PRICEWATERHOUSECOOPERS

California Earthquake Authority

Report on Audits of Financial Statements

For the years ended December 31, 2006 and 2005

California Earthquake Authority
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PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

The Governing Board
California Earthquake Authority:

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses, and changes in net assets and of cash flows present fairly, in all material respects, the financial position of the California Earthquake Authority (the Authority) at December 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis, presented on pages 2 through 9, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures on the information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Participating Insurer Capital Contributions from inception through December 31, 2006, Schedules of Participating Insurer Premiums Written for the years ended December 31, 2006 and 2005, Schedules of Participating Insurer Unearned Premiums as of December 31, 2006 and 2005, Schedules of Participating Insurer Commissions for the years ended December 31, 2006 and 2005 and Schedules of Participating Insurer Operating Costs for the years ended December 31, 2006 and 2005 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

August 24, 2007

HISTORY AND FINANCING

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

Following the unprecedented losses from the 1994 Northridge earthquake, many insurance companies either stopped or severely restricted selling new home owners' 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 1996, in response, the California Legislature created the CEA, an instrumentality of the State of California that sells earthquake insurance policies for residential property throughout California. CEA policies are sold to policyholders by participating insurance carriers of the CEA. Insurance companies admitted to write residential property insurance in California and who elected to become participating members of the CEA signed Insurer Participation Agreements with the 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 underwriting, policy issuance, premium collection, and claims adjustment.

The CEA uses its capital (net assets) to leverage approximately $8.24 billion in claims-paying capacity at December 31, 2006. The CEA's claims-paying capacity is determined from the CEA's net assets, reinsurance coverage, debt, and post event prospective participating insurance company assessments. The CEA derives its capital from participating insurance company capital contributions and from increases in net assets generated from the sale of earthquake insurance policies. The CEA is exempt from federal income tax and from state insurance-premium tax. California Insurance Code section 10089.44 provides, in pertinent part, that "… premiums collected by the authority shall be exempt from collection of the state's insurance premium tax, and the amount of tax foregone by the state shall be considered for all purposes a contribution by the state and its citizens to the capital and operating revenues of the authority."

A Governing Board composed of the State of California's Governor, Treasurer, and Insurance Commissioner oversees the CEA. The Speaker of the Assembly and the Chairperson of the Senate Rules Committee serve as non-voting Board members. An 11-member Advisory Panel advises the Board. The Governing Board establishes premium rates, subject to the prior approval of the Insurance Commissioner.

The CEA has approximately 754,000 policyholders at December 31, 2006, most of whom insure single-family dwellings through the CEA. The CEA offers a base residential earthquake policy to homeowners, which includes coverage for the insured dwelling and limited coverage for contents and loss-of-use if the home or mobile home is uninhabitable due to an earthquake. The CEA also offers policies to condominium unit owners and renters. For an additional premium, CEA policyholders can significantly increase insured limits on contents and for loss of use, and homeowners can lower their CEA policy deductible from 15 percent to 10 percent.

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

USING THIS 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 are prepared using accounting standards applicable to governmental entities. This financial report consists of three financial statements with accompanying notes. The Balance Sheets, prepared on the accrual basis of accounting, include all assets, liabilities and net assets of the CEA. The Statements of Revenues, Expenses, and Changes in Net Assets, also prepared on the accrual basis, take into account all revenues and expenses for the CEA regardless of when cash is received or paid. The Statements of Cash Flows reflect the actual cash receipts and disbursements for a specified period of time.

CONDENSED BALANCE SHEETS

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

	2006	2005	2004
Assets			
Cash and investments	$ 2,943,210,743	$ 2,369,027,129	$ 2,006,625,972
Premiums receivable, net	26,129,153	32,358,981	33,134,717
Securities receivable	122,377,500	-	-
Unearned ceded premiums	24,138,678	20,710,598	16,924,668
Deferred policy acquisition costs	33,279,534	33,648,134	29,827,145
Other assets	16,823,388	18,533,328	12,462,068
	$ 3,165,958,996	$ 2,474,278,170	$ 2,098,974,570
Liabilities and Net Assets			
Unearned premiums	$ 244,882,493	$ 262,876,047	$ 233,024,570
Revenue bonds payable	315,000,000	-	-
Supplemental reinsurance premiums payable	10,118,403	9,300,623	7,182,156
Other liabilities	15,882,058	14,718,056	5,042,337
Total liabilities	585,882,954	286,894,726	245,249,063
Net assets:			
Restricted, expendable	28,030,818	8,485,890	2,297,727
Unrestricted	2,552,045,224	2,178,897,554	1,851,427,780
Total net assets	2,580,076,042	2,187,383,444	1,853,725,507
Total liabilities and net assets	$ 3,165,958,996	$ 2,474,278,170	$ 2,098,974,570

Assets

Total assets grew $691.7 million (28%) in 2006 and $375.3 million (18%) in 2005. The 2006 increase is primarily due to an increase in net assets of $392.7 and the issuance of $315.0 million in revenue bonds. The 2005 increase is primarily due to an increase in net assets of $333.7 million. Cash and investment securities grew $574.2 million (24%) and $362.4 million (18%) for 2006 and 2005, respectively. Investment securities 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 $6.2 million (-19%) and decreased $0.8 million (-2%) in 2006 and 2005, respectively. The decrease in 2006 and 2005 was largely attributable to receiving the majority of participating insurance carrier premium payments by year end. The allowance for uncollectible premium remained essentially the same at $1.3 million for both 2006 and 2005. The CEA does not anticipate any unusual collection problems with respect to the premium balances.

