

**ABAG PLAN CORPORATION**  
**BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

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**ASSOCIATION OF BAY AREA GOVERNMENTS  
PLAN CORPORATION  
JUNE 30, 2004**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
ABAG PLAN Corporation  
Oakland, California

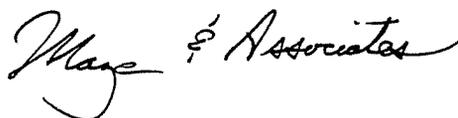
We have audited the financial statements of the major funds of ABAG Pooled Liability Assurance Network Corporation (PLAN) as of June 30, 2004, and for the year then ended, which collectively comprise PLAN's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of PLAN's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major funds of PLAN at June 30, 2004 and the respective changes in financial position and cash flows for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplemental section listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, we express no opinion on it.



October 1, 2004

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The ABAG PLAN Corporation (PLAN) has issued the financial reports for fiscal year ending June 30, 2004 based on the provisions of the Government Accounting Standards Board Statement 34, "Basic Financial Statement and Management's Discussion & Analysis—for State and Local Governments," (GASB 34). One of the most significant requirements of GASB 34 is for government entities to prepare financial reports using the full accrual basis of accounting. Since PLAN has always been using this method of accounting, changes in its financial reports are primarily in the format of presentation.

GASB 34 requires PLAN to provide an overview of financial activities in the fiscal year and it should be read in conjunction with the accompanying financial statements.

### OVERVIEW OF BASIC FINANCIAL STATEMENTS

The Basic Financial Statements required under GASB 34 include:

- (1) Statement of Net Assets—provides information about the financial position of PLAN, including assets, liabilities and net assets. The difference between this statement and the traditional Balance Sheet is that net assets (fund equity) are shown as the difference between total assets and total liabilities.
- (2) Statement of Activities—presents revenues, expenses and changes in net assets for the fiscal year. It differs with the traditional Statement of Revenues and Expenses in that revenues and expenses directly attributable to operating programs are presented separately from investment income and financing costs.
- (3) Statement of Cash Flows—provides itemized categories of cash flows. This statement differs from the traditional Statement of Cash Flows in that it presents itemized categories of cash in flows and out flows instead of computing the net cash flows from operation by backing out non-cash revenues and expenses from net operating income. In addition, cash flows related to investments and financing activities are presented separately.

### FISCAL YEAR 2004 FINANCIAL HIGHLIGHTS

PLAN's financial highlights for the fiscal year include the following:

- Total assets at June 30, 2004 were \$43.2 million. At June 30, 2003, total assets were \$41.6 million.
- Total revenues, including program and general revenues, were \$7.5 million in FY 2004, while total expenses were \$8.5 million.
- Total net assets decreased \$1.0 million in FY 2004 to a new total of \$29.0 million at June 30, 2004.
- General Liability program operating revenues were \$4.5 million in FY 2004, while Property Liability operating revenues were \$822 thousand and Administration operating revenues were \$1.8 million.
- General Liability program operating expenses were \$5.9 million in FY 2004, while Property Liability operating expenses were \$682 thousand and Administration operating expenses were \$1.9 million.
- General revenues, comprising investment income of \$1.7 million and unrealized loss on investments of \$1.3 million, totaled \$379 thousand for FY 2004 (see Investment Activities below).

- General Liability net assets were \$26.9 million at June 30, 2004, while Property Liability net assets were \$2.1 million and Administration net assets were \$109 thousand at that date.

## **CLAIMS SETTLEMENT AND RESERVES FOR CLAIMS**

Above-deductible General Liability claims paid totaled \$2.8 million during FY 2004. Included in these payments was \$1.9 million for one automobile claim. We are happy to note that sewer related claims have declined significantly from \$2 million in FY 2003 to \$181 thousand in FY 2004. We attribute this favorable trend to the Sewer Smart Program implemented during the year and dedicated staff efforts in risk management and claims settlement. Based on our actuary's recommendation reserves for General Liability claims and unallocated loss adjustment expenses were \$13.8 million as of June 30, 2004

Above-deductible Property Liability claims paid during FY 2004 amounted to \$23 thousand comparing to \$232 thousand for FY 2003. Reserves for Property Liability claims were \$158 thousand at June 30, 2004, and have been at this level for the last several years.

