,103)	(7,274,681)
Mitigation Fund expenses	(403,094)	(474,086)
California Residential Mitigation Program contribution	(1,000,000)	(500,000)
State of California premium tax contribution	13,757,939	13,120,011
Total of non-operating income and expenses	9,791,306	23,751,677
Increase in net position	242,101,588	267,502,435
Net position, beginning of year - 2013 as restated (Note 1)	4,449,005,921	4,220,535,402
Net position, end of year	$ 4,691,107,509	$ 4,488,037,837

See accompanying notes to financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from premiums	$ 572,193,261	$ 568,250,345
Cash payments for premiums ceded - reinsurance	(213,762,169)	(230,174,320)
Cash payments for operating expenses	(99,795,485)	(92,603,150)
Cash payments to employees for services	(9,607,106)	(11,053,267)
Net cash provided by operating activities	249,028,501	234,419,608
Cash flows from noncapital financing activities:		
Capital contributions received from participating insurers	-	17,310,000
Repayment of revenue bonds	(31,500,000)	(31,500,000)
Interest paid on revenue bonds	(8,111,183)	(10,049,349)
Interest income on revenue bonds proceeds	1,978,462	1,803,050
Other income	464,260	444,984
Net cash used in noncapital financing activities	(37,168,461)	(21,991,315)
Cash flows from capital and related financing activities:		
Acquisition of equipment	(851,209)	(316,030)
Net cash used in capital and related financing activities	(851,209)	(316,030)
Cash flows from investing activities:		
Proceeds from maturities of investments	2,892,414,700	4,026,369,413
Purchases of investments	(3,174,287,192)	(4,120,992,295)
Investment income	60,165,929	52,816,706
Investment expense	(2,218,816)	(2,082,734)
Net cash used in investing activities	(223,925,379)	(43,888,910)
Net (decrease) increase in cash and cash equivalents	(12,916,548)	168,223,353
Cash and cash equivalents, beginning of year	328,884,187	160,660,834
Cash and cash equivalents, end of year	$ 315,967,639	$ 328,884,187
Reconciliation to balance sheet:		
Cash and cash equivalents	$ 259,465,503	$ 276,406,016
Restricted cash and equivalents	56,502,136	52,478,171
Cash and cash equivalents, end of year	$ 315,967,639	$ 328,884,187

See accompanying notes to financial statements.

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Cash Flows (Continued)
For the Years Ended December 31, 2013 and 2012

	2013	2012
Reconciliation of operating income to net cash provided by operating activities:		
Underwriting profit	$ 232,310,282	$ 243,750,758
Adjustments to reconcile underwriting profit to net cash provided by operating activities:		
Depreciation on equipment	292,660	356,955
Pro forma premium tax expense	13,757,939	13,120,011
Contribution to California Residential Mitigation Program	(1,000,000)	(500,000)
Mitigation Fund expenses	(403,094)	(474,086)
Changes in operating assets and liabilities:		
Premiums receivable	(2,313,973)	(984,992)
Unearned premiums	5,777,936	(19,267,042)
Deferred policy acquisition costs	-	2,587,564
Other assets	(243,558)	17,574
Prepaid reinsurance premium	(4,042,910)	(1,325,001)
Transformer reinsurance premium deposit	(27,288)	(9,604,276)
Prepaid transformer maintenance premium	3,014,447	(819,204)
Loss and loss adjustment expense reserves	26,604	12,909
Accounts payable and accrued expenses	1,799,671	2,478,957
Compensated absences payable	44,494	677,625
Accrued reinsurance premium expense	35,291	4,391,856
Net cash provided by operating activities	$ 249,028,501	$ 234,419,608

Non-cash Investing, Capital and Financing Activities

The change in the fair value of investments, which is included as a component of net investment income in the Statements of Revenues, Expenses, and Changes in Net Position, was a decrease of $15.0 million and $2.5 million in 2013 and 2012, respectively. Premium tax contributed by the State of California and recognized as a component of expense in the Statements of Revenues, Expenses, and Changes in Net Position was $13.8 million and $13.1 million in 2013 and 2012, 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 3.09% of written premium. The producer commission is equal to 10% of written premium of all new and renewal CEA policies. Additionally, participating insurers receive reimbursement for expenses associated with servicing CEA claims equal to 9% of paid claims. As of December 31, 2013, there are 22 participating insurers of which 17 insurers are writing CEA policies. Four participating insurers account for 73% of CEA's written premiums.

