

ABAG PLAN CORPORATION
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

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**ASSOCIATION OF BAY AREA GOVERNMENTS
PLAN CORPORATION
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2007**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
ABAG PLAN Corporation
Oakland, California

We have audited the financial statements of each major fund of the ABAG Pooled Liability Assurance Network Corporation (PLAN) as of June 30, 2007, 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, 2007 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 and Required Supplementary Information are not required parts of the basic financial statements but are 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.

Maze + Associates

October 12, 2007

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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, 2007 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 2007 FINANCIAL HIGHLIGHTS

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

- Total assets at June 30, 2007 were \$48.0 million. At June 30, 2006, total assets were \$43.3 million.
- Total revenues, including program and general revenues, were \$11.7 million in FY 2007, while total expenses were \$4.4 million.
- Total net assets increased \$7.4 million in FY 2007 to a new total of \$30.1 million at June 30, 2007.
- General Liability program operating revenues were \$5.7 million in FY 2007, while Property Liability operating revenues were \$1.0 million and Administration operating revenues were \$2.4 million.
- General Liability program operating expenses were \$703 thousand in FY 2007, while Property Liability operating expenses were \$1.4 million and Administration operating expenses were \$2.3 million.
- General revenues, comprising investment income of \$2.2 million and unrealized gain on investments of \$482 thousand, totaled \$2.7 million for FY 2007 (see Investment Activities below).

- General Liability net assets were \$27.9 million at June 30, 2007, while Property Liability net assets were \$1.7 million and Administration net assets were \$504 thousand at that date.

CLAIMS SETTLEMENT AND RESERVES FOR CLAIMS

Above-deductible General Liability claims paid totaled \$1.9 million in FY 2007 comparing to \$3.2 million during FY 2006. We attribute this favorable trend to the Sewer Smart Program and other loss prevention programs we offer. Reserves for General Liability claims were revised at \$17.5 million as of June 30, 2007.

Above-deductible Property Liability claims paid during FY 2007 amounted to \$543 thousand. Reserves for Property Liability claims were \$158 thousand at June 30, 2007, 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, 2007, PLAN has \$4.1 million invested in the Local Agency Investment Fund (LAIF), \$39.8 million in federal agency securities, and \$4.0 million in corporate notes. The investment portfolio realized total earnings of \$2.2 million, representing an overall average yield of 4.5% for FY 2007, excluding adjustments for fair value.

We have recorded a \$482 thousand unrealized gain on investments representing the change in market value of PLAN's investment portfolio between June 30, 2006 and June 30, 2007. With the exception of PLAN's investment in 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 highly rated, they are generally regarded as safe investments that will mature at their full face values.

MAJOR PROGRAM INITIATIVES IN FY 2007 and OUTLOOK FOR FY 2008

PLAN passed two significant milestones during FY 2007. It celebrated its 20th anniversary in providing affordable insurance coverage to the Bay Area government jurisdictions. PLAN also increased its excess insurance policy limit to \$15 million, thereby enabling the pool to offer a total of \$20 million general liability coverage to its members.

During FY 2007, PLAN continued its focus on risk management and offered the following loss prevention programs:

- The Best Practices program offers special credits for consulting and training resources as incentives for implementing recommended practices.
- The Framework Grant program offers \$10,000 per jurisdiction to members that have successfully implemented risk management framework and risk control plans.

- The Police Risk Management program offers up to \$10,000 per jurisdiction to members that have performed procedure review and annual updates.
- The Defensive Driving program offers the latest training to police and other emergency personnel.
- The Sewer Smart Program website was enhanced: www.sewersmart.org. PLAN also continued to distribute backflow devices and partnered with other pools to expand our training offerings

In FY 2008 PLAN will:

General Liability Program

- Continue to offer \$20 million coverage limit.
- Continue to expand risk management grant and training programs.

Property Program

- Offer stable premiums and coverage, in spite of difficult market conditions caused by hurricanes.
- Conduct property appraisals and boiler inspections for key facilities.
- Continue to collect property damages from responsible parties. This effort can result in significant recovery of losses 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 PLAN's finances. Questions about these statements should be directed to ABAG PLAN Corporation, 101 Eighth Street, Oakland, CA 94607.