## **INVESTMENT ACTIVITIES**

As required by GASB, PLAN reports its investments at fair value. At June 30, 2004, PLAN had \$6.8 million invested in the Local Agency Investment Fund (LAIF) and \$35.0 million (at fair value) invested in various federal agency securities. The investment portfolio realized an overall average rate of return of 3.9% for FY 2004, excluding adjustments for fair value.

The \$1.3 million unrealized loss on investments represents the decrease in market value of PLAN's investment portfolio from June 30, 2003 to June 30, 2004. With the exception of PLAN's investment in the Local Agency Investment Fund (LAIF), all other investments are fixed income securities. The market value of a fixed income security falls during periods of rising interest rates, and increases when interest rates decline. It is PLAN's investment objective to hold all its securities to maturity, and therefore, temporary unrealized gains and losses have no real financial significance for the pool. As all securities in PLAN's investment portfolio are AAA rated federal agency notes, they are generally regarded as safe investments that will mature at their full face values.

## **MAJOR PROGRAM INITIATIVES AND ECONOMIC OUTLOOK**

In November 2003, PLAN launched the Sewer Smart Program, a web based sewer backup homeowner awareness campaign. This campaign is part of our efforts to reduce one of PLAN's biggest liabilities, sewer backup claims. The new website, [www.sewersmart.org](http://www.sewersmart.org), provides yet another way to reach homeowners to promote awareness of backup risks and to distribute free Backup Prevention Devices (BPD).

Another risk prevention program PLAN offers is the matching grant program, which was recently increased to \$7,000, for the purchase of digital in-car police video cameras. The system includes a wireless link to a computer server at the police station. With an easy, accurate record of police actions, we are able to show a certifiable sequence of events.

Although the Bay Area economy is currently showing signs of a gradual recovery, there is a significant concern that local government jurisdictions may continue to be adversely impacted by the condition of the State's budget. We believe PLAN's role in offering stable and efficient insurance coverage and risk management services will be even more valuable as local governments grapple with future economic challenges. The following are some of the goals we plan to achieve during FY 2005:

#### **General Liability Program**

- Revision of coverage and governing documents to reflect changes in the legal and risk environment
- Adoption of Claims Policy to guide staff and committees.
- Enhanced coverage and stable premiums
- Revised Funding Policy to include new benchmarks

#### **Property Liability Program**

- Lower premiums and increased coverage due to improved market conditions and loss prevention
- Enhanced flood and earthquake coverage
- Collection of property damage losses from responsible parties

#### **Risk Management Programs**

- Police risk management workshops
- Detailed risk management assessment for each member
- Expansion of sewer loss prevention program
- Customized on-site training for members

#### **CONTACTING PLAN'S FINANCIAL MANAGEMENT**

The Basic Financial Statements are intended to provide PLAN members, citizens, creditors and other interested parties a general overview of the PLAN's finances. Questions about these statements should be directed to ABAG PLAN Corporation, 101 Eighth Street, Oakland, CA 94607.

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**ABAG PLAN CORPORATION**  
**Notes to Financial Statements**

**STATEMENT OF NET ASSETS  
AND STATEMENT OF ACTIVITIES**

The purpose of the Statement of Net Assets and the Statement of Activities is to summarize PLAN's financial activities and financial position.

The Statement of Net Assets reports the difference between PLAN's total assets and total liabilities, including capital assets and long-term debts. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of PLAN's net assets, by subtracting total liabilities from total assets.

The Statement of Activities reports changes in PLAN's net assets. It is also prepared on the full accrual basis, which means it includes all PLAN's revenues and all its expenses, regardless of when cash changes hands.

These financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements*.

ABAG PLAN CORPORATION  
STATEMENT OF NET ASSETS  
JUNE 30, 2004

	General Liability Fund	Property Liability Fund	Administration Fund	Total
<b>ASSETS</b>				
Cash and Cash Equivalents (Note 2)	\$4,691,351	\$2,210,427	\$285,293	\$7,187,071
Investments, at Fair Value (Note 2)	34,977,104			34,977,104
Total Cash and Investments	39,668,455	2,210,427	285,293	42,164,175
Interest Receivable	544,230		20,201	564,431
Receivable from Members	288,543	951		289,494
Total Current Assets	40,501,228	2,211,378	305,494	43,018,100
Software, Net	154,585			154,585
Total Assets	40,655,813	2,211,378	305,494	43,172,685
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Payable to Association of Bay Area Governments	1,520		196,138	197,658
Total Current Liabilities	1,520		196,138	197,658
<b>Noncurrent Liabilities (Note 3)</b>				
Reserves for Claims and Claim Adjustment Expenses	13,099,000	150,000		13,249,000
Reserves for Unallocated Loss Adjustment Expenses	693,000	7,500		700,500
Total Noncurrent Liabilities	13,792,000	157,500		13,949,500
Total Liabilities	13,793,520	157,500	196,138	14,147,158
<b>NET ASSETS</b>				
Unrestricted	26,862,293	2,053,878	109,356	29,025,527
Total Net Assets	\$26,862,293	\$2,053,878	\$109,356	\$29,025,527

ABAG PLAN CORPORATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004

	General Liability Fund	Property Liability Fund	Administration Fund	Total
PROGRAM OPERATING REVENUES				
Premiums from Members				
Administration			\$1,800,004	\$1,800,004
General Liability	\$4,500,491			4,500,491
Property Insurance		\$822,187		822,187
Total Program Operating Revenues	<u>4,500,491</u>	<u>822,187</u>	<u>1,800,004</u>	<u>7,122,682</u>
PROGRAM OPERATING EXPENSES				
Provision for Claims and Claim Adjustment Expenses	5,116,859	23,439		5,140,298
Provision for Unallocated Loss Adjustment Expenses	119,000			119,000
Property Insurance Coverage	20,941	658,122		679,063
Excess Insurance Coverage	424,372			424,372
Depreciation	61,834			61,834
Management and Administration (Note 1A)			1,701,644	1,701,644
Contract Services	148,120		187,242	335,362
Other Expenses	<u>38,500</u>			<u>38,500</u>
Total Program Operating Expenses	<u>5,929,626</u>	<u>681,561</u>	<u>1,888,886</u>	<u>8,500,073</u>
Net Program Operating Income	(1,429,135)	140,626	(88,882)	(1,377,391)
GENERAL REVENUE (EXPENSE)				
Unrealized loss on investments	(1,308,813)			(1,308,813)
Investment Income	<u>1,634,618</u>	<u>33,000</u>	<u>20,000</u>	<u>1,687,618</u>
Total General Revenue (Expense)	<u>325,805</u>	<u>33,000</u>	<u>20,000</u>	<u>378,805</u>
Change in Net Assets	(1,103,330)	173,626	(68,882)	(998,586)
Beginning Net Assets	<u>27,965,623</u>	<u>1,880,252</u>	<u>178,238</u>	<u>30,024,113</u>
Ending Net Assets	<u>\$26,862,293</u>	<u>\$2,053,878</u>	<u>\$109,356</u>	<u>\$29,025,527</u>