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

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

Basis of Accounting

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

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

Basis of Accounting (Continued)

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

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

Revenue Recognition

Premiums are recognized as earned on a pro rata basis over the policy contract period. All premium rates charged by 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. Prepaid insurance premiums are the pro rata portion of premiums ceded applicable to the unexpired period of reinsurance coverage.

Use of Restricted/Unrestricted Net Position

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

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

Cash and Cash Equivalents

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

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

Investments

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

Capital Assets

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

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

Risk-Capital Surcharge

Under California Insurance Code sec. 10089.16(d), effective July 1, 2008, the CEA Governing Board must calculate a risk-capital surcharge one year after the date that a new participating insurer first places or renews business into the CEA. The law provides that each annual risk-capital surcharge must equal the CEA's increased cost of providing or securing capacity to insure the new participant's excess earthquake-insurance risk. There were no such risk-capital surcharges during 2013 and 2012.

Policy Acquisition Costs

Acquisition costs, consisting of participating insurer commissions and operating costs, vary with and are primarily related to the issuance of new and renewal insurance policies. During 2012, acquisition costs were deferred and amortized over the terms of the underlying policies. During 2013, the CEA adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities (GASB 65), which requires acquisition costs to be expensed as incurred. The standard generally requires that the financial statements be retroactively restated to reflect the change in accounting policy; however, because the impacts of the adoption were not material to the financial statements, the cumulative effect of applying the standard was reported as a restatement of beginning net position on January 1, 2013. The cumulative effect of adopting GASB 65 as of January 1, 2013 was as follows:

Net Position, Beginning of Year-2013 as originally reported	$ 4,488,037,837
Adjustment for GASB 65 adoption	(39,031,916)
Net Position, Beginning of Year-2013 as restated	$ 4,449,005,921

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

Losses and Loss Adjustment Expenses

Reserves for insurance losses and loss adjustment expenses include the accumulation of case estimates for claims reported, claims incurred but not reported, and estimates of expenses for investigating and adjusting all incurred claims. The reserve is established at a level that management estimates to be sufficient to satisfy those claims. Estimates are revised as more information becomes available. Since 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 losses and loss adjustment expenses. The CEA does not have any significant unpaid claims reported as of December 31, 2013 and 2012.

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

Participating Insurer Capital Contributions

Each insurer that elected to participate in the CEA during its first year of operations was required to contribute as its share of the CEA's initial operating capital, an amount equal to $1,000,000,000 multiplied by the percentage representing that insurer's residential earthquake insurance market share as of January 1, 1994. Insurers that elect to participate in the CEA after December 1, 1996, are required to make an initial capital contribution calculated using their residential earthquake insurance market share as of January 1, 1994, or the latest date for which such market share information is available to the CEA, whichever contribution amount is greater. As of December 31, 2013, participating insurer capital contributions totaled $777 million and were 100% funded.

Participating Insurer Assessments

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

As of December 31, 2013, participating insurers have a cumulative residential property insurance market share of approximately 80% of the total residential property insurance market in California based on written premium. If participating insurers withdraw their participation in the CEA such that the cumulative residential property insurance market share is less than 65%, the Insurance Commissioner is required by law to make recommendations to the California Legislature for the continuation or termination of the CEA.

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

Net Position

The CEA classifies its net position into three components: net position invested in capital assets, net of related debt; restricted-expendable and unrestricted net position. There is no debt related to capital assets, so the balance of net position invested in capital assets consists only of the capital assets balance. Restricted net position includes the net position of the Mitigation Fund, unspent bond proceeds restricted for payment of claims as defined in the debt agreements and funds held for debt service by the revenue bond trustee offset by underlying debt, and investment income earned on the bond proceeds restricted as pledged revenue for debt service.

Income Taxes

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

State of California Premium Tax

California Insurance Code section 10089.44 provides that "Notwithstanding any other provision of law, premiums collected by the authority shall be exempt from collection of the state's insurance premium tax, and the amount of tax foregone by the state shall be considered for all purposes a contribution by the state and its citizens to the capital and operating revenues of the authority." As a result, CEA is exempt from remitting state premium tax. State premium tax contributions were $13,757,939 and $13,120,011 for the years ended December 31, 2013 and 2012, respectively.

Compensated Absences

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

Upcoming Accounting Pronouncements

In June 2012, the GASB issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government wide, proprietary and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The CEA is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this Statement are effective for financial statements for the year ending December 31, 2015.