ABAG PLAN CORPORATION
STATEMENT OF NET ASSETS
JUNE 30, 2007

	General Liability Fund	Property Liability Fund	Administration Fund	Total
ASSETS				
Current Assets				
Cash and Cash Equivalents (Note 2)	\$1,580,251	\$1,875,866	\$687,003	\$4,143,120
Investments, at Fair Value (Note 2)	42,773,117			42,773,117
Total Cash and Investments	44,353,368	1,875,866	687,003	46,916,237
Interest Receivable	670,038			670,038
Receivable from Members	351,681	1,049		352,730
Total Current Assets	45,375,087	1,876,915	687,003	47,939,005
Capital Assets (Note 4)				
Automobiles, Net			24,839	24,839
Capital Assets, net			24,839	24,839
Total Assets	45,375,087	1,876,915	711,842	47,963,844
LIABILITIES				
Current Liabilities				
Payable to Association of Bay Area Governments	42,881		208,279	251,160
Total Current Liabilities	42,881		208,279	251,160
Noncurrent Liabilities (Note 3)				
Reserves for Claims and Claim Adjustment Expenses	15,722,091	150,000		15,872,091
Reserves for Unallocated Loss Adjustment Expenses	1,749,000	7,500		1,756,500
Total Noncurrent Liabilities	17,471,091	157,500		17,628,591
Total Liabilities	17,513,972	157,500	208,279	17,879,751
NET ASSETS				
Unrestricted	27,861,115	1,719,415	503,563	30,084,093
Total Net Assets	\$27,861,115	\$1,719,415	\$503,563	\$30,084,093

See accompanying notes to basic financial statements

ABAG PLAN CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

	General Liability Fund	Property Liability Fund	Administration Fund	Total
PROGRAM OPERATING REVENUES				
Premiums from Members				
Administration			\$2,400,012	\$2,400,012
General Liability	\$5,684,870			5,684,870
Property Insurance		\$1,004,155		1,004,155
Total Program Operating Revenues	5,684,870	1,004,155	2,400,012	9,089,037
PROGRAM OPERATING EXPENSES				
Provision for Claims and Claim Adjustment Expenses	(613,918)	543,228		(70,690)
Property Insurance Coverage		857,987		857,987
Excess Insurance Coverage	776,944		15,480	792,424
Depreciation	30,917		13,179	44,096
Management and Administration (Note 1A)			1,981,854	1,981,854
Contract Services	368,713		225,116	593,829
Other Expenses	140,773		22,381	163,154
Total Program Operating Expenses	703,429	1,401,215	2,258,010	4,362,654
Net Program Operating Income (Loss)	4,981,441	(397,060)	142,002	4,726,383
GENERAL REVENUE (EXPENSE)				
Unrealized gain on investments	482,240			482,240
Investment Income	2,038,193	88,000	50,000	2,176,193
Total General Revenue (Expense)	2,520,433	88,000	50,000	2,658,433
Change in Net Assets	7,501,874	(309,060)	192,002	7,384,816
Beginning Net Assets	20,359,241	2,028,475	311,561	22,699,277
Ending Net Assets	\$27,861,115	\$1,719,415	\$503,563	\$30,084,093

See accompanying notes to basic financial statements

ABAG PLAN CORPORATION
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2007

	General Liability Fund	Property Liability Fund	Administration Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from members	\$5,573,766	\$1,004,106	\$2,400,012	\$8,977,884
Payments for insurance and contract services	(1,271,752)	(857,987)	(240,596)	(2,370,335)
Payments to ABAG			(2,020,881)	(2,020,881)
Claims paid	(1,947,991)	(543,228)		(2,491,219)
Other payments	(140,773)		(22,381)	(163,154)
Net cash provided by operating activities	<u>2,213,250</u>	<u>(397,109)</u>	<u>116,154</u>	<u>1,932,295</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund receipts (payments)	<u>(812,657)</u>	<u>812,657</u>		
Cash Flows from Capital Activities	<u>(812,657)</u>	<u>812,657</u>		
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of Investments	(1,836,876)			(1,836,876)
Interest received	<u>2,016,534</u>	<u>88,000</u>	<u>50,000</u>	<u>2,154,534</u>
Cash Flows from Investing Activities	<u>179,658</u>	<u>88,000</u>	<u>50,000</u>	<u>317,658</u>
Net increase (decrease) in cash and cash equivalents	1,580,251	503,548	166,154	2,249,953
Cash and cash equivalents at beginning of year		<u>1,372,318</u>	<u>520,849</u>	<u>1,893,167</u>
Cash and cash equivalents at end of year	<u>\$1,580,251</u>	<u>\$1,875,866</u>	<u>\$687,003</u>	<u>\$4,143,120</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$4,981,441	(\$397,060)	\$142,002	\$4,726,383
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation	30,917		13,179	44,096
Change in assets and liabilities:				
Receivable from Members	(111,104)	(49)		(111,153)
Payable to Association of Bay Area Governments and Other Payables	(126,095)		(39,027)	(165,122)
Reserves for Claims and Claim Adjustment Expenses	(2,662,909)			(2,662,909)
Reserves for Unallocated Loss Adjustment Expenses	<u>101,000</u>			<u>101,000</u>
Net cash provided by operating activities	<u>\$2,213,250</u>	<u>(\$397,109)</u>	<u>\$116,154</u>	<u>\$1,932,295</u>
Non cash transactions:				
Increase in fair value of investments	<u>\$482,240</u>			<u>\$482,240</u>