ABAG PLAN CORPORATION  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2004

	General Liability Fund	Property Liability Fund	Administration Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from members	\$4,265,733	\$823,884	\$1,789,611	\$6,879,228
Payments for insurance and contract services	(593,001)	(658,122)	(158,827)	(1,409,950)
Payments to ABAG (Note 1A)			(1,701,644)	(1,701,644)
Claims paid	(2,687,859)	(23,439)		(2,711,298)
Other payments	(38,500)	(6,399)	(1,500)	(46,399)
Net cash provided by operating activities	<u>946,373</u>	<u>135,924</u>	<u>(72,360)</u>	<u>1,009,937</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of Investments	(13,413,900)			(13,413,900)
Proceeds from sales and maturities of investments	12,024,224			12,024,224
Interest received	<u>32,970</u>	<u>33,000</u>	<u>20,000</u>	<u>85,970</u>
Cash Flows from Investing Activities	<u>(1,356,706)</u>	<u>33,000</u>	<u>20,000</u>	<u>(1,303,706)</u>
Net increase (decrease) in cash and cash equivalents	(410,333)	168,924	(52,360)	(293,769)
Cash and cash equivalents at beginning of year	<u>5,101,684</u>	<u>2,041,503</u>	<u>337,653</u>	<u>7,480,840</u>
Cash and cash equivalents at end of year	<u><u>\$4,691,351</u></u>	<u><u>\$2,210,427</u></u>	<u><u>\$285,293</u></u>	<u><u>\$7,187,071</u></u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income	(\$1,429,135)	\$140,626	(\$88,882)	(\$1,377,391)
<b>Adjustments to reconcile operating income to cash flows from operating activities:</b>				
Depreciation	61,834			61,834
<b>Change in assets and liabilities:</b>				
Interest Receivable	(70,689)		(10,393)	(81,082)
Receivable from Members	(164,069)	1,697		(162,372)
Payable to Association of Bay Area Governments and Other Payables	432	(6,399)	26,915	20,948
Reserves for Claims and Claim Adjustment Expenses	2,429,000			2,429,000
Reserves for Unallocated Loss Adjustment Expenses	<u>119,000</u>			<u>119,000</u>
Net cash provided by operating activities	<u><u>\$946,373</u></u>	<u><u>\$135,924</u></u>	<u><u>(\$72,360)</u></u>	<u><u>\$1,009,937</u></u>

**ABAG PLAN CORPORATION**  
**Notes to Financial Statements**

**NOTE 1 - DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES**

**A. *Description and Programs***

The Association of Bay Area Governments Pooled Liability Assurance Network Corporation (PLAN) is a non-profit public benefit corporation created by ABAG to provide a pooled approach for liability coverage for a number of Bay Area cities as allowed under the California Government Code. The purpose of PLAN is to operate and maintain a joint program for liability and property damage protection for the member agencies. PLAN is governed by a Board of Directors comprising officials appointed by each member agency. The activities of PLAN include setting and collecting premiums, administering and paying claims and related expenses and investing PLAN's assets.

The Association of Bay Area Governments (ABAG) assists PLAN by providing administrative, accounting and clerical support. PLAN paid ABAG \$1,701,644 for these services in the fiscal year ended June 30, 2004.

The members of PLAN must be members of ABAG, but not all ABAG members are members of PLAN. For that reason, PLAN is not a component unit of ABAG.

**B. *Basis of Presentation***

PLAN's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

**C. *Major Funds***

Major funds are defined as funds that have either assets, liabilities, revenues or expenses equal to ten percent of their fund-type total and five percent of the grand total.

PLAN reported all its enterprise funds as major funds in the accompanying financial statements:

General Liability Fund – this fund accounts for revenues and expenses for general liability for its participating members.

Property Liability Fund – this fund accounts for revenues and expenses for the property liability program for its participating members.

Administration Fund – this fund accounts for revenues and expenses for management and administration activities of PLAN.

**D. *Basis of Accounting***

PLAN accounts for all transactions in enterprise funds, which are separate sets of self-balancing accounts that comprise assets, liabilities, net assets, revenues and expenses. All transactions are accounted for on the accrual basis, which means that expenses are recorded when the liability is incurred and revenues are recorded when earned, rather than when cash changes hands.