2. Cash and Investments

As of December 31, 2013 and 2012, the CEA had the following cash and investments:

	December 31, 2013					
	Investment Maturities (in Years)					
	Less than 1	1-2	2-3	3-4	4-5	Total
U.S. Treasuries	$ 1,745,654,393	$ 1,177,185,978	$ 930,415,078	$ 522,577,420	$ 100,213,463	$4,476,046,332
U.S. agencies	445,754,681	-	-	-	-	445,754,681
U.S. Gov't money market funds	32,101,772	-	-	-	-	32,101,772
Cash	2,801,904	-	-	-	-	2,801,904
Commercial paper	61,822,884	-	-	-	-	61,822,884
Total	$ 2,288,135,634	$ 1,177,185,978	$ 930,415,078	$ 522,577,420	$ 100,213,463	$ 5,018,527,573

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

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

Liquidity Fund:

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

2. Cash and Investments (Continued)

Primary Reserve Fund:

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

Mitigation Fund:

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

Claims Paying Fund:

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

Cash Deposits

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

Interest Rate Risk

As a means of limiting its exposure to fair value losses resulting from rising interest rates, 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, 2013, the CEA's combined portfolio had a maximum modified duration of 1.4 years.

2. Cash and Investments (Continued)

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, 2013, 89% of the portfolio consisted of U.S. Treasuries and 11% of the portfolio consisted of U.S. Agencies, U.S. Government money market funds that invest exclusively in obligations of the U.S. Treasury, cash and commercial paper.

CEA's investments are rated as follows:

Security Type	Moody's	Standard & Poor's
U.S. Treasury	Aaa	AA+
Federal Home Loan Mortgage Corporation	Aaa	AA+
Federal National Mortgage Association	Aaa	AA+
General Electric Capital Corporation	Aa3	AA+
Wells Fargo & Co.	A2	A+
Toyota Motor Credit Corporation	Aa3	AA-

Concentration of Credit Risk

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, CEA will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. CEA has no policy that would limit the exposure to custodial credit risk for deposits. At December 31, 2012 all CEA deposits were covered by the Federal Depository Insurance Corporation (FDIC) as there was no limit on coverage amount. The unlimited insurance coverage expired on December 31, 2012 and therefore, as of December 31, 2013 approximately $2.6 million of CEA deposits were not covered by the FDIC.

Investment Income

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

2. Cash and Investments (Continued)

Investment income for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
U.S. agency securities and government money market accounts	$ 391,696	$ 473,196
U.S. Treasuries	20,736,531	24,079,425
Other short-term investments	179,057	233,416
Total interest income	21,307,284	24,786,037
Change in fair value of investments	(14,976,701)	(2,464,804)
Less investment expenses	(2,218,817)	(2,082,734)
Total investment income	$ 4,111,766	$ 20,238,499

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

	2013	2012
Investment income included in financing expenses	$ 1,978,462	$ 1,803,050
Net investment income	2,133,304	18,435,449
Total investment income	$ 4,111,766	$ 20,238,499

The change in fair value of investments for the years ended December 31, 2013 and 2012 are calculated as follows:

	2013	2012
Fair value of investments at end of year	$ 4,702,559,934	$ 4,475,803,620
Add: Proceeds of investments matured	2,892,414,700	3,957,511,405
Add: Amortization of premium and discount	40,139,803	32,724,193
Less: Change in realized gain/loss	(326)	(119,581)
Less: Cost of investments purchased	(3,174,287,192)	(4,120,120,872)
Less: Fair value of investments at beginning of year	(4,475,803,620)	(4,348,263,569)
Change in fair value of investments	$ (14,976,701)	$ (2,464,804)

Fair Value of Financial Instruments

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

3. Long-Term Liabilities

The following is a summary of long-term liabilities as of December 31, 2013:

	Balance January 1, 2013	Additions	Retirements	Balance December 31, 2013	Due within One Year
Revenue Bond	$ 126,000,000	$ -	$(31,500,000)	$ 94,500,000	$ 31,500,000
Compensated Absences	813,833	351,137	(306,643)	858,327	306,643
Total	$ 126,813,833	$ 351,137	$(31,806,643)	$ 95,358,327	$ 31,806,643

The CEA issued its long-term debt of $315 million in fixed rate revenue bonds on July 20, 2006 to enhance claims paying capacity. The net proceeds from the revenue bonds were deposited into the Claims Paying Account and were used to purchase investments according to CEA's investment policy. The proceeds will only be used for future payments of earthquake policyholder claims and related loss adjustment expenses and may not be used to repay principal and interest of the debt. Revenue bond proceeds may be used for payment of claims after 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 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, 2013:

	Principal	Interest	Total
2014	$ 31,500,000	$ 4,858,088	$ 36,358,088
2015	31,500,000	2,914,853	34,414,853
2016	31,500,000	971,618	32,471,618
Total requirements	$ 94,500,000	$ 8,744,559	$ 103,244,559

Interest paid during the year was $6,801,323 and $8,744,558 for 2013 and 2012, respectively.