See accompanying notes to basic financial statements

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, investing PLAN's assets, and offering loss prevention programs.

The Association of Bay Area Governments (ABAG) assists PLAN by providing administrative, accounting and clerical support. PLAN paid ABAG \$1,981,854 for these services and \$262,307 for contract services in the fiscal year ended June 30, 2007.

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.

These Standards require that the financial statements described below be presented.

The Statement of Net Assets and the Statement of Activities display overall financial activities of PLAN. Eliminations have been made to minimize the double counting of internal activities. These statements display the *business-type activities* of PLAN that are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of PLAN's business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues are presented as general revenues.

C. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenses equal to at least 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:

ABAG PLAN CORPORATION
Notes to Financial Statements

NOTE 1 - DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

General Liability Fund – this fund accounts for revenues and expenses for the general liability program 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.

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. PLAN 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 estimate of the probable losses and expenses attributable to a policy year. 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 in excess of the desired confidence level. 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 (IBNR). Because actual claim costs can be affected by such complex factors as inflation, changes in legal costs and damage awards, claim liabilities are recommitted periodically using a variety of actuarial and statistical techniques to produce current estimates. The calculation of estimated future claims costs is based on actual historical data that reflect past inflation and 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 the pooled layers of coverage. This central pool is funded by premiums from all members.

ABAG PLAN CORPORATION
Notes to Financial Statements

NOTE 1 - DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

PLAN purchases excess insurance policies to provide coverage for its members' exposure to losses in excess of the liability pool's \$5 million limit and the property pool's \$100,000 limit. Excess liability insurance provides a total of \$15 million in liability coverage and excess property insurance pays claims up to the replacement cost of damaged property, subject to the terms of the policies. Premiums paid for excess insurance during the year ended June 30, 2007 amounted to \$1,634,930

Risk Sharing - PLAN is a "risk sharing" program which pools risks and funds and shares in the cost of losses. Losses and expenses are paid from the liability and property pools up to the limit of coverage subject to the self-insured retention.

Each year, PLAN evaluates the pools' financial risk position, defined as contributions less expenses, claim reserves and incurred-but-not-reported (IBNR) claims. If the events of the year result in a negative risk position, the members' annual assessments may be increased in subsequent years.

Capital Assets - Capital Assets 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 vehicles is four years.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments consist of the following at June 30, 2007:

<u>Cash and Investments</u>	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Cash in Banks	\$45,308		\$45,308
Local Agency Investment Fund	4,097,812		4,097,812
U.S. Agency Obligations		\$38,815,781	38,815,781
Corporate Notes		<u>3,957,336</u>	<u>3,957,336</u>
Total Cash and Investments	<u>\$4,143,120</u>	<u>\$42,773,117</u>	<u>\$46,916,237</u>

ABAG PLAN CORPORATION
Notes to Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

A. Authorized Investments by PLAN

PLAN's Investment Policy and the California Government Code allow PLAN to invest in the following, provided the credit ratings of the issuers are acceptable to PLAN.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	7 years	N/A	None, (B)	None
U.S. Agency Securities	7 years	N/A	None, (A), (B)	None
Bankers Acceptances	180 days	A1/P1	25%	10%
Commercial Paper	270 days	A1/P1/F1	10%	10%
Medium Term Notes	5 years	AA	10%, (B)	10%
Negotiable Certificates of Deposit	2 years	AA/A-1	30%	10%
Time Certificates of Deposit	1 years	CRA - Satisfactory	10%	10%
Money Market Mutual Funds	N/A	AAA or (C)	10%	None
California Local Agency Investment Fund	N/A	N/A	None	None

(A) Mortgage-backed securities are limited to 20% of the investment portfolio.

