

CALIFORNIA EARTHQUAKE AUTHORITY

Financial Statements
December 31, 2016 and 2015

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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 basic financial statements of California Earthquake Authority (the "CEA") as of and for the years ended December 31, 2016 and 2015, 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 basic 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 basic 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 basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic 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 California Earthquake Authority as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Governing Board
California Earthquake Authority

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 supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on 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 the purpose 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. Such 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 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.

Plante & Moran, PLLC

June 2, 2017

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 \$13.2 billion in claims-paying capacity at December 31, 2016. 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 931,589 policyholders at December 31, 2016, 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. The CEA policy deductible ranges from 5 percent to 25 percent, which is determined by the homeowner, and will affect the premium amount paid.

The CEA employs contract employees, employees subject to civil-service provisions, and an extensive network of contract vendors to perform functions on behalf of the CEA. The CEA is continuing to transition to more employees subject to civil service provisions to handle these functions, which over time will reduce the number of contract vendors necessary to handle these internal functions.

CALIFORNIA EARTHQUAKE AUTHORITY

Balance Sheet as of December 31, 2016 and 2015

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, 2016 and 2015 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:

	2016	2015	2014
Assets			
Current			
Cash and investments	\$ 6,220,262,441	\$ 5,917,260,716	\$ 5,573,429,592
Premiums receivable, net	44,074,808	47,897,293	44,659,498
Unearned ceded premiums	15,251,226	10,004,364	8,107,146
Transformer reinsurance premium deposit	-	-	9,631,564
Other current assets	39,581,211	17,385,048	18,679,892
Total current assets	6,319,169,686	5,992,547,421	5,654,507,692
Noncurrent			
Capital assets	115,381	309,658	617,882
Total assets	\$ 6,319,285,067	\$ 5,992,857,079	\$ 5,655,125,574
Liabilities and Net Position			
Current			
Unearned premiums	\$ 317,465,364	\$ 326,712,929	\$ 310,845,890
Revenue bond payable, current portion	100,000,000	40,000,000	-
Other current liabilities	24,206,369	15,748,036	16,469,634
Total current liabilities	441,671,733	382,460,965	327,315,524
Noncurrent			
Revenue bonds payable, noncurrent portion	210,000,000	310,000,000	350,000,000
Compensated absences	718,484	691,921	600,785
Total liabilities	652,390,217	693,152,886	677,916,309
Net position:			
Net investment in capital assets	115,381	309,658	617,882
Restricted, expendable	118,507,816	26,220,455	22,877,158
Unrestricted	5,548,271,653	5,273,174,080	4,953,714,225
Total net position	5,666,894,850	5,299,704,193	4,977,209,265
Total liabilities and net position	\$ 6,319,285,067	\$ 5,992,857,079	\$ 5,655,125,574

CALIFORNIA EARTHQUAKE AUTHORITY

Management's Discussion and Analysis (Continued)

Condensed Balance Sheets (Continued)

Assets

Total assets grew \$326.4 million (5%) in 2016 and \$337.7 million (6%) in 2015. The 2016 and 2015 increases were primarily due to an increase in cash and investments, which grew \$303.0 million (5%), and \$343.8 million (6%), in 2016 and 2015, 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 \$3.8 million (8%) and increased \$3.2 million (7%) in 2016 and 2015, respectively. The 2016 decrease in premium receivables was largely due to timing with a few participating insurers having significantly lower balances at the end of 2016 compared to 2015.

The 2016 increase in other current assets of \$22.2 million (128%) was primarily due to increases of \$17.0 million in securities receivable, and \$3.9 million in interest income receivable. The 2015 decrease in other current assets of \$1.3 million (7%) was primarily due to a decrease of \$1.7 million in the prepaid transformer maintenance premium, and \$0.4 million increase in interest income receivable.

The current portion of reinsurance deposit remained at zero, as all remaining deposits expired in 2015, with no additional deposits necessary.

Liabilities

Unearned premiums represent the pro rata portion of the premiums written related to the remaining term of policies in force. Unearned premiums decreased \$9.2 million (3%) and increased \$15.9 million (5%) in 2016 and 2015, respectively. The decrease in 2016 was due to a decrease in premiums written associated with a rate decrease that was effective January 1, 2016. In 2015, the increase was due to the increase in premiums written caused by an increase in policyholders.

Other current liabilities include loss and loss adjustment expense reserves. The reserve amount was \$0.2 million and \$0.4 million in 2016 and 2015, respectively. The 2016 reserve is associated with various earthquakes, while the majority of the 2015 reserve was related to the 2014 earthquake in the American Canyon area near Napa. Other current liabilities increased \$68.5 million (123%) in 2016, with the primary reason being a \$60.0 million increase in the current portion of principal payments for the series 2014 revenue bonds compared to the prior year and a securities payable of \$5.2 million. Other current liabilities increased \$39.3 million (238%) in 2015, with the primary reason being a \$40.0 million increase in the current portion of principal payment for the series 2014 revenue bonds.

The non-current portion of revenue bonds payable decreased by \$100.0 million (32%) in 2016 due to the next principal payments scheduled for July 1, 2017. The decrease of \$40.0 million (11%) in 2015 was due to the principal payment on July 1, 2016. See Note 3 in the notes to financial statements for further discussion of the bonds.

Compensated absences – noncurrent had an insignificant change in both 2016 and 2015.

CALIFORNIA EARTHQUAKE AUTHORITY

Management's Discussion and Analysis (Continued)

Condensed Balance Sheets (Continued)

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 \$367.2 million (7%) and \$322.5 million (6%) in 2016 and 2015, respectively. The 2016 increase was comprised of the underwriting profit of \$277.8 million, premium tax contributions from the State of California of \$14.6 million, and net investment income of \$85.3 million. The 2015 increase was comprised of the underwriting profit of \$286.5 million, premium tax contributions from the State of California of \$14.9 million, and net investment income of \$25.6 million.