4. Net Position

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

	2013	2012
Restricted:		
Mitigation Fund	$ 25,457,275	$ 25,801,060
Claims Paying Account (bonds)	249,030,936	212,117,494
Total restricted net position	$ 274,488,211	$ 237,918,554
Unrestricted:		
Contributed capital	$ 777,384,796	$ 777,384,796
Additional paid-in capital	195,928,028	182,170,089
Other unrestricted	3,442,289,382	3,290,105,855
Total unrestricted net position	$ 4,415,602,206	$ 4,249,660,740

5. Risk Transfer

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 coverage 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.

CEA has a deposit to ensure its performance under the terms of its agreements with Embarcadero Re. The deposit was $14,661,400 and $14,634,112 at December 31, 2013 and 2012, respectively. Certain aggregate excess reinsurance contracts allowed for an adjustment of premium, based on the average aggregate insurance in-force and the exposure adjustment limit, as defined in the contracts. As of December 31, 2013 and 2012 in accordance with these terms, the CEA did not have a premium adjustment expense against the contracts.

During 2013, the CEA contracted with reinsurers on multi-year contracts with one limit over either a two- or three-year term. The first year premium for the reinsurance limit was calculated on the full limit, while subsequent year’s premium will be calculated on the remaining limit, if there is a recoverable from the reinsurance contract. An annual adjustment to the retention is based on the contracted probability of loss. The CEA ceded insurance to reinsurers under catastrophe excess-of-loss reinsurance contracts and provided maximum limits of $3.115 billion at varying attachment points.

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 $13.7 million and $15.0 million for the years ended December 31, 2013 and 2012, respectively, and did not exceed 3% of premiums written.

7. Commitments and Contingencies

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

The CEA leases office facilities and equipment under various non-cancelable operating lease agreements that expire through December 2016. Rental expense associated with the lease agreements was $726,185 and $704,307 for the years ended December 31, 2013 and 2012, respectively. Future minimum rental payments under these agreements are as follows:

	Amount
2014	$ 709,012
2015	710,449
2016	181,529
Total	$ 1,600,990

8. 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, 2013 and 2012, the balance sheets include expendable restricted net position related to the Mitigation Fund totaling $25,457,275 and $25,801,060 respectively. The expendable restricted net position of the Mitigation Fund as of December 31, 2013 includes the potential annual transfer amount of $1,064,575, which is subject to actuarial review and formal approval of the CEA's Governing Board as discussed in the previous paragraph.

9. Defined Benefit Pension Plan

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

Funding Policy

CEA has civil service employees that are members of the following bargaining units: Professional Administrative, Financial and Staff Service (Bargaining Unit 1); Attorneys and Hearing Officer (Bargaining Unit 2) and Professional Scientific (Bargaining Unit 10), which are required by bargaining unit agreements to contribute 8.0% to 9.0% of their annual covered salary. CEA is required to contribute remaining amounts necessary to fund the benefits for the actuarial members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by CalPERS Board of Administration. For the fiscal year ended December 31, 2013 the employer contribution rate by plan was 21.203% for Tier 1 State Miscellaneous and 21.355% for Tier 2 State Miscellaneous. For the fiscal year ended December 31, 2012 the employer contribution rate by plan was 20.503% for Tier 1 State Miscellaneous and 20.457% for Tier 2 State Miscellaneous. CEA makes the contributions required of CEA civil service employees on their behalf and for their account. All of CEA's civil service employees are classified as members of the State Miscellaneous Plans.

Annual Pension Cost

CEA's employee contributions in 2013 and 2012 were $156,107 or 8.3% of annual covered payroll and $192,348 or 8.3% of annual covered payroll, respectively. The employer's contributions in 2013 and 2012 were $354,868 or 18.8% of annual covered payroll and $422,532 or 21.6% of annual covered payroll, respectively.

Three-Year Trend Information for PERS

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2013	$ 354,868	100%	$ ---
December 31, 2012	422,532	100%	---
December 31, 2011	321,152	100%	---

9. Defined Benefit Pension Plan (Continued)

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 charge 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.