(B) The aggregate total of investments in callable notes is limited to 25% of portfolio.

(C) ABAG PLAN can also purchase money market funds managed by a manager with a minimum 5 year history and \$500 million under management.

B. Interest Rate Risk

Interest rate risk is the potential adverse effect resulting from changes in market interest rates on the fair value of an investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rates.

ABAG PLAN CORPORATION
Notes to Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

The sensitivity of the fair values of PLAN's investments to market interest rate fluctuations can be analyzed by the following distribution of PLAN's cash and investments by maturity:

Cash and Investments	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	Total
Investments with Original Maturities of 3 Months or Greater:					
U.S. Agency Obligations:					
Federal Home Loan Bank Federal Home Loan Mortgage Corporation	\$1,991,460	\$3,947,542	\$11,534,938	\$3,945,894	\$19,428,374
Federal National Mortgage Association		2,973,980	7,469,064	1,944,676	12,434,504
Federal Farm Credit Bank Corporate Notes	2,992,689	2,015,538	3,957,336		5,008,227
					3,957,336
Subtotal Investments	<u>\$4,984,149</u>	<u>\$8,937,060</u>	<u>\$22,961,338</u>	<u>\$5,890,570</u>	<u>42,773,117</u>
Cash and Cash Equivalents:					
Cash in Banks	45,308				45,308
Local Agency Investment Fund	4,097,812				4,097,812
Subtotal Cash and Cash Equivalents	<u>4,143,120</u>				<u>4,143,120</u>
Total Cash and Investments	<u>\$9,127,269</u>	<u>\$8,937,060</u>	<u>\$22,961,338</u>	<u>\$5,890,570</u>	<u>\$46,916,237</u>

As of year end, the weighted average maturity of the investments in the LAIF investment pool is approximately 176 days.

C. Credit Risk

Credit risk is the risk of failure of an issuer of an investment in fulfilling its obligation to the holder of the investment. Presented below is the actual rating by Moody's as of June 30, 2007 for each investment type:

Investments	Ratings at year end		
	Exempt from Disclosure	Aaa	Aa
Local Agency Investment Fund	\$4,097,812		
U.S. Agency Obligations		\$38,815,781	
Corporate Notes			\$3,957,336
Total	<u>\$4,097,812</u>	<u>\$38,815,781</u>	<u>\$3,957,336</u>

ABAG PLAN CORPORATION
Notes to Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

PLAN's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total entity-wide investments, are as follows at June 30, 2007:

Issuer	Investment Type	Amount
Federal Home Loan Bank Federal Home Loan Mortgage Corporation	Federal Agency Securities	\$19,428,374
Federal Farm Credit Bank	Federal Agency Securities	12,434,504
CitiGroup	Federal Agency Securities	5,008,227
	Corporate Note	3,957,336

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, PLAN may not be able to recover its deposits or collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its agent having a fair value of 105% to 150% of the public agency's deposit. All of PLAN's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions in PLAN's name.

In addition, the custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, PLAN may not be able to recover the value of its investment or collateral securities that are in the possession of another party. PLAN's Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by PLAN, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

E. 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 corporate notes.

ABAG PLAN CORPORATION
Notes to Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