The CEA had a $122.4 million increase in securities receivable due to an investment that matured on December 31, 2006, which was a non-business day. The funds from the matured securities were received on January 2, 2007, the next business day. CEA did not have a securities receivable at the end of 2005.

Unearned ceded premiums relating to the Supplemental Quota Share reinsurance agreement have been steadily increasing. The increase in 2006 was $3.4 million and the increase in 2005 was $3.8 million primarily as a result of an increase in policyholders who purchase supplemental coverages.

Deferred policy acquisition costs, consisting of unearned participating insurer commissions and operating costs, are deferred and amortized ratably over the terms of the underlying policies. Deferred policy acquisition costs remained relatively flat from 2005 to 2006. Deferred policy acquisition costs increased $3.8 million in 2005, commensurate with the increase in unearned premiums.

Other assets decreased $1.7 million (-9%) in 2006 and increased $6.1 million (49%) in 2005. The $1.7 million decrease in 2006 was a result of the $0.8 million decrease in interest receivable and the $0.9 million reduction of assessments receivable due to participating insurers paying their initial capital contribution. The 2005 increase is the result of a $4.6 million assessment receivable from Foremost Insurance Company, in addition, to an increase of $1.5 million in interest receivables.

Liabilities

Unearned premiums represent the pro-rata portion of the premiums written related to the remaining terms of policies in force. Unearned premiums decreased $18.0 million (-7%) and increased $29.9 million (13%) in 2006 and 2005, respectively. The 2006 decrease is due to a rate decrease which took effect July 1, 2006 on the base residential earthquake policy. The 2005 increase was due to an increase in written premiums and the increase in policyholders who purchase supplemental coverages.

Revenue bonds payable increased from zero in 2005 to $315.0 million in 2006 due to the CEA's issuance of revenue bonds in July 2006. The revenue bonds have a fixed rate of 6.196% and mature in ten years with 10% of the original principal amount being redeemed each year.

Supplemental reinsurance premiums payable increased $0.8 million (9%) in 2006 and $2.1 million (29%) in 2005 due to the increase in reinsurance costs caused by an increase in policyholders who purchase supplemental coverages.

Other liabilities include claims and claims expense reserves, which are not significant since California has not suffered a major earthquake during the CEA's existence. Other liabilities increased $1.2 million (8%) in 2006 and $9.7 million (192%) in 2005. The 2006 increase is due to a $0.6 million increase in unearned supplemental commission income and the addition of interest payable of $8.7 million associated with the revenue bonds issued by the CEA. The addition of interest payable was mostly offset by the decrease in accounts payable and accrued expenses of $8.1 million, primarily due to a decrease in accrued reinsurance premium adjustment expenses of $7.6 million. The 2005 increase of $9.7 million was due to $4.5 million of premium adjustment expense on the reinsurance contracts. The remaining increase of $5.2 million was due to brokers fees related to reinsurance agreements which were not paid until 2006 after the underlying broker agreements were completed.

Net Assets

The CEA classifies its net assets into two components, restricted-expendable and unrestricted net assets. Restricted net assets include the net assets of the Mitigation Fund and 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. The remaining net assets of the CEA are classified as unrestricted. The CEA's net assets grew $392.7 million (18%) and $333.7 million (24%) in 2006 and 2005, respectively. In 2006, the primary reasons for the increase were underwriting profit of $263.1 million, investment income of $117.5 million, premium tax contribution from the State of California of $11.6 million, and other income of $0.4 million. In 2005, the same reasons for the increase apply with an underwriting profit of $263.4 million, investment income of $54.4 million, premium tax contribution of $10.8 million, and other income of $5.0 million.

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

	2006		2005		2004	
Underwriting income:						
Premiums written	$ 501,215,680	100%	$ 502,962,824	100%	$ 464,909,264	100%
Less premiums ceded - reinsurance	(166,951,869)		(131,329,113)		(134,445,864)	
Net premiums written	334,263,811	67%	371,633,711	74%	330,463,400	71%
Change in net unearned premiums	21,421,634		(26,065,547)		(13,673,263)	
Net premiums earned	355,685,445	71%	345,568,164	69%	316,790,137	68%
Other underwriting Income:						
Supplemental Commissions income, net	7,589,627		6,375,197		5,453,721	
Expenses:						
Claims and claims expense	(25,403)		(6,564)		(2,645,937)	
Mitigation Fund expenses	1,144,722		818,328		444,139	
Other underwriting expenses	99,037,769		87,734,618		87,442,992	
Total expenses	100,157,088	20%	88,546,382	18%	85,241,194	18%
Underwriting profit	263,117,984	52%	263,396,979	52%	237,002,664	51%
Net investment income	117,524,144		54,410,384		22,129,705	
Other income	12,050,470		15,850,574		10,696,902	
Increase in net assets	392,692,598	78%	333,657,937	66%	269,829,271	58%
Net assets, beginning of year	2,187,383,444		1,853,725,507		1,583,896,236	
Net assets, end of year	$ 2,580,076,042		$ 2,187,383,444		$ 1,853,725,507	

The increase in net assets was $392.7 million in 2006, which resulted in a net profit margin of 78%, and $333.7 million in 2005, which resulted in a net profit margin of 66%. The CEA's net premiums written decreased $37.4 million in 2006 and increased $41.1 million in 2005, respectively. The 2006 decrease in net premiums written was largely due to $35.6 million increase in reinsurance costs. Reinsurance costs increased due to the affects that Hurricane Katrina had on the reinsurance market place. The 2005 increase in net premiums written were primarily due to a $38.1 million increase in premiums written. Written premium increased in 2005 as a result of improved retention of existing policyholders and increased supplemental coverages sold. Additionally, the average written premium per policy increased as the result of policyholders increasing their level of insurance and adjustments to premiums due to rising costs for rebuilding homes.