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

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

	<u>2016</u>		<u>2015</u>		<u>2014</u>
Underwriting income:					
Premiums written	\$ 619,134,034		\$ 634,442,394		\$ 607,293,252
Less premium ceded – reinsurance	(202,192,413)		(189,085,436)		(194,095,181)
Net premiums written	<u>416,941,621</u>	67%	<u>445,356,958</u>	70%	<u>413,198,071</u>
Change in net unearned premiums	<u>9,247,565</u>		<u>(15,867,039)</u>		<u>(14,435,665)</u>
Net premiums earned	<u>426,189,186</u>	69%	<u>429,489,919</u>	68%	<u>398,762,406</u>
Expenses:					
Loss and loss adjustment expenses	125		1,588,987		3,036,027
Other underwriting expenses	<u>148,391,478</u>		<u>141,402,167</u>		<u>132,713,855</u>
Total expenses	<u>148,391,603</u>	24%	<u>142,991,154</u>	23%	<u>135,749,882</u>
Underwriting profit	277,797,583	45%	286,498,765	45%	263,012,524
Non-operating income and expenses:					
Net investment income	85,290,988		25,586,553		23,752,481
Other non-operating income	14,960,627		18,324,486		14,682,203
Other non-operating expenses	<u>(10,858,541)</u>		<u>(7,914,876)</u>		<u>(15,345,452)</u>
Total non-operating income and expenses	<u>89,393,074</u>	14%	<u>35,996,163</u>	6%	<u>23,089,232</u>
Increase in net position	367,190,657	59%	322,494,928	51%	286,101,756
Net position, beginning of year	<u>5,299,704,193</u>		<u>4,977,209,265</u>		<u>4,691,107,509</u>
Net position, end of year	<u>\$ 5,666,894,850</u>		<u>\$ 5,299,704,193</u>		<u>\$ 4,977,209,265</u>

CALIFORNIA EARTHQUAKE AUTHORITY

Management's Discussion and Analysis (Continued)

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

The increase in net position was \$367.2 million in 2016, which resulted in a net profit margin of 59%, and \$322.5 million in 2015, which resulted in a net profit margin of 51%. Net investment income increased \$59.7 million (233%) in 2016. The increase was largely due to a \$7.1 million decrease in the change of unrealized investment gains, an increase of \$20.0 million in investment income, and a realized gain of \$47.5 million on a settlement. Net investment income increased \$1.8 million (8%) in 2015. The increase was largely due to a \$13.0 million decrease in the change of unrealized investment gains and an increase of \$17.3 million in investment income. The CEA's net premiums written decreased \$28.4 million (6%) and increased \$32.2 million (8%) in 2016 and 2015, respectively. The 2016 decrease is due to a \$15.3 million decrease in written premiums and an increase in premiums ceded of \$13.1 million. The 2016 decrease in written premiums was due to a decrease in rates that were partially offset by an increase in policyholders. The 2015 increase is due to a \$27.1 million increase in written premiums and a decrease in premiums ceded of \$5.0 million.

The change in unearned premiums increased \$25.1 million in 2016 and decreased \$1.4 million in 2015. The variance results from the change in premiums written in both years that includes a portion that relates to coverage in future periods.

The CEA's loss and loss adjustment expenses was insignificant in 2016, and \$1.6 million in 2015. The 2015 expenses were largely associated with the 2014 earthquake in the American Canyon area near Napa. 2016 had essentially no net claims and claim expenses as the majority of claims had already been paid prior to 2016, and those claims that were paid in 2016, essentially matched the reduction in claim reserve.

In 2016, the increase in other underwriting expense of \$7.0 million was due to a \$9.5 million increase in various underwriting expenses that was offset by a \$1.0 million decrease in participating insurer commissions and operating expense, a \$0.4 million decrease in pro forma premium taxes and \$1.1 million decrease in reinsurance broker commissions. In 2015, the increase in other underwriting expense of \$8.7 million was largely due to a \$3.6 million increase in participating insurer commissions and operating expense, a \$0.6 million increase in pro forma premium taxes and \$4.8 million increase in various underwriting expenses.

Other non-operating income decreased \$3.4 million in 2016 and increased \$3.6 million in 2015. The significant change in 2016 is due to receiving a grant of \$3 million dollars from the California Department of Insurance in 2015. Other non-operating expenses increased \$2.9 million in 2016, largely due to the increase in the contribution to the California Residential Mitigation Program of \$1.0 million, \$3.0 million of expenses from the California Department of Insurance grant, and a decrease in net financing expenses of \$1.2 million. Other non-operating expenses decreased \$7.4 million in 2015, largely due to a decrease in the contribution to the California Residential Mitigation Program of \$3.0 million and a decrease in net financing expenses of \$5.4 million.

Condensed Statements of Cash Flows

Primary sources of cash included cash flows from operations and proceeds from maturities of investments. The primary uses of cash was for operating expenses, repayment of debt, and the purchase of short-term and long-term investment securities.

CALIFORNIA EARTHQUAKE AUTHORITY

Management's Discussion and Analysis (Continued)

Condensed Statements of Cash Flows (Continued)

The cash flows of the CEA are summarized as follows:

	2016	2015	2014
Net cash provided by operating activities	\$ 278,319,341	\$ 318,422,950	\$ 289,340,836
Net cash (used in) provided by noncapital financing activities	(44,784,037)	267,917	242,802,398
Net cash used in capital and related financing activities	(100,018)	(49,495)	(26,887)
Net cash used in investing activities	(334,589,403)	(341,450,249)	(685,381,472)
Net decrease in cash and cash equivalents	(101,154,117)	(22,808,877)	(153,265,125)
Cash and cash equivalents, beginning of year	139,893,637	162,702,514	315,967,639
Cash and cash equivalents, end of year	<u>\$ 38,739,520</u>	<u>\$ 139,893,637</u>	<u>\$ 162,702,514</u>

Cash from operating activities decreased \$40.1 million (13%) and increased \$29.1 million (10%) in 2016 and 2015, respectively. The 2016 decrease resulted primarily from a decrease in cash received from premiums of \$8.2 million, an increase in payments for reinsurance of \$24.9 million and an increase in payments for operating expenses of \$5.3 million. The 2015 increase resulted primarily from an increase in cash received from premiums of \$23.4 million, a decrease in payments for reinsurance of \$12.5 million and an increase in payments for operating expenses of \$7.4 million.