10. Defined Contribution Plan

The CEA sponsors the California Earthquake Authority Retirement Plan (the "Plan"), a 401(A) defined contribution savings plan for contract employees. The Plan is administered by UBS Financial Services. Employees contribute 5% of base compensation. The CEA contributes 12.71% of the employee's base compensation. The maximum base compensation for 2013 and 2012 was $255,000 and $250,000, respectively. The contributions are funded semi-annually and allocated to the CEA based on employee contributions. Employees are fully vested in their account from beginning of employment. The CEA has no legal obligation for benefits under this Plan. Only the CEA Board has the authority to amend the Plan provisions. Employee contributions in 2013 and 2012 were $69,236 and $60,967, respectively. The CEA's contributions in 2013 and 2012 were $176,149 and $155,115, respectively.

11. 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 and civil service employees.

12. Risk Management

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

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

Management believes such coverage is sufficient to preclude any significant uninsured losses to the CEA. Claim amounts have not exceeded policy limits in the last three years.

13. California Residential Mitigation Program

On August 16, 2011, the CEA entered into a Joint Powers Agreement with the California Emergency Management Agency (Cal EMA) to create the California Residential Mitigation Program (CRMP) for the purpose of supplying grants, loans, and loan guarantees (and related assistance and incentives) to owners of dwellings in California. The CRMP Governing Board is comprised of two employees of each the CEA and Cal EMA. Transfers from the CEA Mitigation Fund to the CRMP in 2013 and 2012 were $1,000,000 and $500,000, respectively.

14. Subsequent Events

Management has evaluated subsequent events up through and including September 26, 2014, which is the date the financial statements were made available to be issued. No events, other than those disclosed below and elsewhere in these financial statements, have occurred subsequent to December 31, 2013 requiring recording or disclosure in these financial statements.

California experienced a 6.0 magnitude earthquake in the American Canyon area near Napa which affected CEA policyholders. CEA has estimated that the loss to the CEA will be approximately $1.5 million. The CEA has sufficient surplus and claims paying ability to handle the losses associated with this event and it will not affect the CEA's financial capabilities.

SUPPLEMENTARY INFORMATION

CALIFORNIA EARTHQUAKE AUTHORITY

Schedule of Participating Insurer Capital Contributions
From Inception Through December 31, 2013

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

[1] Includes Garrison Insurance Company
[2] Includes ACA Insurance Company
[3] Joined the CEA as of December 1, 2008
[4] Not currently writing residential property insurance in California
[5] Includes Golden Eagle Insurance Company
[6] Joined the CEA as of November 2011

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Premiums Written
For the Years Ended December 31, 2013 and 2012

		2013	2012
1	State Farm General Insurance Company	$ 197,982,102	$ 192,595,510
2	Allstate Insurance Company	75,627,702	80,720,903
3	The Fire Insurance Exchange (Farmers)	69,144,124	69,554,447
4	United Services Automobile Association[1]	73,571,831	72,504,343
5	Safeco Insurance Company of America[3]	34,678,252	32,437,920
6	California State Automobile Association Inter-Insurance Bureau[2]	27,369,465	25,881,034
7	Nationwide Insurance Company[6]	13,921,011	14,116,866
8	California FAIR Plan Association	4,391,212	4,528,078
9	Interinsurance Exchange of the Automobile Club	37,588,491	37,067,111
10	CNA/Continental[4]	-	-
11	Prudential[4]	-	-
12	Liberty Mutual Fire Insurance Company[5]	13,536,937	14,954,323
13	Foremost Property and Casualty Insurance Company	3,060,544	2,919,379
14	Mercury Casualty Company	18,267,230	16,838,211
15	Armed Forces Insurance Exchange	603,326	616,769
16	GuideOne (formerly Preferred Risk)[4]	-	-
17	Homesite Insurance Company of California	694,047	689,237
18	Pacific National Insurance[4]	-	-
19	Encompass Insurance Company	3,963,973	3,773,243
20	Glen Falls Insurance Company[4]	-	-
21	Commerce West Insurance Company	30,703	37,963
22	MAPFRE	76,284	-
	Total	$ 574,507,234	$ 569,235,337

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CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Unearned Premiums
As of December 31, 2013 and 2012