Change in unearned premiums increased $47.5 million in 2006 and decreased $12.4 million in 2005. The 2006 increase is due to a combination of an $18.0 million decrease in the 2006 unearned premiums balance due to a rate decrease which took effect July 1, 2006 on the base residential earthquake policy, and a $29.9 million increase in the prior year's unearned premiums balance due to an increase in written premiums. The 2005 decrease was due to increasing unearned premiums resulting from an increase in written premiums.

In 2006, the CEA's claims and claims expenses were minimal due to California not experiencing any significant earthquakes during 2006 and due to having no earthquake reserves in the current or prior year. Similarly, during 2005 there were minimal claims and claims expenses due to no major earthquakes occurring during 2005.

In 2006, the increase of $11.3 million in other underwriting expenses is primarily due to $5.3 million in net expenses relating to the sale of revenue bonds and increases of $4.6 million and $1.2 million in participating insurer commissions and operating costs, respectively. The increase in operating costs is due to an increase in the operating cost reimbursement rate from 2.8% to 3.59%. Reinsurance broker commissions, included in other underwriting expenses, decreased by $4.5 million in 2005 due to declining reinsurance premiums and other underwriting expenses increased $4.8 million in 2005 as a result of the increase in premiums written.

In 2006, net investment income was 116% higher than in 2005, a difference of $63.1 million, due to rising interest rates on CEA's investment portfolio. CEA is earning more interest by investing in short-term U.S. Treasuries as opposed to long-term U.S. Treasuries. The CEA's net unrealized losses on investments decreased $7.9 million in 2006 as a result of investing in shorter-termed securities with less fluctuation in market value. During 2005, CEA had long-term U.S. Treasury securities that were earning more interest than short-term investments; however, the CEA changed investment strategies as the long-term securities began to mature and the investment yield curve had flattened and became inverted.

The CEA intends to hold all investments to maturity unless there is an earthquake or series of earthquakes causing significant damage in California.

Other income remained relatively flat in 2006. During 2005, other income increased $5.2 million primarily from $4.6 million in capital contributions from Foremost Insurance Company as a new participating insurer and $0.6 million increase in State of California premium tax contributions associated with the increase in supplemental premiums written.

CONDENSED STATEMENTS OF CASH FLOWS

Primary sources of cash included cash flow from operations, cash flow from the sale of bonds and cash provided from the sale or maturity of invested assets. The primary use of cash was for operating expenses.

The cash flows of the CEA are summarized as follows:

	2006	2005	2004
Net cash provided by operating activities	$ 262,097,760	$ 309,154,013	$ 254,463,128
Net cash provided by noncapital financing activities	315,406,987	396,355	373,440
Net cash provided by (used in) capital and related financing activities	675,963	436,295	(97,647)
Net cash provided by (used in) investing activities	48,251,948	69,172,909	(275,900,658)
Net increase (decrease) in cash and cash equivalents	626,432,658	379,159,572	(21,161,737)
Cash and cash equivalents, beginning of year	1,303,304,162	924,144,590	945,306,327
Cash and cash equivalents, end of year	$ 1,929,736,820	$ 1,303,304,162	$ 924,144,590

Cash from operating activities decreased $47.1 million (-15%) in 2006 and increased $54.7 million (21%) in 2005. The 2006 decrease in cash provided by operating activities was primarily due to the increase in premiums ceded for reinsurance of $36.9 million, and the $15.3 million increase in operating expenses paid. The 2005 increase in cash provided by operating activities was due to the increase in premiums and other income received of $41.8 million, the decrease in reinsurance premiums paid of $3.8 million and the $9.2 million decrease in operating expenses paid.

Cash provided from non-capital financing activities increased in 2006 due to the issuance of $315 million of fixed rate revenue bonds net of the interest paid on those bonds.

The change in cash provided by capital and related financing activities increased by $0.2 million in 2006 and by $0.5 million in 2005. The 2006 increase was due to Foremost Insurance Company's making their capital contributions payments during 2006. Foremost Insurance Company is scheduled to finish making capital contribution payments in 2010.

Cash flows provided by investing activities decreased $20.9 million in 2006. The 2006 decrease was due to the increase in investment income of $36.4 million, an increase in the proceeds from maturities of $618.6 million and an increase of $675.9 million for the purchase of securities. The increases relating to maturities and purchases are due to the CEA's acquiring shorter-termed securities that mature more frequently hence the increase in maturities and purchases. Cash flows provided by investing activities increased $345.1 million in 2005 due to investment income received of $27.2 million, an increase in the proceeds from maturities of $48.6 million and a decrease of $269.3 million in purchases of U.S. Treasuries.

In 2002, the CEA's Governing Board approved an investment policy change that allowed the CEA to purchase U.S. Treasuries with maturities of up to five years to help counteract the diminishing yields for high-quality domestic investments. However, the Board also instructed the CEA to maintain a total-portfolio modified duration of 1.75 years or less. Therefore, as the CEA acquires long-term U.S. Treasuries, the CEA also shortens the duration of its cash-equivalent securities to comply with the Board's maximum portfolio modified duration requirement. This modification to the CEA investment guideline gives the CEA flexibility to migrate to the most favorable investment duration to achieve the highest return.

