

California FAIR Plan Association

Statutory Financial Statements and
Independent Auditor's Report

September 30, 2024 and 2023

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Independent Auditor's Report

To the Governing Committee
California FAIR Plan Association

Opinions

We have audited the accompanying statutory financial statements of California FAIR Plan Association (the "Association"), which comprise the statutory statements of admitted assets, liabilities, and members' equity as of September 30, 2024 and 2023, and the related statutory statements of operations, changes in members' equity (deficit), and cash flow for the years then ended, and the related notes to statutory financial statements.

Unmodified Opinion on Statutory Basis of Accounting

In our opinion, the statutory financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities, and members' equity of the Association as of September 30, 2024 and 2023, and the results of its operations and its cash flow for the years then ended, in accordance with accounting practices prescribed or permitted by the California Department of Insurance as described in Note 2.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the statutory financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America ("GAAP"), the financial position of the Association as of September 30, 2024 and 2023, or the results of its operations and its cash flow for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Statutory Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2, the statutory financial statements are prepared by the Association using accounting practices prescribed or permitted by the California Department of Insurance, which is a basis of accounting other than GAAP. The effects on the statutory financial statements of the variances between these statutory accounting practices described in Note 2 and GAAP, although not reasonably determinable, are presumed to be material and pervasive.

Emphasis of Matter

As disclosed in Note 15, subsequent to the statutory financial statement date, wildfires in Southern California resulted in over 5,000 claims filed with the Association, with estimated losses exceeding \$3.5 billion. In February 2025, the California Department of Insurance approved the Association's request for a \$1 billion assessment to ensure timely payment of claims and related expenses. The Association also triggered reinsurance recoveries under layers 1 through 5 and partially under layer 6, totaling approximately \$1 billion. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with accounting practices prescribed or permitted by the California Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the statutory financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the statutory financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Statutory Financial Statements

Our objectives are to obtain reasonable assurance about whether the statutory financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the statutory financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of misstatements of the statutory financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the statutory financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the statutory financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control matters that we identified during the audits.

Other Matter

Management has omitted the summary investment schedule, the supplemental investment risk interrogatories, and the supplemental reinsurance interrogatories that accounting practices prescribed or permitted by the California Department of Insurance require to be presented to supplement the basic statutory financial statements. Such missing information, although not part of the basic statutory financial statements, is required by the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* which considers it to be an essential part of financial reporting for placing the basic statutory financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic statutory financial statements is not affected by this missing information.

JLK Rosenberger, LLP

Glendale, California
August 22, 2025

CALIFORNIA FAIR PLAN ASSOCIATION

Statutory Statements of Admitted Assets, Liabilities, and Members' Equity As of September 30, 2024 and 2023

	2024	2023
Admitted Assets		
Cash, cash equivalents, and short-term investments	\$ 1,289,073,562	\$ 600,211,862
Accrued investment income	11,997,355	1,995,565
Premiums receivable	126,733,655	74,380,733
Reinsurance recoverable	264,369	1,054,178
Other assets	266,199	333,259
Total admitted assets	\$ 1,428,335,140	\$ 677,975,597
Liabilities and Members' Equity		
Liabilities:		
Unpaid losses	\$ 126,066,626	\$ 35,214,550
Unpaid loss adjustment expenses	22,547,529	7,300,777
Commissions payable	25,476,562	13,992,730
Accrued expenses	8,518,312	5,498,216
Unearned premiums	824,850,451	490,683,883
Advance and unapplied premiums	30,551,336	23,219,391
Premium deficiency reserve	2,878,616	-
Pension and postretirement benefit accrual	6,650,214	5,069,992
Escheat payable	7,036,166	7,415,431
Total liabilities	1,054,575,812	588,394,970
Members' equity	373,759,328	89,580,627
Total liabilities and members' equity	\$ 1,428,335,140	\$ 677,975,597

See accompanying notes to statutory financial statements.

CALIFORNIA FAIR PLAN ASSOCIATION

Statutory Statements of Operations For the Years Ended September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Underwriting income:		
Net premiums earned	<u>\$ 661,558,287</u>	<u>\$ 439,082,086</u>
Losses incurred	212,058,120	89,812,110
Loss adjustment expenses incurred	37,131,083	19,618,984
Other underwriting expenses	<u>175,508,459</u>	<u>104,339,658</u>
Total underwriting expenses	<u>424,697,662</u>	<u>213,770,752</u>
Underwriting income	236,860,625	225,311,334
Net investment gain	46,525,498	19,402,782
Other income	<u>521,164</u>	<u>35,173</u>
Net income	<u><u>\$ 283,907,287</u></u>	<u><u>\$ 244,749,289</u></u>

See accompanying notes to statutory financial statements.