**ABAG PLAN CORPORATION**  
**Notes to Financial Statements**

**NOTE 1 - DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Since PLAN operates proprietary activities, which are usually thought to be business-type activities, applicable statements and interpretations of the Financial Accounting Standards Board (FASB) issued before November 30, 1989 may apply unless they conflict with or contradict GASB pronouncements. The Pool has elected not to apply FASB pronouncements issued after November 30, 1989.

Premiums from Members - Each member is assessed a premium which is intended to cover PLAN's claims, operating costs and claims settlement expenses. Premiums are based on an actuarially determined rate, based on an estimate of the probable losses and expenses to be borne in the year in question. Additional cash contributions may be assessed on the basis of adverse loss experience. Refunds to members may be made if funds are determined to be surplus as a result of an actuarial study. Losses are allocated on the basis of each participant's share of cash contributions. All premiums are recognized as revenues when earned, based on the period covered by the premium.

Losses and Claims - PLAN establishes claim liabilities based on estimates of the ultimate cost of claims (including future claims settlement expenses) that have been reported but not settled, and based on estimates of claims that have been incurred but not reported (termed IBNR). Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, claims liabilities are recommitted periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation is implicit in the calculation of estimated future claims costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claim liabilities are charged or credited to expense in the periods in which they are made.

PLAN has a multi-level risk sharing arrangement. Each member assumes its own losses up to its retention level. Losses in excess of the self-insured retention are paid out of a central pool maintained by PLAN for each of the layers of coverage. This central pool is funded by all of the members through cash contributions. Losses in excess of participation limits are the responsibility of the individual member from which the loss or claim originated.

PLAN uses reinsurance agreements to reduce its exposure to large losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of PLAN as direct insurer of the risks reinsured. PLAN does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurance. Premiums paid to reinsurers during the year ended June 30, 2004 were \$1,103,435.

Risk Sharing - PLAN's program is a "risk sharing pool" which pools risks and funds and which shares in the cost of losses. PLAN maintains members equity accounts for each pool member. Losses and expenses are paid from these pools up to the limit of coverage subject to the self-insured retention.

**ABAG PLAN CORPORATION**  
**Notes to Financial Statements**

**NOTE 1 - DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Each year, PLAN evaluates the pool's financial risk position, defined as contributions less expenses, claims reserves and IBNRs. If the events of the year result in a negative risk position, the members' annual assessments may be increased in subsequent years.

Equipment – Equipment is stated at cost less accumulated depreciation, which is provided on the straight-line basis over the estimated useful lives of the respective assets. The estimated useful life of software is seven years and that of equipment is five years.

**NOTE 2 - CASH AND INVESTMENTS**

**A. Cash Deposits**

The balance in PLAN's general checking account was \$375,433 at June 30, 2004. The bank balance before reconciling items was \$565,170 at that date, of which \$100,000 was fully insured by the Federal Deposit Insurance Corporation (FDIC) and the remaining \$465,170 was collateralized.

**B. Authorized Investments**

PLAN is authorized by State statutes and Board action to invest in certificates of deposit, bankers' acceptances, commercial paper, U.S. Treasury and Agency securities and the California Local Agency investment fund (LAIF).

**C. Credit Risk, Carrying Amount and Market Value of Investments**

PLAN invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system.

PLAN categorizes its individual securities instruments in ascending order to reflect the relative risk of loss of these instruments. This risk is called Credit Risk, the lower the number, the lower the risk. The three levels of risk prescribed by generally accepted accounting principles are described below:

**Category 1** - All of PLAN's investments are in this category, which would include securities instruments which were held in PLAN's name and were in the possession of the Trust Department of the bank employed by PLAN solely for this purpose.

**Category 2** – None of PLAN's investments are in this category, which would include securities instruments and book entry form securities in the bank's name but held by its Trust Department in PLAN's name.

**Category 3** - None of PLAN's investments are in this category, which would include only PLAN-owned securities instruments or book entry form securities which were not in PLAN's name and not held by the bank's Trust Department.