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, 2006, 69.5% of the portfolio was to mature in 90 days or less. Securities maturing between 91 days and one year accounted for 15.1% of the portfolio, while securities maturing between one to five years accounted for the remaining 15.4% of the portfolio. 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. For the CEA's book of business at December 31, 2006, the probability of an earthquake or series of earthquakes occurring that would deplete the CEA's base policy liquidity and the associated claims-paying capacity is estimated to be 0.162% in any one year. The CEA pays policyholder claims from its claims paying capacity. The following depicts the CEA's base policy claims paying capacity in effect as of December 31, 2006, in millions of dollars:

CEA capital available for claims	$	2,515
First layer assessments on Participating Insurers		2,197
Risk transfer financial products (reinsurance only at December 31, 2006)		1,756
Revenue bond proceeds		311
Second layer assessments on Participating Insurers		1,465
Total	$	8,244

Under California's Insurance Code, the CEA has the ability to assess the participating insurers on a post-event basis if claims reach certain levels, as defined. The first layer of participating insurer assessment is scheduled to sunset December 1, 2008. The first and second layers of participating insurer assessments increased by $14 million and $9 million, respectively, between 2005 and 2006 upon the first year anniversary of Foremost Insurance Company becoming a participating insurer. Additionally, the CEA is entitled to collect amounts under reinsurance contracts when claims reach certain levels, as defined.

California Earthquake Authority
Balance Sheets
December 31, 2006 and 2005

	2006	2005
Assets		
Cash and Investments:		
Cash and cash equivalents	$ 1,582,480,516	$ 1,303,304,162
Restricted cash	347,256,304	-
Investments	1,013,473,923	1,065,722,967
Total cash and investments	2,943,210,743	2,369,027,129
Premiums receivable, net of allowance for doubtful accounts of $1,367,887 and $1,334,849	26,129,153	32,358,981
Assessments receivable	3,128,751	4,066,995
Interest receivable	13,431,118	14,276,945
Securities receivable	122,377,500	-
Unearned ceded premiums	24,138,678	20,710,598
Deferred policy acquisition costs	33,279,534	33,648,134
Other assets	263,519	189,388
Total assets	$ 3,165,958,996	$ 2,474,278,170
Liabilities and Net Assets		
Unearned premiums	$ 244,882,493	$ 262,876,047
Unearned supplemental commission income	4,144,682	3,556,943
Claim and claim expense reserves	11,008	36,411
Supplemental reinsurance premiums payable	10,118,403	9,300,623
Revenue bonds payable	315,000,000	-
Revenue bonds interest payable	8,690,579	-
Accounts payable and accrued expenses	3,035,789	11,124,702
Total liabilities	585,882,954	286,894,726
Net assets:		
Restricted, expendable	28,030,818	8,485,890
Unrestricted	2,552,045,224	2,178,897,554
Total net assets	2,580,076,042	2,187,383,444
Total liabilities and net assets	$ 3,165,958,996	$ 2,474,278,170

The accompanying notes are an integral part of these financial statements.

California Earthquake Authority
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2006 and 2005

	2006	2005
Underwriting income:		
Premiums written	$ 501,215,680	$ 502,962,824
Less premiums ceded - reinsurance	(166,951,869)	(131,329,113)
Net premiums written	334,263,811	371,633,711
Change in unearned premiums	17,993,554	(29,851,477)
Change in unearned premiums ceded - reinsurance	3,428,080	3,785,930
Change in net unearned premiums	21,421,634	(26,065,547)
Net premiums earned	355,685,445	345,568,164
Other operating income:		
Supplemental commission income, net	7,589,627	6,375,197
Total revenues	363,275,072	351,943,361
Expenses:		
Claims and claims expense	(25,403)	(6,564)
Participating insurer commissions	51,966,854	47,365,803
Participating insurer operating costs	14,454,099	13,237,517
Reinsurance broker commissions	5,898,980	6,376,000
Pro forma premium taxes	11,633,051	10,839,915
Financing expenses, net	5,275,534	-
Mitigation Fund expenses	1,144,722	818,328
Other underwriting expenses	9,809,251	9,915,383
Total expenses	100,157,088	88,546,382
Underwriting profit	263,117,984	263,396,979
Net investment income	117,524,144	54,410,384
Other income	417,419	396,355
Capital contributions	-	4,614,304
State of California premium tax contribution	11,633,051	10,839,915
Increase in net assets	392,692,598	333,657,937
Net assets, beginning of year	2,187,383,444	1,853,725,507
Net assets, end of year	$ 2,580,076,042	$ 2,187,383,444

The accompanying notes are an integral part of these financial statements.

California Earthquake Authority
Statements of Cash Flows
For the Years Ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Cash received from premiums	$ 507,445,508	$ 503,738,560
Cash payments for premiums ceded - reinsurance	(166,134,089)	(129,210,646)
Cash payments for operating expenses	(84,646,740)	(69,392,864)
Cash from supplemental commission income	8,177,366	6,872,967
Cash payments to employees for services	(2,744,285)	(2,854,004)
Net cash provided by operating activities	262,097,760	309,154,013
Cash flows from noncapital financing activities:		
Revenue bond proceeds	315,000,000	-
Other income	406,987	396,355
Net cash provided by noncapital financing activities	315,406,987	396,355
Cash flows from capital and related financing activities:		
Assessments received from participating insurers	938,244	547,309
Acquisition of equipment	(262,281)	(111,014)
Net cash provided by capital and related financing activities	675,963	436,295
Cash flows from investing activities:		
Proceeds from maturities of investments	795,832,500	177,250,000
Purchases of investments	(861,879,319)	(185,953,915)
Investment income	114,298,767	77,876,824
Net cash provided by investing activities	48,251,948	69,172,909
Net increase in cash and cash equivalents	626,432,658	379,159,572
Cash and cash equivalents, beginning of year	1,303,304,162	924,144,590
Cash and cash equivalents, end of year	$ 1,929,736,820	$ 1,303,304,162
Reconciliation to balance sheet:		
Cash and cash equivalents	$ 1,582,480,516	$ 1,303,304,162
Restricted cash	347,256,304	-
	$ 1,929,736,820	$ 1,303,304,162

The accompanying notes are an integral part of these financial statements.