CALIFORNIA FAIR PLAN ASSOCIATION

Statutory Statements of Changes in Members' Equity (Deficit) For the Years Ended September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Members' equity (deficit) - beginning of year	\$ 89,580,627	\$ (135,210,608)
Net income	283,907,287	244,749,289
Change in nonadmitted assets	121,812	(19,976,229)
Change in pension liability	117,234	1,835
Change in other	32,368	16,340
Members' equity - end of year	<u>\$ 373,759,328</u>	<u>\$ 89,580,627</u>

See accompanying notes to statutory financial statements.

CALIFORNIA FAIR PLAN ASSOCIATION

Statutory Statements of Cash Flow For the Years Ended September 30, 2024 and 2023

	2024	2023
Cash flow from operating activities:		
Underwriting activities:		
Premiums collected, net of reinsurance	\$ 952,845,244	\$ 533,234,112
Losses and loss adjustment expenses paid	(142,300,566)	(131,491,829)
Underwriting expenses paid	(158,739,466)	(105,270,561)
Net cash provided by underwriting activities	651,805,212	296,471,722
Investment income, net	36,523,708	17,857,083
Service income	521,164	35,173
Net cash provided by operating activities	688,850,084	314,363,978
Cash flow from investing activities:		
Purchase of property and equipment	(87,813)	(266,665)
Net cash used in investing activities	(87,813)	(266,665)
Cash flow from financing activities:		
Other	99,429	(48,331)
Net cash provided by (used in) financing activities	99,429	(48,331)
Net increase in cash, cash equivalents, and short-term investments	688,861,700	314,048,982
Cash, cash equivalents, and short-term investments, beginning of year	600,211,862	286,162,880
Cash, cash equivalents, and short-term investments, end of year	\$ 1,289,073,562	\$ 600,211,862

See accompanying notes to statutory financial statements.

CALIFORNIA FAIR PLAN ASSOCIATION

Notes to Statutory Financial Statements September 30, 2024 and 2023

1. Organization and Nature of Operations

The California FAIR Plan Association (the “Association” or the “FAIR Plan”) was organized by the insurance industry in accordance with the establishing statute enacted by the legislature of the state of California to make property insurance for homes and businesses available in two distinct areas of the state: (1) specified brush/wildfire areas and (2) specific urban areas designated by the Commissioner of Insurance (“Division I”). A Businessowner’s Program (“Division II”) has been offered by the Association since October 1, 1994. Division II offers coverage for small to medium-size business operators who have difficulty obtaining property and liability insurance in the voluntary insurance market. The Association is a syndicated property insurance pool set up to provide insurance coverage to those insurable risks that would otherwise not be able to obtain coverage through voluntary markets.

Effective May 30, 2001, the Commissioner of Insurance placed the FAIR Plan’s area of operation on a statewide basis.

In accordance with California insurance statutes, all private insurance companies licensed to write fire, allied lines, homeowners and commercial multiperil, farm owners, and earthquake coverages are required to participate in the Association and share in any profits and losses as a condition of their authority to transact insurance business in the state of California.

In fiscal years 2024 and 2023, premiums of approximately \$1,419,728,000 and \$867,783,000, respectively, were written through Division I and approximately \$520,000 and \$723,000, respectively, were written through Division II.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Association prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the California Department of Insurance (the “Department”). The Department requires that insurance companies domiciled in the state of California prepare their statutory-basis financial statements in accordance with the National Association of Insurance Commissioners’ (“NAIC”) *Accounting Practices and Procedures Manual*, subject to any deviations prescribed or permitted by the State of California Insurance Commissioner.

The Association prepared its statutory financial statements in accordance with the NAIC’s *Accounting Practices & Procedures Manual as of March 2023* subject to any deviations prescribed or permitted by the State of California Insurance Commissioner.

Accounting practices and procedures of the NAIC compose a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (“GAAP”). The more significant differences are as follows:

- Premium income is taken into earnings over the periods covered by the policies, whereas the related acquisition and commission costs are expensed when incurred.
- Assets must be included in the statutory statements of admitted assets, liabilities and members’ equity at “admitted asset value” and “nonadmitted assets” are excluded through a direct charge to members’ equity.

CALIFORNIA FAIR PLAN ASSOCIATION

Notes to Statutory Financial Statements (Continued) September 30, 2024 and 2023

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

- Short-term investments include all investments not classified as cash equivalents with remaining maturities of one year or less at the time of acquisition.
- Ceded reserves recoverable from reinsurers for losses and loss adjustment expenses and unearned premiums ceded are reflected as reductions to the related direct liabilities rather than as assets.
- The current expected credit loss model required under GAAP is not consistent with the impairment or loss contingency model for recognizing credit losses in statutory accounting.
- All leases are considered operating leases with rental expense recognized over the lease term and without recognition of a right-of-use asset or liability.
- Comprehensive income and its components presented under GAAP are not presented in statutory financial statements.
- Cash flow presentation is not consistent with GAAP and a reconciliation of net income or loss from operations is not provided.