The \$45.1 million (16,816%) change in cash used in noncapital financing activities for 2016 is related to \$40.0 million principal bond payment in the current year. The \$242.5 million (100%) change in cash provided by noncapital financing activities for 2015 is related to no bond issuance in the current year.

The change in cash used in investing activities was \$6.9 million (2%) and \$343.9 million (50%) for 2016 and 2015, respectively. The 2016 change resulted primarily from a decrease in proceeds of maturities of \$157.3 million, an increase in purchase of investments of \$114.2 million, and an increase in investment income of \$50.1 million. The 2015 change resulted primarily from an increase in proceeds of maturities of \$152.7 million and a decrease in purchase of investments of \$188.2 million.

Liquidity

The CEA maintains a liquid investment portfolio in order to be able to pay claims in the event of a large earthquake. As of December 31, 2016, 12.4% of the portfolio was scheduled to mature in 90 days or less, securities maturing between 91 days and one year accounted for 15.5% of the portfolio, while securities maturing between one to five years accounted for the remaining 72.1% of the portfolio, with a total portfolio modified duration of approximately 2.3 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 CEA pays policyholder claims from its claims-paying capacity.

CALIFORNIA EARTHQUAKE AUTHORITY

Management's Discussion and Analysis (Continued)

Liquidity (Continued)

The following depicts the CEA's claims-paying capacity in effect as of December 31, 2016, in millions of dollars:

CEA capital available for claims	\$	5,297
Risk transfer financial products		5,488
Revenue bonds		673
Post-earthquake industry assessments (2 nd Layer)		1,656
Post-earthquake industry assessments (New Layer)		128
Total	\$	<u>13,242</u>

Capital Assets and Debt Activity

Capital Assets

The CEA's investment in capital assets as of December 31, 2016 was \$115,381 (net of accumulated depreciation). No major capital asset purchases were made in the current year.

Debt Administration

At December 31, 2016, the CEA had total short-term debt obligations of \$100,000,000 and long-term debt obligations of \$210,000,000 in the form of revenue bonds. 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

The stagnant U.S. economic growth and inflation expectations for the U. S. will have a minimal effect on the Californian consumer who has already purchased a CEA earthquake policy. This economic effect will have a large impact on those consumers looking at making an earthquake insurance policy purchase to protect the investment in their home. New housing construction and resales of existing homes in California have grown, but the levels reached are still below the historic highs of 2000 – 2007. This has led to consumers staying in their homes longer than in the past, and so the analysis of making an earthquake insurance policy purchase should be positive. As of December 31, 2016, CEA Policy Holders increased 5.9% from December 31, 2015.

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, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and investments:		
Cash and cash equivalents	\$ 14,761,073	\$ 114,968,402
Restricted cash and equivalents	23,978,447	24,925,235
Restricted investments	404,136,283	350,303,454
Investments	5,777,386,638	5,427,063,625
Total cash and investments	6,220,262,441	5,917,260,716
Premiums receivable, net of allowance for doubtful accounts of \$ 9,328,134 and \$ 7,801,037	44,074,808	47,897,293
Interest receivable	19,345,925	15,472,294
Securities receivable	13,978,318	-
Restricted securities receivable	3,065,653	-
Prepaid reinsurance premium	15,251,226	10,004,364
Prepaid transformer maintenance premium	2,979,035	1,558,347
Other current assets	212,280	354,407
Total current assets	6,319,169,686	5,992,547,421
Noncurrent assets:		
Capital assets, net	115,381	309,658
Total assets	\$ 6,319,285,067	\$ 5,992,857,079
Liabilities and Net Position		
Current liabilities:		
Unearned premiums	\$ 317,465,364	\$ 326,712,929
Accounts payable and accrued expenses	11,410,980	10,803,912
Deferred grant revenue	3,000,000	-
Loss and loss expense reserves	188,029	407,911
Compensated absences - current portion	360,857	243,963
Securities payable	5,193,053	-
Revenue bond payable - current portion	100,000,000	40,000,000
Revenue bond interest payable	4,053,450	4,292,250
Total current liabilities	441,671,733	382,460,965
Noncurrent liabilities:		
Revenue bond payable	210,000,000	310,000,000
Compensated absences	718,484	691,921
Total liabilities	652,390,217	693,152,886
Net position:		
Net investment in capital assets	115,381	309,658
Restricted, expendable	118,507,816	26,220,455
Unrestricted	5,548,271,653	5,273,174,080
Total net position	5,666,894,850	5,299,704,193
Total liabilities and net position	\$ 6,319,285,067	\$ 5,992,857,079

See accompanying notes to financial statements

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position For the Years Ended December 31, 2016 and 2015

	2016	2015
Underwriting income:		
Premiums written	\$ 619,134,034	\$ 634,442,394
Less premiums ceded - reinsurance	(202,192,413)	(189,085,436)
Net premiums written	416,941,621	445,356,958
Change in unearned premiums	9,247,565	(15,867,039)
Net premiums earned	426,189,186	429,489,919
Operating expenses:		
Loss and loss adjustment expenses	125	1,588,987
Participating insurer commissions	61,912,842	63,463,204
Participating insurer operating costs	20,105,024	19,600,543
Reinsurance broker commissions	3,368,587	4,500,000
Pro forma premium taxes	14,559,078	14,918,888
Other underwriting expenses	48,445,947	38,919,532
Total operating expenses	148,391,603	142,991,154
Underwriting profit	277,797,583	286,498,765
Non-operating income and expenses:		
Net investment income	85,290,988	25,586,553
Other income	401,549	405,598
Grant revenue	-	3,000,000
Financing expenses, net	(4,946,787)	(6,118,410)
Mitigation Fund expenses	(4,911,754)	(1,796,466)
California Residential Mitigation Program contribution	(1,000,000)	-
State of California premium tax contribution	14,559,078	14,918,888
Total of non-operating income and expenses	89,393,074	35,996,163
Increase in net position	367,190,657	322,494,928
Net position, beginning of year	5,299,704,193	4,977,209,265
Net position, end of year	\$ 5,666,894,850	\$ 5,299,704,193