California Earthquake Authority
Statements of Cash Flows, Continued
For the Years Ended December 31, 2006 and 2005

	2006	2005
Reconciliation of underwriting profit to net cash provided by operating activities:		
Underwriting profit	$ 263,117,984	$ 263,396,979
Adjustments to reconcile underwriting profit to net cash provided by operating activities:		
Depreciation on equipment	159,579	131,120
Pro forma premium tax expense	11,633,051	10,839,915
Changes in operating assets and liabilities:		
Premiums receivable	6,229,828	775,736
Unearned ceded premiums	(3,428,080)	(3,785,930)
Deferred policy acquisition costs	368,600	(3,820,989)
Other assets	28,570	(28,481)
Unearned premiums	(17,993,554)	29,851,477
Unearned supplemental commission income	587,739	497,770
Claim and claim expense reserves	(25,403)	(428,466)
Supplemental reinsurance premiums payable	817,780	2,118,467
Revenue bonds interest payable	8,690,579	-
Accounts payable and accrued expenses	(8,088,913)	9,606,415
Net cash provided by operating activities	$ 262,097,760	$ 309,154,013

Non-cash Investing, Capital and Financing Activities

The CEA carries investments that experience changes in fair value from year to year. Net unrealized depreciation in the fair value of investments, which is included as a component of net investment income in the Statements of Revenues, Expenses, and Changes in Net Assets, was $10.3 million and $18.2 million for 2006 and 2005, respectively.

The accompanying notes are an integral part of these financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting entity

The California Earthquake Authority (CEA) is a privately financed, publicly managed authority that provides insurance coverage for earthquake damage to residential property owners, condominium owners, mobile homeowners, and renters in the state of California. The CEA also provides supplemental insurance coverage for earthquake damage.

In September 1996, legislation to create the CEA was approved by the California State Legislature. On November 26, 1996, the State of California Insurance Commissioner certified that all statutory conditions necessary for the CEA to become operational had been met, and the CEA began writing earthquake policies on December 1, 1996. The CEA is overseen by a 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 insurance carriers of the CEA. Insurance companies admitted to write residential property insurance in California and who elected to become participating members of the CEA signed Insurer Participation Agreements with the 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 in a recent rate filing was increased from 2.8% to 3.59% of written premium; this change took effect July 1, 2006. The producer commission is equal to 10.0% of written premium of all CEA policies. Additionally, participating insurers receive reimbursement for expenses associated with servicing CEA claims equal to 9.0% of paid claims. As of December 31, 2006, 22 participating insurance carriers sell the CEA policy, 4 of which service 83% of CEA policies. However, as of December 31, 2006, only 17 participating insurers were writing policies.

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

In the event that a natural disaster program is enacted by Congress, the advisory panel is required to prepare a plan to dissolve the CEA or conform 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.

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 at the time liabilities are incurred. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenue and expenses for the period, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates applied in the preparation of the accompanying financial statements.

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

Revenue recognition
Premiums are recognized as earned on a pro rata basis over the contract period. All premium rates charged by the CEA must be approved by the State of California Insurance Commissioner before use. Effective July 1, 2006, the CEA's base-policy rates were reduced by a statewide weighted average of 22.1%. The rates for supplemental coverages will be increased and phased in over two years effecting new and renewing policies with effective dates February 2007 or later. In 2007 the increase will be 15% and in 2008 the increase will be 15.2%.

Unearned premiums represent amounts written which relate to coverage in future periods.

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

Cash and cash equivalents
For purposes of the statement of cash flows, the CEA considers investments in certificates of deposit, U.S. Treasuries, U.S. government money market accounts, commercial paper, corporate bonds, bankers' acceptances, and repurchase agreements with original maturities of three months or less, to be cash equivalents. Restricted cash is comprised of unspent bond proceeds, debt service sinking funds and monies transferred to the Mitigation Fund.

Investments
Investments consist primarily of certificates of deposit, U.S. Treasuries, U.S. government money market accounts, commercial paper, repurchase agreements, corporate bonds, and bankers' acceptances, as authorized by the 1996 legislation creating the CEA, that are not categorized as cash and cash equivalents. 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.

Deferred policy acquisition costs
Acquisition costs, consisting of participating insurer commissions and operating costs, are deferred and amortized ratably over the terms of the underlying policies. Deferred acquisition costs are limited to the estimated recoverable value of such costs. The determination of estimated recoverable value gives effect to the premium to be earned, losses and loss adjustment expenses incurred, investment income to be earned, and certain other costs expected to be incurred as the premium is earned.

Claims and claim expense reserves
Reserves for insurance claims and claim adjustment expenses include the accumulation of case estimates for claims reported, claims incurred but not reported, and estimates of expenses for investigating and adjusting all incurred claims. The reserve is established at a level that management estimates to be sufficient to satisfy those claims. Estimates are revised as more information becomes available. Since the CEA's inception, there has not been a major earthquake. If a major California earthquake were to occur, there would be a significant increase in the reserve for claims and claim adjustment expenses. The negative claims expenses for the years ended December 31, 2006 and 2005 are a result of reducing the claims reserve to reflect losses less than were projected at the previous year-end.