Estimates

The preparation of statutory financial statements in accordance with accounting practices prescribed or permitted by the Department requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the statutory financial statements, and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Short-Term Investments

Cash equivalents are highly liquid investments with original maturities of 90 days or less. Short-term investments consist of investments, primarily US Treasury bills, with remaining maturities of one year or less at the time of acquisition. Short-term investments are valued and reported at amortized cost, adjusted for amortization of premiums or discounts. Amortization is calculated using the scientific interest method using first call date or maturity.

Fair Value Measurements

The Association employs a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date using the exit price. Accordingly, when market observable data is not readily available, the Association's own assumptions are used to reflect those that market participants would be presumed to use in pricing the assets or liability at the measurement date.

CALIFORNIA FAIR PLAN ASSOCIATION

Notes to Statutory Financial Statements (Continued)
September 30, 2024 and 2023

2. Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

Assets and liabilities recorded at fair value are categorized based on the level of judgment associated with inputs used to measure their fair value and the level of market price observability, as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment spreads, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

In certain cases, inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Association's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the asset or liability.

The Association uses prices and inputs that are current as of the measurement date, including during periods of market disruption. In periods of market disruption, the ability to observe prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2, or from Level 2 to Level 3. The Association recognizes transfers between levels at either the actual date of the event or a change in circumstances that caused the transfer.

Premiums and Related Commissions

Premiums are earned over the terms of the related insurance policies. Unearned premiums are established to cover the unexpired portion of premiums written. Such reserves are computed on a daily pro-rata basis. Expenses incurred in connection with acquiring new insurance business, including commissions, are charged to operations as incurred. Cash received in advance of a policy's effective date is reported as advance and unapplied premiums.

CALIFORNIA FAIR PLAN ASSOCIATION

Notes to Statutory Financial Statements (Continued)
September 30, 2024 and 2023

2. Summary of Significant Accounting Policies (Continued)

Unpaid Losses and Loss Adjustment Expenses

Unpaid losses and loss adjustment expenses include estimates determined from individual known case estimates and loss reports and estimates for incurred but not reported losses. The methods for making such estimates and for establishing the resulting liability are the responsibility of management and with the assistance of consulting actuaries, are continually reviewed, and any adjustments are reflected in the period determined. Management makes estimates and assumptions that affect the amounts of reserves and incurred losses and loss adjustment expenses reported in the statutory financial statements. Although reserves are established based on reasonable estimates, it is not only possible but probable that reserves will differ from their ultimate outcome. This uncertainty can result in both adverse as well as favorable development of actual subsequent activity when compared to the reserves established. Management believes that the provision for unpaid losses and loss adjustment expense reserves are adequate to cover the ultimate net cost of claims incurred to date.

Premium Deficiency Reserve

A premium deficiency reserve is recognized when anticipated future loss, loss adjustment expense, commissions, other acquisition costs, and maintenance costs exceed the recorded unearned premium reserve. The FAIR Plan does not consider anticipated investment income in the determination of a premium deficiency. The change in this reserve is recorded as a component of other underwriting expenses.

Allocation by Pool Years

Accounting activity is allocated to pool years. Investment income is allocated to pool years based upon the mean assets attributed to each undistributed pool at the beginning and end of each month of the fiscal year. Pool years with a deficit are not charged interest expense. Premiums written are allocated to pool years based upon the effective date of the policy. Losses incurred are directly allocated to pool years based upon the effective date of the policy. Allocated loss adjustment expenses are allocated to pools directly, and unallocated loss adjustment expenses are allocated to pools by a ratio of claims paid. Pool years remain open until closure is approved by the Governing Committee and either an assessment or distribution may be made. Assessments are allocated to pool years based upon the effective date of the policy covering the event deemed to have caused the pool year loss. Allocation of the assessment to participating companies within each respective division is based upon the participant companies' direct written premiums, during the second preceding calendar year, as a percentage of the statewide direct premiums written.

Assessments

Pursuant to §10094 of the California Insurance Code, the Association is empowered to assess participating companies their proportional share of losses incurred in a pool year. All assessments must be approved by the Committee and the Insurance Commissioner. Once approved, the assessment may be billed at the Association's discretion, which is generally determined upon the cash needs of the Association. Assessments are recognized in members' equity when billed.