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Cash Flows For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from premiums	\$ 622,956,519	\$ 631,204,599
Cash payments for premiums ceded - reinsurance	(208,859,963)	(183,988,426)
Cash payments for operating expenses	(123,092,647)	(117,753,344)
Cash payments to employees for services	(12,684,568)	(11,039,879)
	<u>278,319,341</u>	<u>318,422,950</u>
Cash flows from noncapital financing activities:		
Repayment of revenue bonds	(40,000,000)	-
Interest paid on revenue bonds	(9,181,918)	(5,970,119)
Interest income on revenue bonds proceeds	3,996,332	2,832,438
Grant revenue	-	3,000,000
Other income	401,549	405,598
	<u>(44,784,037)</u>	<u>267,917</u>
Cash flows from capital and related financing activities:		
Acquisition of equipment	(100,018)	(49,495)
	<u>(100,018)</u>	<u>(49,495)</u>
Cash flows from investing activities:		
Proceeds from maturities of investments	3,506,456,524	3,663,764,534
Purchases of investments	(3,953,039,294)	(4,067,190,241)
Investment income	114,432,377	64,367,650
Investment expense	(2,439,010)	(2,392,192)
	<u>(334,589,403)</u>	<u>(341,450,249)</u>
Net decrease in cash and cash equivalents	(101,154,117)	(22,808,877)
Cash and cash equivalents, beginning of year	139,893,637	162,702,514
Cash and cash equivalents, end of year	<u>\$ 38,739,520</u>	<u>\$ 139,893,637</u>
Reconciliation to balance sheet:		
Cash and cash equivalents	\$ 14,761,073	\$ 114,968,402
Restricted cash and equivalents	23,978,447	24,925,235
Cash and cash equivalents, end of year	<u>\$ 38,739,520</u>	<u>\$ 139,893,637</u>

CALIFORNIA EARTHQUAKE AUTHORITY

Statements of Cash Flows (Continued) For the Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of underwriting profit to net cash provided by operating activities:		
Underwriting profit	\$ 277,797,583	\$ 286,498,765
Adjustments to reconcile underwriting profit to net cash provided by operating activities:		
Depreciation on equipment	294,294	357,720
Pro forma premium tax expense	14,559,078	14,918,888
Contribution to California Residential Mitigation Program	(1,000,000)	-
Mitigation Fund expenses	(4,911,754)	(1,796,466)
Changes in operating assets and liabilities:		
Premiums receivable	3,822,485	(3,237,795)
Unearned premiums	(9,247,565)	15,867,039
Other assets	142,127	(42,688)
Prepaid reinsurance premium	(5,246,862)	(1,897,218)
Transformer reinsurance premium deposit	-	9,631,564
Prepaid transformer maintenance premium	(1,420,688)	1,734,332
Claim and claim expense reserves	(219,882)	(925,743)
Change in CRMP payable	3,000,000	(3,000,000)
Accounts payable and accrued expenses	607,068	4,601,207
Compensated absences payable	143,457	85,013
Change in accrued reinsurance premium expense	-	(4,371,668)
	<u>\$ 278,319,341</u>	<u>\$ 318,422,950</u>

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 \$19.2 million and \$12.0 million in 2016 and 2015, 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 \$14.6 million and \$14.9 million in 2016 and 2015, respectively.

CALIFORNIA EARTHQUAKE AUTHORITY

Notes to Financial Statements
December 31, 2016 and 2015

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 elect 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 3.25% and 3.09% of written premium, for 2016 and 2015, respectively. 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, 2016, there are 23 participating insurers of which 18 insurers are writing CEA policies. Four participating insurers account for 70% 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.

CALIFORNIA EARTHQUAKE AUTHORITY

Notes to Financial Statements (Continued)
December 31, 2016 and 2015

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 is 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).

CALIFORNIA EARTHQUAKE AUTHORITY

Notes to Financial Statements (Continued)
December 31, 2016 and 2015

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

Investments

Investments consist primarily of certificates of deposit, U.S. treasuries, U.S. agencies, 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 the majority of investments to maturity.

Capital Assets

Capital assets are stated at historical cost. The capitalization threshold for assets with a useful life beyond one year is \$5,000. 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 2016 and 2015.

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. These costs are expensed as incurred.

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. The CEA had \$188,029 and \$407,911 in unpaid claims reported as of December 31, 2016 and 2015, respectively. The majority of this reserve for losses and loss adjustment expenses is related to the 2014 earthquake in the American Canyon area near Napa.

CALIFORNIA EARTHQUAKE AUTHORITY

Notes to Financial Statements (Continued)
December 31, 2016 and 2015

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

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, 2016, 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, 2015, participating insurers have a cumulative residential property insurance market share of approximately 75.7% of the total residential property insurance market in California based on written premium. The market share as of December 31, 2016 was unavailable as of the date the financial statements were issued. 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 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.

CALIFORNIA EARTHQUAKE AUTHORITY

Notes to Financial Statements (Continued)
December 31, 2016 and 2015

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

State of California Premium Tax

California Insurance Code section 10089.44 provides that “*Notwithstanding any other provision of law, premiums collected by the Authority shall be exempt from collection of the state's insurance premium tax, and the amount of tax foregone by the state shall be considered for all purposes a contribution by the state and its citizens to the capital and operating revenues of the authority.*” As a result, CEA is exempt from remitting state premium tax. State premium tax contributions were \$14,559,078 and \$14,918,888 for the years ended December 31, 2016 and 2015, 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.

Defined Benefit Pension Plan

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to defined benefit pension plans offered by employers. It requires the liability of employers for defined benefit pension plans (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that are attributed to those employees' past periods of service, less the amount of the pension plan's fiduciary net position. The net pension liability and required supplementary information in accordance with GASB Statement No. 68 were not significant to CEA as of December 31, 2016 and 2015. Additional information regarding the defined benefit pension plan is provided in Note 9.