If the CEA's Governing Board determines that the CEA's net assets, 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 circumstance, 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 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, 2006, participating insurer capital contributions totaled $704.6 million and were 99% funded.

The California Insurance Code (Code) states that, subject to certain maximum limits as set forth in the Code, the CEA has the power to make additional assessments of participating insurance companies in the event of a major California earthquake, subject to the approval of the State of California Insurance Commissioner. The CEA's ability to make certain additional assessments of participating insurers expires December 2008.

As of December 31, 2006, participating insurers have a cumulative residential property insurance market share of approximately 73% of the total residential property insurance market in California. If participating insurers withdraw their participation in the CEA such that the cumulative residential property insurance market share is less than 65%, the Insurance Commissioner is required by law to make recommendations to the California Legislature for the continuation or termination of the CEA.

Net assets
The CEA classifies its net assets into two components, restricted-expendable and unrestricted net assets. Restricted net assets include the net assets of the Mitigation Fund and 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. The remaining net assets of the CEA are classified as unrestricted.

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 contributions

California Insurance Code section 10089.44 provides that “notwithstanding any other provision of law, premiums collected by the authority shall be exempt from collection of the state’s insurance premium tax, and the amount of tax foregone by the state shall be considered for all purposes a contribution by the state and its citizens to the capital and operating revenues of the authority.” As a result, the amounts that the state would otherwise impose on the CEA as premium tax are collected by the CEA as premium and retained by the CEA as a contribution by the state; as premium is earned, the portion attributable to the premium-tax exemption is included in the CEA’s net assets. State premium-tax-exemption contributions were $11,633,051 and $10,839,915 for the years ended December 31, 2006 and 2005, respectively. From inception of the CEA to December 31, 2006, state premium-tax contributions total $93,473,081.

Supplemental commission income

In 2006 and 2005, the CEA ceded 100% of its risk under supplemental coverages written to reinsurers. In addition to the 100% quota-share reinsurance contract that had a cap of $450 million, the CEA purchased an additional excess reinsurance contract that covered losses in excess of $450 million for an additional $146 million of coverage. During 2006 and 2005, the CEA earned a ceding commission on supplemental insurance coverages written. Of that commission, the CEA remitted 10% of premium written to the agents generating the policies and 3.59% to the participating insurance companies for operating expenditures. Unearned supplemental commission income represents the pro rata portion of commissions related to the remaining terms of supplemental coverages in force.

2. Cash and Investments

As of December 31, 2006 and 2005, the CEA had the following cash and investments:

December 31, 2006

	Investment Maturities (in Years)					**Total**
	< 1	**<2**	**<3**	**<4**	**<5**	
U. S. Treasuries	$ 448,707,575	$ 43,678,562	$ 63,051,651	$ 17,525,977	$ 440,510,158	1,013,473,923
U. S. agencies	14,687,480					14,687,480
U.S. Government money market funds	56,505,033					56,505,033
Commercial paper	458,451,874					458,451,874
Corporate bonds	126,798,888					126,798,888
Banker's acceptances	14,993,452					14,993,452
Negotiable certificates of deposit	452,300,093					452,300,093
Repurchase agreements	806,000,000					806,000,000
Total	2,378,444,395	43,678,562	63,051,651	17,525,977	440,510,158	2,943,210,743

Reconciliation to statement of net assets:	
Cash equivalent items included above	$ 1,929,736,820
Investments	1,013,473,923
Total investments	2,943,210,743
Cash items not included above	-
Total cash and investments	$ 2,943,210,743

December 31, 2005

	Investment Maturities (in Years)					**Total**
	< 1	**<2**	**<3**	**<4**	**<5**	
U. S. Treasuries	$ 81,324,542	$ 144,650,585	$ 280,066,674	$ 135,006,855	$ 444,638,833	1,085,687,489
U.S. Government money market funds	27,010,681	-	-	-	-	27,010,681
Commercial paper	304,606,986	-	-	-	-	304,606,986
Corporate bonds	55,000,000	-	-	-	-	55,000,000
Banker's acceptances	50,065,401	-	-	-	-	50,065,401
Negotiable certificates of deposit	280,200,014	-	-	-	-	280,200,014
Repurchase agreements	566,000,000	-	-	-	-	566,000,000
Total	1,364,207,624	144,650,585	280,066,674	135,006,855	444,638,833	2,368,570,571

Reconciliation to statement of net assets:	
Cash equivalent items included above	$ 1,302,847,604
Investments	1,065,722,967
	2,368,570,571
Cash not included above	456,558
Total cash and investments	$ 2,369,027,129

Interest rate risk
As a means of limiting its exposure to fair value losses arising from rising interest rates, the CEA's investment policy limits U.S. Treasuries purchased for short-term purposes to securities with maximum maturities of 181 days. For long-term purposes, Treasuries are allowed to have maturities of up to 5 years as long as the total CEA's portfolio does not exceed a combined maximum modified duration of 1.75 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, 2006 the CEA's investments in banker's acceptances and commercial paper were rated A-1 by Standard & Poor's and P-1 by Moody's Investors Service. The CEA's investments in corporate bonds were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. In order to reduce counterparty exposure, the CEA maintains collateral of 105% on repurchase agreements.