CALIFORNIA FAIR PLAN ASSOCIATION

Notes to Statutory Financial Statements (Continued)
September 30, 2024 and 2023

2. Summary of Significant Accounting Policies (Continued)

Distributions

The Loss and Accounting Committees meet annually to examine a pool year six months after all premiums have been earned to determine if a preliminary distribution of members' equity should be made. If appropriate, the Loss and Accounting Committees will recommend a preliminary distribution to the Governing Committee. Subsequent adjustments to the pool year will be made yearly until outstanding losses permit a final settlement of members' equity and the pool year is closed. The Loss and Accounting Committees will again examine a pool year 18 months after all premiums have been earned to determine if it should be closed. Division II pools remain open for 5 ½ years and are settled in the same manner as Division I.

Property and Equipment

Property and equipment are recorded at cost and are nonadmitted. Depreciation is calculated on a straight-line basis over their estimated useful lives of approximately three to ten years.

Premium Tax

The Association issues its insurance policies on behalf of insurance companies that by law participate in its writings, expenses, profits, and losses. Each participant company is the direct writer of all premiums and records its share of premiums as direct written premiums. The Association does not pay premium taxes to the state of California since the obligation is that of the member companies.

Income Taxes

The Association files a partnership return, and no provision has been made for federal or state taxes on income since the obligation is that of the member companies.

3. Fair Value Measurements

The following tables set forth by level within the fair value hierarchy of financial instruments measured at fair value and their related admitted value, in the aggregate, as of September 30:

	Level 1	Level 2	Level 3	Aggregate Fair Value	Admitted Value
2024					
Short-term investments	<u>\$ 654,501,277</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 654,501,277</u>	<u>\$ 644,365,959</u>

CALIFORNIA FAIR PLAN ASSOCIATION

Notes to Statutory Financial Statements (Continued) September 30, 2024 and 2023

4. Reinsurance

The Association maintains certain reinsurance coverages that limit the Association's liability with respect to cumulative losses under all policies issued by the Association. The Association remains contingently liable with respect to reinsurance ceded to the extent that any reinsurer is unable to meet its contractual obligation. To mitigate risk associated with reinsurance, the Association places its risks with reinsurers rated A- or better by A.M. Best.

Effective March 1, 2024 to February 28, 2025, the Association has reinsurance property catastrophe excess of loss reinsurance contracts. Losses retained by the Association and reinsured are as follows:

Range of Loss	Retained	Reinsured
\$ - to \$ 900,000,000	\$ 900,000,000	\$ -
900,000,001 to 1,250,000,000	-	350,000,000
1,250,000,001 to 1,650,000,000	55,600,000	344,400,000
1,650,000,001 to 2,250,000,000	207,000,000	393,000,000
2,250,000,001 to 2,850,000,000	379,020,000	220,980,000
2,850,000,001 to 3,450,000,000	376,320,000	223,680,000
3,450,000,001 to 4,050,000,000	321,660,000	278,340,000
4,050,000,001 to 4,650,000,000	321,660,000	278,340,000
4,650,000,001 to 5,750,000,000	557,510,000	542,490,000
	\$3,118,770,000	\$2,631,230,000

For the layers up to \$3,450,000,000, the Association is contractually obligated to pay reinstatement premium in the event all of any portion of the reinsurance coverage is exhausted.

Effective March 1, 2023 to February 28, 2024, the Association has reinsurance property catastrophe excess of loss reinsurance contracts. Losses retained by the Association and reinsured are as follows:

Range of Loss	Retained	Reinsured
\$ - to \$ 600,000,000	\$ 600,000,000	\$ -
600,000,001 to 1,625,000,000	-	1,025,000,000
1,625,000,001 to 2,025,000,000	241,560,000	158,440,000
2,025,000,001 to 2,525,000,000	400,000,000	100,000,000
2,525,000,001 to 3,025,000,000	250,000,000	250,000,000
3,025,000,001 to 3,525,000,000	250,000,000	250,000,000
	\$1,741,560,000	\$1,783,440,000

For the layers up to \$2,525,000,000, the Association is contractually obligated to pay reinstatement premium in the event all of any portion of the reinsurance coverage is exhausted.

CALIFORNIA FAIR PLAN ASSOCIATION

Notes to Statutory Financial Statements (Continued) September 30, 2024 and 2023

4. Reinsurance (Continued)

The effect of reinsurance on premium written and earned for the years ended September 30 is as follows:

	2024		2023	
	Written	Earned	Written	Earned
Direct	\$1,420,247,705	\$1,086,081,137	\$ 868,505,950	\$ 738,134,181
Ceded	(424,522,850)	(424,522,850)	(299,052,095)	(299,052,095)
Net	<u>\$ 995,724,855</u>	<u>\$ 661,558,287</u>	<u>\$ 569,453,855</u>	<u>\$ 439,082,086</u>

The effect of reinsurance on losses and loss adjustment expenses unpaid and incurred for the years ended September 30 is as follows:

	2024		2023	
	Unpaid Losses and LAE	Losses and LAE Incurred	Unpaid Losses and LAE	Losses and LAE Incurred
Direct	\$ 149,050,161	\$ 250,432,715	\$ 44,485,299	\$ 113,870,711
Ceded	(436,006)	(1,243,512)	(1,969,972)	(4,439,617)
Net	<u>\$ 148,614,155</u>	<u>\$ 249,189,203</u>	<u>\$ 42,515,327</u>	<u>\$ 109,431,094</u>

5. Unpaid Losses and Loss Adjustment Expenses

Activity in the liability for unpaid losses and LAE for the years ended September 30 is summarized as follows:

	2024	2023
Balance at October 1	<u>\$ 42,515,327</u>	<u>\$ 65,010,235</u>
Incurring related to:		
Current year	238,689,203	109,441,216
Prior years	10,500,000	(10,122)
Total incurred	<u>249,189,203</u>	<u>109,431,094</u>
Paid related to:		
Current year	112,180,842	89,831,710
Prior years	30,909,533	42,094,292
Total paid	<u>143,090,375</u>	<u>131,926,002</u>
Balance at September 30	<u>\$ 148,614,155</u>	<u>\$ 42,515,327</u>

The increase in incurred losses and loss adjustment expenses during 2024 pertaining to previously reported amounts is attributed to revised estimates reflecting higher than anticipated losses.

CALIFORNIA FAIR PLAN ASSOCIATION

Notes to Statutory Financial Statements (Continued)
September 30, 2024 and 2023

6. Employee Benefits

Retirement Plans

The Association participates in the Pension Plan for Insurance Organizations, a noncontributory defined benefit plan (the “Plan”). Substantially all employees of the Association are included in the Plan. The benefits of the Plan are based on the employee’s years of credited service, average annual salary, and primary Social Security benefit, as defined in the Plan. The Association’s funding policy is to make pension contributions as determined by the trustees of the Plan and in accordance with the Pension Protection Act of 2006. In addition, the Association also has an unfunded, nonqualified, and noncontributory defined benefit plan covering three retired or terminated executives, and the Association President.

A summary of the projected benefit obligation (“PBO”), change in plan assets, funded status, components of net periodic benefit cost, and assumptions of the pension benefit plans for the years ended September 30 are as follows:

	Qualified Plan		Nonqualified Plan	
	2024	2023	2024	2023
Change in benefit obligation:				
Benefit obligation - beginning of year	\$ 24,260,353	\$ 23,060,081	\$ 529,309	\$ 442,107
Service cost	1,258,604	1,057,669	6,864	6,125
Interest cost	1,419,220	1,292,494	30,679	24,235
Actuarial loss	2,946,637	32,389	139,057	75,571
Benefits paid	(1,274,875)	(1,182,280)	(18,729)	(18,729)
Benefit obligation - end of year	\$ 28,609,939	\$ 24,260,353	\$ 687,180	\$ 529,309
Change in plan assets:				
Fair value of plan assets - beginning of year	\$ 27,074,294	\$ 26,106,605	\$ -	\$ -
Actual return on plan assets	5,641,997	1,149,969	-	-
Employer contribution	1,000,000	1,000,000	18,729	18,729
Benefits paid	(1,274,875)	(1,182,280)	(18,729)	(18,729)
Fair value of plan assets - end of year	\$ 32,441,416	\$ 27,074,294	\$ -	\$ -
Funded status:				
Projected benefit obligation	\$ (28,609,939)	\$ (24,260,353)	\$ (687,180)	\$ (529,309)
Fair value of plan assets	32,441,416	27,074,294	-	-
Total funded status	3,831,477	2,813,941	(687,180)	(529,309)
Overfunded plan asset nonadmitted	(3,831,477)	(2,813,941)	-	-
Net amount recognized	\$ -	\$ -	\$ (687,180)	\$ (529,309)

CALIFORNIA FAIR PLAN ASSOCIATION

Notes to Statutory Financial Statements (Continued)
September 30, 2024 and 2023

6. Employee Benefits (Continued)

Retirement Plans (Continued)

	Qualified Plan		Nonqualified Plan	
	2024	2023	2024	2023
Components of net periodic benefit cost:				
Service cost	\$ 1,258,604	\$ 1,057,669	\$ 6,864	\$ 6,125
Interest cost	1,419,220	1,292,494	30,679	24,235
Expected return on plan assets	(1,618,223)	(1,236,304)	-	-
Amortization of unrecognized prior service cost	83,749	83,749	-	-
Amortization of net actuarial losses (gains)	92,492	94,899	(515)	(12,643)
Total net periodic benefit cost	<u>\$ 1,235,842</u>	<u>\$ 1,292,507</u>	<u>\$ 37,028</u>	<u>\$ 17,717</u>

The PBO represents the actual net present value of estimated future benefit obligations. The PBO includes assumptions for future compensation increases for active participants. The accumulated benefit obligation (ABO) is similar to the PBO, but is based only on current compensation with no assumption for future compensation increases. The ABO for the qualified plan was approximately \$25,135,086 and \$21,744,425 at September 30, 2024 and 2023, respectively. The ABO for the nonqualified plan was approximately \$608,204 and \$514,014 at September 30, 2024 and 2023, respectively.