		2013	2012
1	State Farm General Insurance Company	$ 100,075,031	$ 97,223,283
2	Allstate Insurance Company	38,686,405	41,031,050
3	The Fire Insurance Exchange (Farmers)	34,468,801	34,388,911
4	United Services Automobile Association[1]	37,448,868	36,606,687
5	Safeco Insurance Company of America[3]	21,092,206	19,772,570
6	California State Automobile Association Inter-Insurance Bureau[2]	14,421,999	13,169,677
7	Nationwide Insurance Company[6]	7,335,463	7,211,421
8	California FAIR Plan Association	2,289,651	2,343,457
9	Interinsurance Exchange of the Automobile Club	18,846,468	18,456,072
10	CNA/Continental[4]	-	-
11	Prudential[4]	-	-
12	Liberty Mutual Fire Insurance Company[5]	8,333,832	8,280,790
13	Foremost Property and Casualty Insurance Company	1,619,582	1,518,157
14	Mercury Casualty Company	9,135,341	8,213,956
15	Armed Forces Insurance Exchange	315,934	318,059
16	GuideOne (formerly Preferred Risk)[4]	-	-
17	Homesite Insurance Company of California	361,173	280,657
18	Pacific National Insurance[4]	-	-
19	Encompass Insurance Company	1,926,167	1,807,096
20	Glen Falls Insurance Company[4]	-	-
21	Commerce West Insurance Company	15,039	10,446
22	MAPFRE	38,265	-
	Total	$ 296,410,225	$ 290,632,289

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[6] Joined the CEA as of November 2011

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Commissions
For the Years Ended December 31, 2013 and 2012

		2013	2012*
1	State Farm General Insurance Company	$ 19,794,945	$ 20,417,401
2	Allstate Insurance Company	7,567,491	8,632,610
3	The Fire Insurance Exchange (Farmers)	6,918,891	7,236,527
4	United Services Automobile Association[1]	7,356,994	7,670,867
5	Safeco Insurance Company of America[3]	3,469,913	3,233,553
6	California State Automobile Association Inter-Insurance Bureau[2]	2,738,201	2,667,744
7	Nationwide Insurance Company[6]	1,393,333	820,224
8	California FAIR Plan Association	439,358	460,341
9	Interinsurance Exchange of the Automobile Club	3,761,883	3,820,228
10	CNA/Continental[4]	-	-
11	Prudential[4]	-	-
12	Liberty Mutual Fire Insurance Company[5]	1,353,557	1,478,410
13	Foremost Property and Casualty Insurance Company	309,292	277,005
14	Mercury Casualty Company	1,827,585	1,621,286
15	Armed Forces Insurance Exchange	60,393	68,770
16	GuideOne (formerly Preferred Risk)[4]	-	-
17	Homesite Insurance Company of California	69,445	64,286
18	Pacific National Insurance[4]	-	-
19	Encompass Insurance Company	396,539	394,549
20	Glen Falls Insurance Company[4]	-	-
21	Commerce West Insurance Company	3,078	3,534
22	MAPFRE	7,635	-
	Total	$ 57,468,533	$ 58,867,335

* Net of deferred policy acquisition costs in 2012

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[2] Includes ACA Insurance Company
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[6] Joined the CEA as of November 2011

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Operating Costs
For the Years Ended December 31, 2013 and 2012

		2013	2012*
1	State Farm General Insurance Company	$ 6,111,188	$ 6,340,859
2	Allstate Insurance Company	2,334,451	2,681,598
3	The Fire Insurance Exchange (Farmers)	2,135,039	2,244,026
4	United Services Automobile Association [1]	2,271,172	2,382,150
5	Safeco Insurance Company of America [3]	1,073,106	995,829
6	California State Automobile Association Inter-Insurance Bureau [2]	845,185	826,887
7	Nationwide Insurance Company [6]	429,590	232,631
8	California FAIR Plan Association	135,687	142,454
9	Interinsurance Exchange of the Automobile Club	1,161,187	1,184,947
10	CNA/Continental [4]	-	-
11	Prudential [4]	-	-
12	Liberty Mutual Fire Insurance Company [5]	417,824	459,112
13	Foremost Property and Casualty Insurance Company	92,585	81,802
14	Mercury Casualty Company	564,309	500,144
15	Armed Forces Insurance Exchange	18,615	21,434
16	GuideOne (formerly Preferred Risk) [4]	-	-
17	Homesite Insurance Company of California	21,404	20,382
18	Pacific National Insurance [4]	-	-
19	Encompass Insurance Company	122,406	122,590
20	Glen Falls Insurance Company [4]	-	-
21	Commerce West Insurance Company	948	1,121
22	MAPFRE	2,357	-
	Total	$ 17,737,053	$ 18,237,966

* Net of deferred acquisition cost in 2012

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[6] Joined the CEA as of November 2011