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

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 for the years ended December 31, 2006 and 2005 was as follows:

	2006	**2005**
Certificates of deposit	$ 18,490,467	$ 8,033,596
U.S. agency securities and government money market funds	2,676,806	1,049,820
Repurchase agreements	35,365,906	15,815,860
Corporate bonds	3,769,813	2,675,603
U.S. Treasuries	39,460,162	28,750,815
Other short-term investments	19,362,933	8,734,504
Interest income	119,126,087	65,060,198
Change in fair value of investments	7,924,268	(8,893,764)
Less investment expenses	(1,942,233)	(1,756,050)
Net investment income	$ 125,108,122	$ 54,410,384
Reconciliation to Statements of Revenues, Expenses, and Changes in Net Assets:		
Investment income included in financing expenses	$ 7,583,978	$ -
Net investment income	117,524,144	54,410,384
	$ 125,108,122	$ 54,410,384

The change in fair value of investments for the years ended December 31, 2006 and 2005 is calculated as follows:

	2006	2005
Fair value of investments at the end of year	$ 1,013,473,923	$ 1,065,722,967
Add: Proceeds of investments matured	918,210,000	177,250,000
Add: Amortization of discounts/Accretion	3,842,631	16,568,566
Less: Cost of investments purchased	(861,879,319)	(185,953,915)
Less: fair value of investments at the beginning of year	(1,065,722,967)	(1,082,481,382)
Change in fair value of investments	$ 7,924,268	$ (8,893,764)

Fair value of financial instruments

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

3. Long-Term Debt

The CEA issued its first long-term debt, $315 million in fixed rate revenue bonds on July 20, 2006 to enhance claims paying capacity. The proceeds from the revenue bonds were deposited into the Claims Paying Account and were used to purchase investments according to the CEA's investment policy and procedures. The proceeds will only be used for future payments of earthquake claims. Revenue bond proceeds may be used for payment of claims after the CEA exhausts CEA capital available for claims, the first layer industry assessment on Participating Insurers and available proceeds from 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 requirements as indicated below. The bonds are subject to optional redemption 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, 2006:

	Principal	Interest	Total
2007	$ 31,500,000	$ 18,460,733	$ 49,960,733
2008	31,500,000	16,517,498	48,017,498
2009	31,500,000	14,574,263	46,074,263
2010	31,500,000	12,631,028	44,131,028
2011	31,500,000	10,687,793	42,187,793
2012-2016	157,500,000	24,290,437	181,790,437
Total requirements	$ 315,000,000	$ 97,161,752	$ 412,161,752

Fair value

The estimated fair value of the CEA's long-term debt, based on quoted market prices for the same or similar issues at December 31, 2006 is as follows:

Carrying amount	$ 315,000,000
Fair value	$ 322,382,878

4. Reinsurance

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

The 2006 and 2005 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, 2006 in accordance with these terms, the CEA accrued a premium adjustment expense of $2.1 million against the contract. As of December 31, 2005, in accordance with these terms, the CEA’s adjustment was $4.5 million against the contract.

In 2006 and 2005, the CEA continued to cede insurance to reinsurers under catastrophe excess-of-loss reinsurance contracts. Effective January 1, 2006, the CEA has entered into contracts to continue to cede insurance to reinsurers under catastrophe excess-of-loss reinsurance contracts, of which three are collateralized, extending through December 31, 2007. For 2005, 2006, and 2007, the reinsurance contracts provide maximum coverages of $1.5 billion, $1.9 billion, and $2.5 billion, respectively, at varying attachment points. Two of the 2007 contracts have not been finalized as of August 24, 2007, but the CEA has binding letters of agreement with each of the reinsurers.

The CEA entered into a supplemental coverages quota share reinsurance contract effective July 1, 1999 through June 30, 2004, which was extended through June 30, 2006. Under the terms of this contract, the CEA cedes 100% of its liability under supplemental insurance policies to the reinsurer, in return for ceding 100% of premiums written on this business. The extended contract has a limit of liability for the reinsurers of $350 million. The CEA commission was 20% under the expired contract and ranges from 16% to 18.5% under the extended contract. Effective January 1, 2005, the extended quota share contract was modified to increase the limit of liability to $450 million, to change the CEA commission to 17.5%, and to extend the contract for an additional six months through December 31, 2006. Additionally, accumulated ceding commissions from the supplemental coverage program were used to purchase $146 million in reinsurance coverage for 2006 in excess of the quota share coverage. As of January 1, 2007 the CEA discontinued the use of quota share reinsurance and has aggregate excess-of-loss reinsurance contracts for a term of one year with maximum coverage of $593 million.

5. Statutory Compliance

The State of California Insurance Code limits CEA's "operating expenses" to 3% of its "premium income." In calculating this limitation, the CEA has determined that its premium income is its reported 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 $7.8 million and $5.2 million for the years ended December 31, 2006 and 2005, respectively, and did not exceed 3% of premiums written.

6. Mitigation Fund

California Insurance Code Section 10089.37 created the Earthquake Loss Mitigation Fund (Mitigation Fund) as a "sub-account of the CEA". By statute, the Mitigation Fund must be used solely for the establishment and operation of the mitigation program. The Insurance Code requires the CEA 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 are resident 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, 2006 and 2005, the balance sheets include expendable restricted net assets related to the Mitigation Fund totaling $12,702,339 and $8,485,890, respectively.