The amounts in members' equity that have not yet been recognized as components of net periodic benefit cost at September 30 are as follows:

	Qualified Plan		Nonqualified Plan	
	2024	2023	2024	2023
Net prior service cost	\$ 268,100	\$ 351,849	\$ -	\$ -
Net loss (gain)	2,681,745	3,851,374	83,065	(56,507)
Total	<u>\$ 2,949,845</u>	<u>\$ 4,203,223</u>	<u>\$ 83,065</u>	<u>\$ (56,507)</u>

CALIFORNIA FAIR PLAN ASSOCIATION

Notes to Statutory Financial Statements (Continued) September 30, 2024 and 2023

6. Employee Benefits (Continued)

Retirement Plans (Continued)

The assumptions used in determining the actuarial present value of the projected benefit obligations above are as follows:

	Qualified Plan		Nonqualified Plan	
	2024	2023	2024	2023
Weighted-average assumptions – September 30:				
Discount rate	6.00%	5.75%	4.95%	5.90%
Rate of compensation increase	4.00%	3.00%	5.00%	3.50%
Expected long term rate of return on plan assets	6.00%	4.75%	N/A	N/A

The expected benefit payments for the next five years and the five years thereafter are as follows:

	Qualified Plan	Nonqualified Plan
Year ending October 1,		
2024	\$ 1,310,871	\$ 18,632
2025	1,422,693	18,560
2026	1,475,833	18,271
2027	1,528,176	44,438
2028	1,616,740	55,486
2029 – 2033	9,713,537	348,864

Association contributions expected to be paid during the fiscal year ending September 30, 2025 are approximately \$1,000,000 and \$18,729 for the qualified and nonqualified plan, respectively. There were no participant contributions during fiscal years 2024 and 2023.

Plan assets are invested primarily in equity and debt instruments. The allocation percentages of plan assets at September 30 are as follows:

	2024	2023
Equity securities	56.30%	36.60%
Debt securities	34.30%	57.60%
Real estate	8.20%	4.70%
Other	1.20%	1.10%
Total	100.00%	100.00%

CALIFORNIA FAIR PLAN ASSOCIATION

Notes to Statutory Financial Statements (Continued)
September 30, 2024 and 2023

6. Employee Benefits (Continued)

Postretirement Life and Health Benefits

The Association provides certain health care and life insurance benefits (“postretirement”) for retired employees, as well as employees eligible for retirement. Current employees can become eligible to participate by retiring after meeting the age and service requirements of age 55 and 10 years and 1 hour of service. Spouses and dependent children of these retirees are also eligible to participate. Life insurance benefits are generally set at a fixed amount. The benefit includes the expected cost of postretirement benefits for newly eligible or vested employees, interest cost, and gains and losses arising from differences between actuarial assumptions and actuarial experience.

The Association has a Health Reimbursement Account for post-65 retirees to reduce current and future liability of retiree healthcare and their dependents.

A summary of the postretirement life and health obligations, change in plan assets, funded status, components of net periodic benefit cost, and assumptions and assumptions for the years ended September 30 is as follows:

	2024	2023
Change in benefit obligation:		
Benefit obligation - beginning of year	\$ 4,374,171	\$ 4,157,930
Service cost	371,038	261,461
Interest cost	254,086	225,062
Actuarial net loss (gain)	961,007	(64,758)
Benefits paid	(207,639)	(205,524)
Benefit obligation - end of year	\$ 5,752,663	\$ 4,374,171
Change in plan assets:		
Fair value of plan assets - beginning of year	\$ -	\$ -
Employer contribution	207,639	205,524
Benefits paid	(207,639)	(205,524)
Fair value of plan assets - end of year	\$ -	\$ -
Funded status:		
Projected benefit obligation	\$ (5,752,663)	\$ (4,374,171)
Unrecognized net actuarial gain	-	-
Unrecognized prior service cost	-	-
Net amount recognized	\$ (5,752,663)	\$ (4,374,171)

CALIFORNIA FAIR PLAN ASSOCIATION

Notes to Statutory Financial Statements (Continued)
September 30, 2024 and 2023

6. Employee Benefits (Continued)

Postretirement Life and Health Benefits (Continued)

	2024	2023
Components of net periodic benefit cost:		
Service cost	\$ 371,038	\$ 261,461
Interest cost	254,086	225,062
Amortization of unrecognized prior service cost	(35,523)	(34,593)
Total net periodic benefit cost	\$ 589,601	\$ 451,930