F. 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.

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	
	2007	2006	2007	2006
Reserves for claims and claim settlement expenses, beginning of year	<u>\$20,033,000</u>	<u>\$18,297,000</u>	<u>\$157,500</u>	<u>\$157,500</u>
Provision for claims and claim settlement expenses attributable to insured events of:				
Current year	4,938,000	5,081,000	157,500	157,500
Prior years	<u>(5,551,918)</u>	<u>(180,698)</u>	<u>385,728</u>	<u>172,999</u>
Total incurred claims and claim settlement expenses	<u>(613,918)</u>	<u>4,900,302</u>	<u>543,228</u>	<u>330,499</u>
Less settlement of claims and claim settlement expenses attributable to insured events of current and prior fiscal years:				
Claims paid -- current year	(15,240)	(96,954)	(224,725)	(207,942)
Claims paid -- prior years	<u>(1,932,751)</u>	<u>(3,067,348)</u>	<u>(318,503)</u>	<u>(122,557)</u>
Total payments	<u>(1,947,991)</u>	<u>(3,164,302)</u>	<u>(543,228)</u>	<u>(330,499)</u>
Reserves for claims and claim settlement expenses, end of year	<u>\$17,471,091</u>	<u>\$20,033,000</u>	<u>\$157,500</u>	<u>\$157,500</u>
Components of unpaid claim liabilities:				
Reserves for claims and claim settlement expenses	\$15,722,091	\$18,385,000	\$150,000	\$150,000
Reserves for unallocated loss settlement expenses	<u>1,749,000</u>	<u>1,648,000</u>	<u>7,500</u>	<u>7,500</u>
Total	<u>\$17,471,091</u>	<u>\$20,033,000</u>	<u>\$157,500</u>	<u>\$157,500</u>

ABAG PLAN CORPORATION
Notes to Financial Statements

NOTE 4 - CAPITAL ASSETS

Capital Assets activity was as follows for the year ended June 30, 2007:

	<u>2006</u>	<u>Additions</u>	<u>2007</u>
Cost			
Capitalized software	\$432,838		\$432,838
Automobiles	<u>52,715</u>		<u>52,715</u>
Total	<u>485,553</u>		<u>485,553</u>
Accumulated depreciation			
Capitalized software	401,921	\$30,917	432,838
Automobiles	<u>14,697</u>	<u>13,179</u>	<u>27,876</u>
Total	<u>416,618</u>	<u>44,096</u>	<u>460,714</u>
Capital Assts, Net	<u>\$68,935</u>	<u>(\$44,096)</u>	<u>\$24,839</u>

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

	(dollars in thousands)									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
(1) Earned premiums	\$5,269	\$4,980	\$4,695	\$4,916	\$5,486	\$6,223	\$6,300	\$6,979	\$7,475	\$8,085
Excess insurance premiums					250	370	445	544	562	777
Net Earned	5,269	4,980	4,695	4,916	5,236	5,853	5,856	6,436	6,913	7,308
(2) Investment income allocation:										
FY 06-07	\$131	(\$66)	\$139	\$142	\$39	(\$188)	\$147	\$196	\$184	\$207
FY 05-06	120	(61)	130	159	36	(180)	155	180	181	
FY 04-05	112	(53)	122	151	45	(64)	148	171		
FY 03-04	105	5	114	142	60	124	157			
FY 02-03	99	12	122	149	149	140				
FY 01-02	126	30	141	200	193					
FY 00-01	142	247	167	232						
FY 99-00	173	190	160							
FY 98-99	215	89								
FY 97-98	232									
FY 96-97										
(3) Net earned premiums and investment revenues	6,724	5,372	5,789	6,090	5,758	5,686	6,463	6,982	7,278	7,514
(4) Unallocated expenses	1,409	1,514	1,647	1,394	1,597	1,844	2,137	2,532	2,825	2,799
(5) Funds available for claims	5,315	3,858	4,142	4,696	4,161	3,842	4,326	4,450	4,453	4,716
(6) Paid (cumulative) as of:										
End of program year	6	1,865	66	53		955	59	29	97	15
One year later	230	2,574	735	234	580	1,247	529	102	255	
Two years later	1,074	3,280	928	960	2,589	5,716	600	873		
Three years later	2,262	3,659	1,073	1,046	3,016	8,180	969			
Four years later	2,299	3,979	1,203	1,070	3,284	8,124				
Five years later	2,645	4,141	1,213	1,146	3,278					
Six years later	2,464	5,470	1,213	1,710						
Seven years later	2,464	5,567	1,200							
Eight years later	2,464	5,594								
Nine years later	2,390									
(7) Estimated reserves for claims and claims adjustment expenses										
End of policy year	3,429	3,400	3,444	3,926	3,985	3,039	4,302	8,095	8,581	4,938
One year later	3,106	2,537	3,022	3,573	2,832	4,464	3,935	5,170	4,183	
Two years later	2,319	2,042	2,632	2,177	2,119	3,378	3,116	3,151		
Three years later	2,005	1,752	1,234	1,297	1,280	1,166	1,874			
Four years later	1,259	1,455	211	483	856	1,095				
Five years later	266	1,054	334	272	1,899					
Six years later	185	366	144	100						
Seven years later	198	304	49							
Eight years later	175	182								
Nine years later										
(8) Re-estimated incurred claims and claims adjustment expenses:										
End of policy year	3,435	5,265	3,510	3,979	3,985	3,994	4,361	8,124	8,678	4,953
One year later	3,336	5,111	3,756	3,807	3,412	5,711	4,464	5,272	4,438	
Two years later	3,393	5,322	3,560	3,137	4,708	9,094	3,716	4,024		
Three years later	4,268	5,411	2,307	2,343	4,296	9,346	2,843			
Four years later	3,558	5,434	1,414	1,553	4,140	9,219				
Five years later	2,911	5,195	1,547	1,418	5,177					
Six years later	2,649	5,836	1,357	1,810						
Seven years later	2,662	5,871	1,249							
Eight years later	2,639	5,776								
Nine years later	2,390									
(9) Change in estimated net incurred claims from end of policy year	(1,045)	511	(2,261)	(2,169)	1,192	5,225	(1,518)	(4,100)	(4,240)	
(10) Equity Distribution										
Paid 7/01	(78)	(225)	(217)	(254)						
Paid 7/00	21									
Paid 7/99										
(11) Total Equity Distributed	(57)	(225)	(217)	(254)						
(12) Funds available after estimated claims and equity distributions	2,982	(1,692)	3,110	3,140	(1,016)	(5,377)	1,483	426	15	(237)