New Accounting Pronouncement

In February 2015, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirement of this statement enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. In accordance with this statement, the CEA has added disclosures surrounding valuation techniques and the appropriate leveling hierarchy.

CALIFORNIA EARTHQUAKE AUTHORITY

Notes to Financial Statements (Continued) December 31, 2016 and 2015

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

Upcoming Accounting Pronouncements

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information. GASB Statement No. 75 is required to be adopted for years beginning after June 15, 2017. The CEA is currently evaluating the impact this standard will have on the financial statements when adopted, during the CEA's 2018 fiscal year.

2. Cash and Investments

As of December 31, 2016 and 2015, the CEA had the following cash and investments:

	December 31, 2016					
	Investment Maturities (in Years)					
	Less than 1	1-2	2-3	3-4	4-5	Total
U.S. Treasuries	\$ 1,461,284,573	\$ 1,069,221,522	\$ 617,661,423	\$ 1,658,230,637	\$ 1,137,289,575	\$ 5,943,687,730
U.S. agencies	265,389,674	-	-	-	-	265,389,674
Cash	11,185,037	-	-	-	-	11,185,037
Total	<u>\$ 1,737,859,284</u>	<u>\$ 1,069,221,522</u>	<u>\$ 617,661,423</u>	<u>\$ 1,658,230,637</u>	<u>\$ 1,137,289,575</u>	<u>\$ 6,220,262,441</u>
	December 31, 2015					
	Investment Maturities (in Years)					
	Less than 1	1-2	2-3	3-4	4-5	Total
U.S. Treasuries	\$ 1,983,906,694	\$ 1,095,684,246	\$ 1,016,565,988	\$ 416,378,302	\$ 878,882,477	\$ 5,391,417,707
U.S. agencies	492,223,510	-	-	-	-	492,223,510
Cash	8,639,117	-	-	-	-	8,639,117
Commercial paper	24,980,382	-	-	-	-	24,980,382
Total	<u>\$ 2,509,749,703</u>	<u>\$ 1,095,684,246</u>	<u>\$ 1,016,565,988</u>	<u>\$ 416,378,302</u>	<u>\$ 878,882,477</u>	<u>\$ 5,917,260,716</u>

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.

CALIFORNIA EARTHQUAKE AUTHORITY

Notes to Financial Statements (Continued)
December 31, 2016 and 2015

2. Cash and Investments (Continued)

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%

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%

CALIFORNIA EARTHQUAKE AUTHORITY

Notes to Financial Statements (Continued) December 31, 2016 and 2015

2. Cash and Investments (Continued)

Cash Deposits

With the issuance of the series 2014 revenue bonds, the CEA is required to deposit 1/12th of the annual interest payment by the 15th of each month into a trust account. Starting on July 1, 2015, the CEA also was required to deposit 1/12th of the annual principal payment by the 15th of each month into a trust account. Such amounts are held in restricted cash, cash equivalents 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 180 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 3 years. As of December 31, 2016, the CEA's combined portfolio had a maximum modified duration of 2.3 years.

Credit Risk

The CEA investment policy limits investments in banker's acceptances and commercial paper to issuers with the highest rating category by all rating agencies that rate the issuer. The policy limits investments in corporate bonds to the top three ratings issued by nationally recognized rating services. As of December 31, 2016, 96% of the portfolio consisted of U.S. Treasuries and 4% of the portfolio consisted of U.S. Agencies and cash.

CEA's cash equivalents and investments are rated as follows:

Security Type	Moody's	Standard & Poors
US Treasury	Aaa	AA+
Federal Home Loan Mortgage Corporation	Aaa	AA+
Federal National Mortgage Association	Aaa	AA+

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, 2016 and 2015 approximately \$11.3 million and \$8.4 million, respectively, of CEA deposits were not covered by FDIC insurance.

CALIFORNIA EARTHQUAKE AUTHORITY

Notes to Financial Statements (Continued) December 31, 2016 and 2015

2. 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 statements of revenues, expenses, and changes in net position.

Investment income for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
U.S. agency securities and government money market accounts	\$ 1,237,442	\$ 586,673
Commercial paper	47,654,614	-
U.S. treasuries	62,007,966	42,135,983
Other short-term investments	-	116,950
Total interest income	110,900,022	42,839,606
Change in fair value of investments	(19,173,692)	(12,028,423)
Less investment expenses	(2,439,010)	(2,392,192)
Total investment income	\$ 89,287,320	\$ 28,418,991

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

	2016	2015
Investment income included in financing expenses	\$ 3,996,332	\$ 2,832,438
Net investment income	85,290,988	25,586,553
Total investment income	\$ 89,287,320	\$ 28,418,991

The change in fair value of investments for the years ended December 31, 2016 and 2015 are calculated as follows:

	2016	2015
Fair value of investments at the end of year	\$ 6,181,522,921	\$ 5,777,367,079
Add: Proceeds of investments matured	3,518,313,526	3,663,764,534
Add: Amortization of premium and discount	17,136,801	25,582,709
Less: Realized gain/loss	(547,514)	(825,426)
Less: Cost of investments purchased	(3,958,232,347)	(4,067,190,241)
Less: Fair value of investments at the beginning of year	(5,777,367,079)	(5,410,727,078)
Change in fair value of investments	\$ (19,173,692)	\$ (12,028,423)

CALIFORNIA EARTHQUAKE AUTHORITY

Notes to Financial Statements (Continued) December 31, 2016 and 2015

2. Cash and Investments (Continued)

Fair Value Measurement

The CEA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is divided into 3 levels with each level based on the source used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The asset's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. The CEA's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset or liability.

U.S. treasury securities and U.S. agency securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of commercial paper was determined to be amortized cost due to the short-term duration of the security.