The amounts in members' equity that have not yet been recognized as components of net periodic benefit cost at September 30 are as follows:

	2024	2023
Net prior service credit	\$ 15,476	\$ 50,999
Net (loss) gain	(829,028)	131,979
Total	\$ (813,552)	\$ 182,978

The assumptions used in determining the actuarial present value of the projected benefit obligations above are as follows:

	2024	2023
Weighted-average assumptions - September 30:		
Discount rate	5.00%	5.95%
Rate of compensation increase	3.75%	3.75%

The post-65 and pre-65 reimbursement maximums are assumed to increase to \$3,600 and \$8,390, respectively, in 2025. Pre-65 premium reimbursements were updated based on the most recent data provided. Medical trend on the pre-65 reimbursement remained at 7.00% graded down to 4.50% by 25 basis points per year. These changes increased the liability by approximately \$152,000 as of September 30, 2024.

CALIFORNIA FAIR PLAN ASSOCIATION

Notes to Statutory Financial Statements (Continued)
September 30, 2024 and 2023

6. Employee Benefits (Continued)

Postretirement Life and Health Benefits (Continued)

Estimated future benefit payments to retirees and the postretirement life and health plan for the year ended September 30, 2024 are as follows:

	<u>Expected Benefits</u>
Years beginning October 1:	
2024	\$ 232,837
2025	248,715
2026	262,955
2027	267,528
2028	277,304
2029 - 2033	1,954,648

Supplemental Savings Plan

Employees, upon hire, can voluntarily join a supplementary savings plan operated by the trustees of the savings plan. Employees may contribute up to 75.00% of their compensation subject to a maximum limit established by the Internal Revenue Service (“IRS”), and the Association matches 100.00% of the employee’s contribution up to 6.00% of the employee’s salary. Employees vest immediately in the Association’s contributions. The IRS specifies the maximum annual amount of elective deferral contributions (\$23,000 for employees under age 50 and \$30,500 for employees ages 50 and over in 2024). The 2024 and 2023 fiscal years contributions were approximately \$765,000 and \$701,000, respectively.

7. Assessments

The Association’s members’ equity of approximately \$89,581,000 as of September 30, 2023, and the operating results for the year ended September 30, 2024, provided for a members’ equity of approximately \$373,759,000 as of September 30, 2024. Where possible, it has been the practice of the FAIR Plan to withhold distributions of equity to member companies and apply such equity distributions to offset losses on pool years resulting in a deficit. There were no assessments made to member companies during the years ended September 30, 2024 and 2023. However, due to the January 2025 Southern California wildfires and wind events in Los Angeles and Ventura counties, in February 2025 the Association assessed member companies \$1,000,000,000 to meet its obligations to pay claims and expenses. See Note 15 Subsequent Events for more details.

No assessments were written off in 2024 and 2023. Under Section IX – Insolvency Clause of the Plan of Operations, insolvent companies cease to be participants of the Association and, therefore, are not entitled to a distribution of funds or subject to an assessment of deficit.

CALIFORNIA FAIR PLAN ASSOCIATION

Notes to Statutory Financial Statements (Continued) September 30, 2024 and 2023

8. Distributions

In fiscal year 2024, the Committee approved closures of the 2017 and 2019 pool years of Division I. Members' equity of approximately \$24,259,000 and \$56,092,000 for pool years 2017 and 2019, respectively, were treated as capital contributions to pool years 2018 and 2020, respectively. There were no distributions of members' equity for these pool years.

In fiscal year 2024, the Committee approved closure of the 2019 pool year of Division II. Members' equity of approximately \$674,000 for pool year 2019 of Division II was treated as capital contribution to pool year 2024. There was no distribution of members' equity for this pool year.

In fiscal year 2023, the Committee approved closures of the 2015 and 2016 pool years of Division I. Members' equity of approximately \$16,366,000 and \$23,711,000 for pool years 2015 and 2016, respectively, were treated as capital contributions to pool year 2018. There were no distributions of members' equity for these pool years.

In fiscal year 2023, the Committee approved closure of the 2018 pool year of Division II. Members' equity of approximately \$207,000 for pool year 2018 of Division II was treated as a capital contribution to pool year 2023. There was no distribution of members' equity for this pool year.