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

		(dollars in thousands)									
		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
(1)	Earned premiums	\$528	\$529	\$529	\$439	\$516	\$829	\$822	\$984	\$893	\$1,004
	Excess insurance premiums	282	248	319	380	347	679	658	774	718	858
	Net Earned	246	281	210	59	169	150	164	210	175	146
(2)	Investment income allocation:										
	FY 06-07	16	15	9	3	5	(1)	(1)	(4)	(12)	(4)
	FY 05-06	13	12	7	2	4	(1)	3	(3)	(1)	
	FY 04-05	11	10	6	2	4		2	2		
	FY 03-04	5	4	3	1	2	(2)	1			
	FY 02-03	7	7	4	1	2	(3)				
	FY 01-02	11	10	10	9	9					
	FY 00-01	12	11	10	9						
	FY 99-00	11	10	9							
	FY 98-99	8	7								
	FY 97-98	8									
	FY 96-97										
(3)	Net earned premiums and investment revenue	349	367	269	87	196	144	169	205	161	142
(4)	Unallocated expenses		16	56		1	13				
(5)	Funds available for claims	349	351	213	87	195	131	169	205	161	142
(6)	Paid (cumulative) as of:										
	End of program year	4	6	7	9	63	214	19	165	208	225
	One year later	9	54	20	21	76	243	105	273	420	
	Two years later	9	65	20	22	82	237	102	283		
	Three years later	10	65	20	22	82	255	199			
	Four years later	7	65	20	22	81	255				
	Five years later	7	40	20	22	81					
	Six years later	7	40	20	22						
	Seven years later	7	40	20							
	Eight years later	7	40								
	Nine years later	7									
(7)	Estimated reserves for claims and claims adjustment expenses										
	End of policy year	150	150	150	51	150	157	157	157	158	158
	One year later			1							
	Two years later		2								
	Three years later										
	Four years later										
	Five years later										
	Six years later										
	Seven years later										
	Eight years later										
	Nine years later										
(8)	Re-estimated incurred claims and claims adjustment expenses:										
	End of policy year	154	156	7	9	213	371	176	322	365	383
	One year later	9	54	21	21	76	243	105	273	420	
	Two years later	9	67	20	22	82	237	102	283		
	Three years later	10	65	20	22	82	255	199			
	Four years later	7	65	20	22	81	255				
	Five years later	7	40	20	22	81					
	Six years later	7	40	20	22						
	Seven years later	7	40	20							
	Eight years later	7	40								
	Nine years later	7									
(9)	Change in estimated net incurred claims from end of policy year	(147)	(116)	13	13	(132)	(116)	23	(39)	54	(383)
(10)	Equity Adjustment FY 04-05						104				
(12)	Funds available after estimated claims	343	311	193	65	114	(20)	(31)	(77)	(258)	(241)

ABAG PLAN CORPORATION
Notes to Financial Statements

NOTES TO REQUIRED SUPPLEMENTARY 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.

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