**ABAG PLAN CORPORATION**  
**Notes to Financial Statements**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

*Pooled Investments* - Pooled investments are not categorized because of their pooled, rather than individual nature.

PLAN carries its investments at fair market value. The carrying value and categorization of these investments is presented below:

	Fair Value	
	Category	
	1	Total
<i>Categorized Investments:</i>		
U.S. Government Agencies		
Federal Home Loan Bank	\$19,100,468	\$19,100,468
Federal Home Loan Mortgage Corporation	10,742,573	10,742,573
Federal National Mortgage Association	5,134,063	5,134,063
Total U.S. Government Agencies	34,977,104	34,977,104
<i>Non-categorized Investments:</i>		
State of California Local Agency Investment Fund		6,811,638
Total Investments	\$34,977,104	41,788,742
Cash Deposits with Banks		375,433
Total Cash and Investments		\$42,164,175

**D. Local Agency Investment Fund**

PLAN is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. PLAN reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations.

**E. Statement of Cash Flows**

For purposes of the statement of cash flows, PLAN considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**ABAG PLAN CORPORATION**  
**Notes to Financial Statements**

**NOTE 3 - RESERVES FOR CLAIMS AND CLAIMS ADJUSTMENT EXPENSES**

*Reconciliation of Reserves*

Reserves for claims and claim adjustment expenses changed as follows:

	General Liability Pool		Property Liability Pool	
	2004	2003	2004	2003
Reserves for claims and claim settlement expenses, beginning of year	\$11,244,000	\$15,705,032	\$157,500	\$157,500
Provision for claims and claim settlement expenses attributable to insured events of:				
Current year	4,302,000	3,039,000	157,500	157,500
Prior years	933,859	(4,249,487)	(134,061)	75,207
Total incurred claims and claim settlement expenses	5,235,859	(1,210,487)	23,439	232,707
Less settlement of claims and claim settlement expenses attributable to insured events of current and prior fiscal years:				
Claims paid -- current year	(58,649)	(955,354)	(18,840)	(214,072)
Claims paid -- prior years	(2,709,210)	(2,295,191)	(4,599)	(18,635)
Total payments	(2,767,859)	(3,250,545)	(23,439)	(232,707)
Reserves for claims and claim settlement expenses, end of year	\$13,792,000	\$11,244,000	\$157,500	\$157,500
Components of unpaid claim liabilities:				
Reserves for claims and claim settlement expenses	\$13,099,000	\$10,670,000	\$150,000	\$150,000
Reserves for unallocated loss settlement expenses	693,000	574,000	7,500	7,500
Total	\$13,792,000	\$11,244,000	\$157,500	\$157,500

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**ABAG PLAN CORPORATION**  
**Notes to Financial Statements**

**REQUIRED SUPPLEMENTARY INFORMATION: Claims Development Information**

The preceding tables illustrate how PLAN's earned revenue (net of excess insurance) and investment income compare to related costs of loss and other expenses assumed by PLAN as of the end of each of the past ten years. The rows of table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned premium revenue, premium revenue ceded to excess insurers and net earned premium revenues.
- (2) This line shows investment income allocation to policy year from investment income earned during each of the past ten fiscal years.
- (3) This line shows the total of net earned premiums and investment revenues.
- (4) This line shows each fiscal year's other operating costs of PLAN not allocable to individual claims.
- (5) This line shows the net funds available for claims, after payments for excess insurance and unallocated expenses.
- (6) This section of ten rows shows the cumulative net claims paid at the end of successive years for each policy year.
- (7) This section of ten rows shows the estimated outstanding reserves as of the end of the current year for each policy year. This annual reestimation results from new information received on reported claims not previously reported.
- (8) This section of ten rows is the total of (6) and (7) and shows how each policy year's net incurred claims has changed as of the end of successive years.
- (9) This line compares the latest reestimated net incurred claims amount to the amount for each policy year originally established (first row of line 8) and shows the difference between the current and original amounts. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years.
- (10) (General Liability Pool only) This line shows the allocation of equity distributions to policy years paid by the pool during each of the 10 most recent fiscal years.
- (11) (General Liability Pool only) This line shows the total of line 10 by policy year.
- (12) This line shows the funds available after reestimated claims and dividends.