9. Nonadmitted Assets

Nonadmitted assets at September 30 consists of the following:

	2024	2023	Change
Premiums receivable	\$ 3,074,230	\$ 52,727	\$ 3,021,503
Prepaid reinsurance premiums	37,303,675	42,466,544	(5,162,869)
Property and equipment	1,793,294	2,574,471	(781,177)
Pension assets	3,831,477	2,813,941	1,017,536
Prepaid expenses	7,288,458	5,560,729	1,727,729
Other	221,013	165,547	55,466
Total nonadmitted assets	\$ 53,512,147	\$ 53,633,959	\$ (121,812)

CALIFORNIA FAIR PLAN ASSOCIATION

Notes to Statutory Financial Statements (Continued) September 30, 2024 and 2023

10. Property and Equipment

Property and equipment at September 30 consist of the following:

	2024	2023
EDP software	\$ 5,635,522	\$ 5,635,522
Office equipment	1,628,076	1,628,076
Computer equipment	854,706	766,893
Leasehold improvements	106,929	106,929
Less: accumulated depreciation and amortization	(6,431,939)	(5,562,949)
Property and equipment, net	\$ 1,793,294	\$ 2,574,471

Depreciation and amortization expense for fiscal years 2024 and 2023 was approximately \$868,990 and \$1,098,000, respectively.

11. Risks and Uncertainties

The Association operates in a business environment that is subject to various risks and uncertainties. Such risks and uncertainties include, but are not limited to, interest rate risks, investment market risks, credit risks, and legal and regulatory changes.

The Association maintains deposits in financial institutions that at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation. The Association believes there is no significant risk with respect to these deposits.

Financial instruments, which potentially subject the Association to concentrations of credit risk, consist principally of cash, cash equivalents, and short-term investments. The Association places its cash, cash equivalents, and short-term investments with high credit quality institutions.

12. Leases

The Association occupies office space and has leased office equipment under operating leases with lease terms expiring through fiscal year 2032. The future minimum lease commitments at September 30, 2024 are as follows:

	Lease Obligation
Years ending September 30:	
2025	\$ 840,486
2026	805,457
2027	404,615
2028	846,189
2029	879,289
Thereafter	2,602,233
Total	\$ 6,378,269

Rent expense for fiscal years 2024 and 2023 was approximately \$1,352,435 and \$1,322,540, respectively.

CALIFORNIA FAIR PLAN ASSOCIATION

Notes to Statutory Financial Statements (Continued) September 30, 2024 and 2023

13. Commitments and Contingencies

The Association is a defendant in certain lawsuits arising in the normal course of business, which are in various stages of development. Management believes that the ultimate disposition will not have a material effect on the Association's statutory financial statements.

14. California Earthquake Authority

In December 1996, the California Earthquake Authority ("CEA") was created by the state legislature to help resolve the insurance availability crisis in California. The FAIR Plan participated in the CEA and made a capital contribution of approximately \$15,000,000. The participation was designed to limit the FAIR Plan's earthquake exposure. As of September 30, 2024, the FAIR Plan has a 0.66% share of the total CEA market, and its maximum exposure to earthquake loss is approximately \$11,021,000. Future assessments in the event of a catastrophe are dependent upon the FAIR Plan's CEA earthquake market share, the magnitude of the earthquake losses, and the financial status of the CEA.

15. Subsequent Events

In January 2025, wildfires in Southern California led the Association to receive more than 5,000 claims, with estimated losses exceeding \$3,500,000,000. As of February 9, 2025, the Association had paid \$914,000,000 and reserved an additional \$3,300,000,000. The Association received approval from the California Insurance Commissioner on February 11, 2025, to levy a \$1,000,000,000 assessment on member insurers to maintain sufficient capital for claim payments. The wildfires also triggered approximately \$1,000,000,000 in reinsurance recoveries across layers 1–5 and partially for layer 6. The total reinsurance reinstatement premium paid as a result of these wildfires amounted to \$375,000,000.

In March 2025, the California Insurance Commissioner approved of the Association's commercial filing to increase commercial property coverage limits to \$20,000,000, with a total \$100,000,000 maximum limit per location, as stipulated on Stipulation and Order 2024-2 promulgating the Association's revised plan of operation. These limits must be offered to all eligible applicants for new and renewal policies beginning July 2025. Due to a sunset provision, this high-value commercial property policy form is expected to expire by July 2028.

In June 2025, the Los Angeles Superior Court granted a Motion for Summary Adjudication, ruling that certain provisions of the Association's standard fire policy—specifically related to the definition of "direct physical loss," requirements for substantiating smoke damage, and dispute resolution procedures—are in violation of the California Insurance Code. The Association is currently evaluating the ruling and maintains that its practices are in compliance with applicable laws. Management does not believe this decision will have a material impact on the financial statements. The California Department of Insurance issued an Order to Show Cause against the Association in July 2025, which the Association is contesting.

The Association has evaluated subsequent events and transactions for potential recognition or disclosure in the accompanying statutory financial statements through August 22, 2025, the day the statutory financial statements were available to be issued. Except as disclosed above, no events have occurred subsequent to September 30, 2024 requiring recording or disclosure in the statutory financial statements.