As of December 31, 2016 and 2015, the CEA had the following recurring fair value measurements:

December 31, 2016				
Fair Value Measurement Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Bonds:				
U.S. Treasuries	\$ 5,924,054,571	\$ -	\$ -	\$ 5,924,054,571
U.S. Agencies	257,468,350	-	-	257,468,350
Subtotal	6,181,522,921	-	-	6,181,522,921
Cash and cash equivalents				
U.S. Treasuries	19,633,159	-	-	19,633,159
U.S. Agencies	7,921,324	-	-	7,921,324
Cash	11,185,037	-	-	11,185,037
Subtotal	38,739,520	-	-	38,739,520
Total	\$ 6,220,262,441	\$ -	\$ -	\$ 6,220,262,441

CALIFORNIA EARTHQUAKE AUTHORITY

Notes to Financial Statements (Continued) December 31, 2016 and 2015

2. Cash and Investments (Continued)

	December 31, 2015			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Bonds:				
U.S. Treasuries	\$ 5,296,454,675	\$ -	\$ -	\$ 5,296,454,675
U.S. Agencies	455,932,022	-	-	455,932,022
Commercial paper	-	24,980,382	-	24,980,382
Subtotal	5,752,386,697	24,980,382	-	5,777,367,079
Cash and cash equivalents				
U.S. Treasuries	94,963,032	-	-	94,963,032
U.S. Agencies	36,291,488	-	-	36,291,488
Cash	8,639,117	-	-	8,639,117
Subtotal	139,893,637	-	-	139,893,637
Total	\$ 5,892,280,334	\$ 24,980,382	\$ -	\$ 5,917,260,716

Fair Value of Other Financial Instruments

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

3. Long-Term Liabilities

The following is a summary of long-term liabilities as of December 31, 2016:

	Balance January 1, 2016	Additions	Retirements	Balance December 31, 2016	Due within One Year
Revenue					
Bonds	\$ 350,000,000	\$ -	\$ (40,000,000)	\$ 310,000,000	\$ 100,000,000
Compensated Absences	935,884	504,314	(360,857)	1,079,341	360,857
Total	\$ 350,935,884	\$ 504,314	\$ (40,360,857)	\$ 311,079,341	\$ 100,360,857

On November 6, 2014 CEA issued Series 2014 revenue bonds totaling \$350,000,000, summarized as follows:

<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Maturity Date</u>
\$40,000,000	1.194 %	1.194 %	July 1, 2016
60,000,000	1.824	1.824	July 1, 2017
40,000,000	2.805	2.805	July 1, 2017
105,000,000	2.805	2.805	July 1, 2018
105,000,000	2.805	2.805	July 1, 2019

CALIFORNIA EARTHQUAKE AUTHORITY

Notes to Financial Statements (Continued) December 31, 2016 and 2015

3. Long-Term Liabilities (Continued)

The bonds will bear interest from their date of delivery at the rates shown above, payable semiannually on January 1 and July 1, commencing on January 1, 2015. The series 2014 Bonds are not subject to optional redemption prior to maturity and are payable from future pledged policyholder premiums.

The series 2014 revenue bonds are used to enhance claims paying capacity. The net proceeds from the revenue bonds were deposited into their respective 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.

Future scheduled debt service payments, including mandatory sinking-fund payments, for the CEA's long-term debt are as follows as of December 31, 2016:

Year	Principal	Interest	Total
2017	100,000,000	8,106,900	108,106,900
2018	105,000,000	5,890,500	110,890,500
2019	105,000,000	2,945,250	107,945,250
Total requirements	<u>\$ 310,000,000</u>	<u>\$ 16,942,650</u>	<u>\$ 326,942,650</u>

Interest paid during the year was \$8,584,500 and \$5,603,771 for 2016 and 2015, 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:

	2016	2015
Restricted:		
Mitigation Fund	\$ 25,353,299	\$ 26,220,455
Claims Paying Account	93,154,518	-
Total restricted net position	<u>\$ 118,507,816</u>	<u>\$ 26,220,455</u>
Unrestricted:		
Contributed capital	\$ 777,384,796	\$ 777,384,796
Additional paid-in capital	239,677,386	225,118,308
Other unrestricted	4,531,209,471	4,270,670,976
Total unrestricted net position	<u>\$ 5,548,271,653</u>	<u>\$ 5,273,174,080</u>

CALIFORNIA EARTHQUAKE AUTHORITY

Notes to Financial Statements (Continued)
December 31, 2016 and 2015

5. Risk Transfer

CEA cedes risk to reinsurers under catastrophe excess-of-loss reinsurance contracts for purposes of limiting its maximum exposure. All contracts provide coverage for losses as well as allocated loss adjustment expenses. Although the ceding of risk does not discharge CEA from its primary responsibility to its policyholders, the insurance company that assumes the coverage assumes responsibility to reimburse CEA for the related liability. Management believes that its reinsurers are and will continue to be able to satisfy their obligations under the reinsurance agreements. To date, losses have been recovered only under the supplemental 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.

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, 2016 and 2015 in accordance with these terms, CEA did not have a premium adjustment expense against the contracts.

In addition to single year contracts, CEA contracts with reinsurers on multi-year contracts with a single limit over a two, three or a five year term. The first year premium for the reinsurance limit is calculated on the full limit, while subsequent premiums would be calculated on the remaining limit, if there were a recoverable from the reinsurance contract. An annual adjustment to the retention is based on the contracted probability of loss.

In 2016, CEA entered into two contracts for a three-year term with the option of two limits available for two events. This follows the five-year contract with the option of two limits available for two events entered into in 2015. Similar to other CEA multi-year contracts, the first year premium for the reinsurance limit is 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.

As of December 31, 2016, CEA ceded insurance to reinsurers under catastrophe excess-of-loss reinsurance contracts and provided maximum limits of \$5.488 billion at varying attachment points, and 32% of the limit balance is fully collateralized.

6. Statutory Compliance

State of California Insurance Code limits the CEA's "operating expenses" to a percentage of its "premium income." In calculating this limitation, the CEA determined that its premium income is its reported premiums written.