ABAG PLAN CORPORATION  
REQUIRED SUPPLEMENTARY INFORMATION  
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION  
GENERAL LIABILITY POOL  
YEARS ENDED JUNE 30  
UNAUDITED

(dollars in thousands)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
(1) Earned premiums	\$4,465	\$5,222	\$5,151	\$5,269	\$4,980	\$4,695	\$4,916	\$5,486	\$6,223	\$6,300
Excess insurance premiums								250	370	445
Net Earned	\$4,465	\$5,222	\$5,151	\$5,269	\$4,980	\$4,695	\$4,916	\$5,236	\$5,853	\$5,856
(2) Investment income allocation:										
FY 03-04	\$90	\$214	\$199	\$104	\$6	\$97	\$141	\$59	\$125	\$156
FY 02-03	91	218	202	98	13	105	148	148	140	
FY 01-02	96	241	226	126	20	116	200	193		
FY 00-01	106	265	249	141	247	148	231			
FY 99-00	104	241	220	173	191	144				
FY 98-99	101	253	219	213	89					
FY 97-98	114	273	245	231						
FY 96-97	182	242	224							
FY 95-96	186	242								
FY 94-95	207									
(3) Net earned premiums and investment revenues	5,742	7,411	6,935	6,355	5,546	5,305	5,636	5,636	6,118	6,012
(4) Unallocated expenses	1,065	1,085	1,140	1,409	1,503	1,947	1,394	1,596	1,828	2,137
(5) Funds available for claims	4,677	6,326	5,795	4,946	4,043	3,358	4,242	4,040	4,290	3,875
(6) Paid (cumulative) as of:										
End of program year	83	24	0	6	1,865	66	53	0	955	59
One year later	434	42	145	230	2,574	735	234	580	1,247	
Two years later	532	71	524	1,074	3,280	928	960	2,589		
Three years later	1,997	277	568	2,262	3,659	1,073	1,046			
Four years later	2,114	449	601	2,299	3,979	1,203				
Five years later	2,013	457	601	2,645	4,141					
Six years later	2,123	458	627	2,464						
Seven years later	2,123	458	628							
Eight years later	2,123	452								
Nine years later	2,013									
(7) Estimated reserves for claims and claims adjustment expenses:										
End of policy year	3,887	3,683	3,663	3,429	3,400	3,444	3,926	3,985	3,039	4,302
One year later	3,192	3,391	3,495	3,106	2,537	3,022	3,573	2,832	4,464	
Two years later	2,515	2,962	2,671	2,319	2,042	2,632	2,177	2,119		
Three years later	878	1,989	1,925	2,005	1,752	1,234	1,297			
Four years later	678	1,166	1,197	1,259	1,455	211				
Five years later	612	865	563	266	1,054					
Six years later	340	374	46	185						
Seven years later	164	21	34							
Eight years later	68	14								
Nine years later	47									
(8) Reestimated incurred claims and claims adjustment expenses:										
End of policy year	3,970	3,707	3,663	3,435	5,265	3,510	3,979	3,985	3,994	4,361
One year later	3,626	3,433	3,640	3,336	5,111	3,757	3,807	3,412	5,711	
Two years later	3,047	3,033	3,195	3,393	5,322	3,560	3,137	4,708		
Three years later	2,875	2,266	2,493	4,267	5,411	2,307	2,343			
Four years later	2,792	1,615	1,798	3,558	5,434	1,414				
Five years later	2,625	1,322	1,164	2,911	5,195					
Six years later	2,463	832	673	2,649						
Seven years later	2,287	479	662							
Eight years later	2,191	466								
Nine years later	2,060									
(9) Change in estimated net incurred claims from end of policy year	(1,910)	(3,241)	(3,001)	(786)	(70)	(2,096)	(1,636)	723	1,717	0
(10) Equity Distribution										
Paid 7/01	101	322	204	(78)	(225)	(217)	(254)	0	0	0
Paid 7/00	124	135	74	21	0	0	0			
Paid 7/99	95	158	36	0						
Paid 7/98	84	45	0							
Paid 7/97	69	0								
Paid 7/96	0									
Paid 7/95										
(11) Total Equity Distributed	473	660	314	(57)	(225)	(217)	(254)	0	0	0
(12) Funds available after estimated claims and equity distributions	2,144	5,200	4,819	2,354	(927)	2,161	2,153	(668)	(1,421)	(486)