SUPPLEMENTARY INFORMATION

California Earthquake Authority
Schedule of Participating Insurer Capital Contributions
From inception through December 31, 2006

State Farm Insurance Company	$ 249,188,275
Allstate Insurance Company	145,612,517
Farmers Insurance Company	143,280,000
United Services Automobile Association	58,992,512
California State Automobile Association	39,013,494
California Fair Plan	15,029,487
Automobile Insurance Exchange of Southern California	14,443,651
CNA/Continental	13,924,611
Prudential Insurance Company	11,531,455
Liberty Mutual Insurance Company	6,699,434
Foremost Insurance Company	4,614,304
Mercury Insurance Company	1,406,238
Armed Forces	783,685
GuideOne (formerly Preferred Risk)	123,133
Merastar	-
Golden Eagle	-
Homesite Insurance	-
Workmen's Auto Insurance	-
Pacific National Insurance	-
Encompass Insurance	-
Glen Falls Insurance Company	-
ACA Insurance Company	-
Total	$ 704,642,796

California Earthquake Authority
Schedules of Participating Insurer Premiums Written
For the years ended December 31, 2006 and 2005

	2006	2005
State Farm Insurance Company	$ 187,894,498	$ 189,781,589
Allstate Insurance Company	101,289,576	106,449,224
Farmers Insurance Company	60,759,670	60,729,414
United Services Automobile Association	65,450,012	65,649,254
California State Automobile Association	16,176,680	16,085,881
California Fair Plan	5,452,305	6,410,338
Automobile Insurance Exchange of Southern California	32,693,218	30,213,282
CNA/Continental	-	-
Prudential Insurance Company	-	(2,602)
Liberty Mutual Insurance Company	12,261,743	11,878,572
Foremost Insurance Company	2,891,076	1,507,173
Mercury Insurance Company	9,809,583	8,311,848
Armed Forces	781,258	793,157
GuideOne (formerly Preferred Risk)	-	-
Merastar	72,103	82,919
Golden Eagle	37,014	24,382
Homesite Insurance	366,406	428,961
Workmen's Auto Insurance	25,502	43,081
Pacific National Insurance	-	-
Encompass Insurance	4,815,071	4,380,169
Glen Falls Insurance Company	-	(40,357)
ACA Insurance Company	439,965	236,539
Total	$ 501,215,680	$ 502,962,824

California Earthquake Authority
Schedules of Participating Insurer Unearned Premiums
December 31, 2006 and 2005

	2006	2005
State Farm Insurance Company	$ 91,121,096	$ 97,775,937
Allstate Insurance Company	49,892,135	56,088,654
Farmers Insurance Company	30,939,852	32,402,197
United Services Automobile Association	32,352,609	34,008,644
California State Automobile Association	7,530,096	8,328,902
California Fair Plan	2,656,349	3,564,794
Automobile Insurance Exchange of Southern California	15,746,066	15,873,081
CNA/Continental	-	-
Prudential Insurance Company	-	-
Liberty Mutual Insurance Company	5,711,285	6,287,171
Foremost Insurance Company	1,416,647	1,075,717
Mercury Insurance Company	4,415,776	4,192,179
Armed Forces	379,971	423,305
GuideOne (formerly Preferred Risk)	-	-
Merastar	43,434	51,575
Golden Eagle	14,606	16,282
Homesite Insurance	159,173	215,631
Workmen's Auto Insurance	8,447	18,743
Pacific National Insurance	-	-
Encompass Insurance	2,279,101	2,408,580
Glen Falls Insurance Company	-	27
ACA Insurance Company	215,850	144,628
Total	$ 244,882,493	$ 262,876,047

California Earthquake Authority
Schedules of Participating Insurer Commissions
For the years ended December 31, 2006 and 2005

	2006	2005
State Farm Insurance Company	$ 19,472,103	$ 17,802,556
Allstate Insurance Company	10,757,876	10,080,442
Farmers Insurance Company	6,228,987	5,818,132
United Services Automobile Association	6,715,371	6,277,873
California State Automobile Association	1,698,700	1,478,313
California Fair Plan	636,485	632,604
Automobile Insurance Exchange of Southern California	3,285,088	2,775,231
CNA/Continental	-	46,109
Prudential Insurance Company	-	5,864
Liberty Mutual Insurance Company	1,285,256	1,117,506
Foremost Insurance Company	255,567	43,415
Mercury Insurance Company	959,470	747,377
Armed Forces	82,522	74,491
GuideOne (formerly Preferred Risk)	-	-
Merastar	8,040	7,637
Golden Eagle	3,874	2,421
Homesite Insurance	42,322	34,513
Workmen's Auto Insurance	3,581	3,491
Pacific National Insurance	-	-
Encompass Insurance	494,710	197,418
Glen Falls Insurance Company	-	211,200
ACA Insurance Company	36,902	9,210
Total	$ 51,966,854	$ 47,365,803

California Earthquake Authority
Schedules of Participating Insurer Operating Costs
For the years ended December 31, 2006 and 2005

	2006	2005
State Farm Insurance Company	$ 5,399,622	$ 4,971,347
Allstate Insurance Company	2,997,915	2,818,677
Farmers Insurance Company	1,739,213	1,625,413
United Services Automobile Association	1,870,611	1,757,009
California State Automobile Association	472,821	413,444
California Fair Plan	176,285	176,974
Automobile Insurance Exchange of Southern California	915,999	775,854
CNA/Continental	-	-
Prudential Insurance Company	-	1,643
Liberty Mutual Insurance Company	356,668	312,172
Foremost Insurance Company	71,875	12,124
Mercury Insurance Company	266,623	208,787
Armed Forces	23,064	20,830
GuideOne (formerly Preferred Risk)	-	-
Merastar	2,245	2,122
Golden Eagle	1,095	677
Homesite Insurance	11,815	9,633
Workmen's Auto Insurance	977	965
Pacific National Insurance	-	-
Encompass Insurance	136,770	68,133
Glen Falls Insurance Company	-	59,135
ACA Insurance Company	10,501	2,578
Total	$ 14,454,099	$ 13,237,517