Effective January 1, 2015, statutory provisions pertaining to CEA operating expenses were amended by legislation, and items to be excluded from CEA operating expenses were spelled out in the new law, which (in effect) changed certain items of operating-expense inclusion, when compared to past practices of the CEA. The operating-expense cap was moved to 6% as defined in California Insurance Code section 10089.6, subdivisions (c) and (d), as amended by AB 2064. Operating expenses underneath this legislation totaled \$25.8 million and \$23.2 million for the years ended December 31, 2016 and 2015, respectively, and did not exceed 6% of premiums written in either year.

CALIFORNIA EARTHQUAKE AUTHORITY

Notes to Financial Statements (Continued) December 31, 2016 and 2015

7. Commitments and Contingencies

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

The CEA leases office facilities and equipment under various non-cancelable operating lease agreements that expire through June 2024. Rental expense associated with the lease agreements was \$1,029,750 and \$695,520 for the years ended December 31, 2016 and 2015, respectively. Future minimum rental payments under these agreements are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 1,161,726
2018	1,206,770
2019	1,234,661
2020	1,254,790
2021	1,289,109
Thereafter	3,371,846
Total	<u>\$ 9,518,902</u>

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, 2016 and 2015, the balance sheets include expendable restricted net position related to the Mitigation Fund totaling \$25,353,299 and \$26,220,455 respectively. The expendable restricted net position of the Mitigation Fund as of December 31, 2016 includes the potential annual transfer amount of \$5,000,000, 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 their Executive Office located at 400 P Street, Sacramento, California 95814.

CALIFORNIA EARTHQUAKE AUTHORITY

Notes to Financial Statements (Continued) December 31, 2016 and 2015

9. Defined Benefit Pension Plan (Continued)

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, 2016 the employer contribution rate by plan was 26.728% for Tier 1 State Miscellaneous and 26.984% for Tier 2 State Miscellaneous. For fiscal year ended December 31, 2015 the employer contribution rate by plan was 25.150% for Tier 1 State Miscellaneous and 25.278% 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 Contribution

CEA's employee contributions in 2016 and 2015 were \$278,496 or 8.2% of annual covered payroll and \$204,700 or 8.2% of annual covered payroll, respectively. The employer's contributions in 2016 and 2015 were \$870,741 or 25.67% of annual covered payroll and \$577,485 or 23.2% of annual covered payroll, respectively.

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.

10. Defined Contribution Plan

The CEA sponsors the California Earthquake Authority Retirement Plan (Plan), a 401(A) defined contribution savings plan for contract employees. The Plan is administered by UBS Financial Services. Employees contribute 5% of base compensation. The CEA contributes 12.71% of the employee's base compensation. The maximum base compensation for 2016 and 2015 was \$265,000. The contributions are funded semi-annually and allocated to the CEA based on employee contributions.

Employees are fully vested in their account from the beginning of their 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 2016 and 2015 were \$81,513 and \$78,926, respectively. CEA's contributions in 2016 and 2015 were \$207,385 and \$200,803, 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.

CALIFORNIA EARTHQUAKE AUTHORITY

Notes to Financial Statements (Continued)
December 31, 2016 and 2015

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:

<u>Policy Type</u>	<u>Policy Limits</u>
Workers Compensation	\$ 1,000,000
Financial Institution Bond	\$ 1,500,000
Business Liability	\$ 5,000,000
Director and Officers Liability	\$ 5,000,000

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 (JPA) 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. Since the inception of the agreement, CalEMA, the name of the organization, has changed to California Emergency Office of Emergency Services (Cal OES). The CRMP Governing Board is comprised of two representatives of each the CEA and Cal OES. Transfers approved by the CEA governing board from the CEA Mitigation Fund to the CRMP totaled \$1,000,000 in 2016, with no transfers approved in 2015.

In addition to the CEA governing board approved transfers, in 2016, the CEA Mitigation Fund transferred to CRMP \$3,000,000 in California Department of Insurance funds for the CRMP Earthquake Brace + Bolt program which offers up to \$3,000 for homeowners to seismically retrofit their houses.

Requests for CRMP financial information should be addressed to California Residential Mitigation Program, 801 K Street, Suite 1000, Sacramento, CA 95814.

14. Subsequent Events

Management has evaluated subsequent events up through and including June 2, 2017, which is the date the financial statements were made available to be issued. No events have occurred subsequent to December 31, 2016 requiring recording or disclosure in these financial statements.

SUPPLEMENTARY INFORMATION

CALIFORNIA EARTHQUAKE AUTHORITY

Schedule of Participating Insurer Capital Contributions From Inception Through December 31, 2016

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 ⁷	20,772,000
8 California FAIR Plan Association	15,029,487
9 Interinsurance Exchange of the Automobile Club	14,443,651
10 CNA/Continental ^{4,6}	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 ⁸	-
22 Hyundai ⁹	-
23 Progressive ¹⁰	-
	-
Total	\$ 777,384,796

¹ Includes Garrison Insurance Company

² Includes ACA Insurance Company

³ Joined the CEA as of December 1, 2008

⁴ Not currently writing residential property insurance in California

⁵ Includes Golden Eagle Insurance Company

⁶ Withdrew from the CEA as of May 2011

⁷ Joined the CEA as of November 2011

⁸ Includes MAPFRE Insurance Company

⁹ Joined the CEA as of August 2014

¹⁰ Joined the CEA as of May 2015

CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Premiums Written For the Years Ended December 31, 2016 and 2015