ABAG PLAN CORPORATION  
REQUIRED SUPPLEMENTARY INFORMATION  
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION  
PROPERTY LIABILITY POOL  
YEARS ENDED JUNE 30  
UNAUDITED

(dollars in thousands)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
(1) Earned premiums	\$453	\$494	\$515	\$528	\$529	\$529	\$439	\$516	\$829	\$822
Excess insurance premiums	228	272	287	282	248	319	380	347	679	658
Net Earned	<u>\$225</u>	<u>\$222</u>	<u>\$228</u>	<u>\$246</u>	<u>\$281</u>	<u>\$210</u>	<u>\$59</u>	<u>\$169</u>	<u>\$150</u>	<u>\$164</u>
(2) Investment income allocation:										
FY 03-04	\$4	\$2	\$4	\$5	\$4	\$3	\$1	\$2	(\$1)	\$2
FY 02-03	7	4	6	7	6	4	1	2	(2)	
FY 01-02	10	8	11	11	10	10	9	9		
FY 00-01	10	9	11	12	10	10	9			
FY 99-00	9	8	10	11	10	10				
FY 98-99	7	6	8	8	8					
FY 97-98	7	6	7	8						
FY 96-97	7	6	8							
FY 95-96	8	8								
FY 94-95	4									
(3) Net earned premiums and investment revenues	298	279	293	308	329	247	79	182	147	166
(4) Unallocated expenses	0	0	0	0	16	56	0	1	13	0
(5) Funds available for claims	298	279	293	308	313	191	79	181	134	166
(6) Paid (cumulative) as of:										
End of program year	18	86	7	4	6	7	9	63	214	19
One year later	23	123	36	9	54	20	21	76	243	
Two years later	23	124	36	9	65	20	22	82		
Three years later	23	124	36	10	65	20	22			
Four years later	23	124	36	7	65	20				
Five years later	23	124	36	7	40					
Six years later	23	124	36	7						
Seven years later	23	124	36							
Eight years later	23	124								
Nine years later	23									
(7) Estimated reserves for claims and claims adjustment expenses										
End of policy year	21	150	150	150	150	150	51	150	157	157
One year later	0	0	0	0	0	1	0	0	0	
Two years later	0	0	0	0	2	0	0	0		
Three years later	0	0	0	0	0	0	0			
Four years later	0	0	0	0	0	0				
Five years later	0	0	0	0	0					
Six years later	0	0	0	0						
Seven years later	0	0	0							
Eight years later	0	0								
Nine years later	0									
(8) Reestimated incurred claims and claims adjustment expenses:										
End of policy year	39	236	157	154	156	7	9	213	371	176
One year later	23	123	36	9	54	20	21	76	243	
Two years later	23	124	36	9	67	20	22	82		
Three years later	23	124	36	10	65	20	22			
Four years later	23	124	36	7	65	20				
Five years later	23	124	36	7	40					
Six years later	23	124	36	7						
Seven years later	23	124	36							
Eight years later	23	124								
Nine years later	23									
(9) Change in estimated net incurred claims from end of policy year	(16)	(112)	(121)	(147)	(116)	13	13	(131)	(128)	0
(12) Funds available after estimated claims	275	155	257	301	273	171	57	99	(109)	(10)

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