	2016	2015
1 State Farm General Insurance Company	\$ 205,778,910	\$ 221,493,290
2 Allstate Insurance Company	65,347,039	73,084,497
3 The Fire Insurance Exchange (Farmers)	80,513,986	74,700,923
4 United Services Automobile Association ¹	79,814,178	83,504,639
5 Safeco Insurance Company of America ³	38,906,582	37,449,308
6 California State Automobile Association Inter-Insurance Bureau ²	32,796,706	33,309,390
7 Nationwide Insurance Company ⁷	18,391,481	17,034,694
8 California FAIR Plan Association	3,956,549	4,452,741
9 Interinsurance Exchange of the Automobile Club	44,444,301	43,584,306
10 CNA/Continental ^{4,6}	-	-
11 Prudential ⁴	-	-
12 Liberty Mutual Fire Insurance Company ⁵	15,293,895	14,855,492
13 Foremost Property and Casualty Insurance Company	4,063,007	3,492,188
14 Mercury Casualty Company	23,968,915	21,420,408
15 Armed Forces Insurance Exchange	512,142	598,633
16 GuideOne (formerly Preferred Risk) ⁴	-	-
17 Homesite Insurance Company of California	1,336,400	1,169,826
18 Pacific National Insurance ⁴	-	-
19 Encompass Insurance Company	3,665,438	3,982,503
20 Glen Falls Insurance Company ⁴	-	-
21 Commerce West Insurance Company ⁸	282,711	309,556
22 Hyundai ⁹	3,670	-
23 Progressive ¹⁰	58,124	-
	\$ 619,134,034	\$ 634,442,394
Total		

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CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Unearned Premiums As of December 31, 2016 and 2015

	2016	2015
1 State Farm General Insurance Company	\$ 101,987,945	\$ 110,627,011
2 Allstate Insurance Company	33,838,572	36,958,296
3 The Fire Insurance Exchange (Farmers)	40,034,397	38,042,303
4 United Services Automobile Association ¹	42,069,313	43,614,099
5 Safeco Insurance Company of America ³	23,608,847	22,953,751
6 California State Automobile Association Inter-Insurance Bureau ²	16,807,381	17,423,090
7 Nationwide Insurance Company ⁷	9,162,398	8,956,339
8 California FAIR Plan Association	2,003,541	2,282,476
9 Interinsurance Exchange of the Automobile Club	21,803,801	21,483,774
10 CNA/Continental ^{4,6}	-	-
11 Prudential ⁴	-	-
12 Liberty Mutual Fire Insurance Company ⁵	9,426,055	8,929,065
13 Foremost Property and Casualty Insurance Company	2,034,462	1,809,915
14 Mercury Casualty Company	11,838,881	10,653,471
15 Armed Forces Insurance Exchange	281,112	310,704
16 GuideOne (formerly Preferred Risk) ⁴	-	-
17 Homesite Insurance Company of California	612,816	609,870
18 Pacific National Insurance ⁴	-	-
19 Encompass Insurance Company	1,783,317	1,907,635
20 Glen Falls Insurance Company ⁴	-	-
21 Commerce West Insurance Company ⁸	130,749	151,130
22 Hyundai ⁹	2,077	-
23 Progressive ¹⁰	39,700	-
	\$ 317,465,364	\$ 326,712,929
Total		

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CALIFORNIA EARTHQUAKE AUTHORITY

Schedules of Participating Insurer Commissions For the Years Ended December 31, 2016 and 2015

	2016	2015
1 State Farm General Insurance Company	\$ 20,576,286	\$ 22,146,750
2 Allstate Insurance Company	6,534,232	7,313,070
3 The Fire Insurance Exchange (Farmers)	8,051,537	7,474,787
4 United Services Automobile Association ¹	7,980,971	8,350,367
5 Safeco Insurance Company of America ³	3,890,885	3,746,713
6 California State Automobile Association Inter-Insurance Bureau ²	3,279,504	3,332,415
7 Nationwide Insurance Company ⁷	1,839,008	1,704,844
8 California FAIR Plan Association	395,645	445,514
9 Interinsurance Exchange of the Automobile Club	4,448,197	4,362,330
10 CNA/Continental ^{4,6}	-	-
11 Prudential ⁴	-	-
12 Liberty Mutual Fire Insurance Company ⁵	1,529,610	1,485,410
13 Foremost Property and Casualty Insurance Company	404,296	352,217
14 Mercury Casualty Company	2,396,820	2,142,388
15 Armed Forces Insurance Exchange	51,205	59,919
16 GuideOne (formerly Preferred Risk) ⁴	-	-
17 Homesite Insurance Company of California	133,643	117,080
18 Pacific National Insurance ⁴	-	-
19 Encompass Insurance Company	366,544	398,413
20 Glen Falls Insurance Company ⁴	-	-
21 Commerce West Insurance Company ⁸	28,278	30,987
22 Hyundai ⁹	367	-
23 Progressive ¹⁰	5,814	-
	\$ 61,912,842	\$ 63,463,204
Total		

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CALIFORNIA EARTHQUAKE AUTHORITY

Schedule of Participating Insurer Operating Costs For the Years Ended December 31, 2016 and 2015

	2016	2015
1 State Farm General Insurance Company	\$ 6,684,108	\$ 6,839,692
2 Allstate Insurance Company	2,122,415	2,256,195
3 The Fire Insurance Exchange (Farmers)	2,610,304	2,308,535
4 United Services Automobile Association ¹	2,594,050	2,578,338
5 Safeco Insurance Company of America ³	1,264,399	1,163,169
6 California State Automobile Association Inter-Insurance Bureau ²	1,066,024	1,028,887
7 Nationwide Insurance Company ⁷	597,634	525,828
8 California FAIR Plan Association	128,633	137,646
9 Interinsurance Exchange of the Automobile Club	1,441,660	1,346,557
10 CNA/Continental ^{4,6}	-	-
11 Prudential ⁴	-	-
12 Liberty Mutual Fire Insurance Company ⁵	497,062	460,598
13 Foremost Property and Casualty Insurance Company	130,245	106,130
14 Mercury Casualty Company	778,135	661,791
15 Armed Forces Insurance Exchange	16,645	18,492
16 GuideOne (formerly Preferred Risk) ⁴	-	-
17 Homesite Insurance Company of California	43,380	36,008
18 Pacific National Insurance ⁴	-	-
19 Encompass Insurance Company	119,124	123,131
20 Glen Falls Insurance Company ⁴	-	-
21 Commerce West Insurance Company ⁸	9,197	9,546
22 Hyundai ⁹	119	-
23 Progressive ¹⁰	1,890	-
	\$ 20,105,024	\$ 19,600,543
Total		

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