

**ABAG POOLED LIABILITY ASSURANCE NETWORK
CORPORATION (PLAN)**

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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**ABAG POOLED LIABILITY ASSURANCE
NETWORK CORPORATION (PLAN)
BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Board of Directors
ABAG PLAN Corporation
Oakland, California

Report on Financial Statements

We have audited the accompanying financial statements of each major fund of the ABAG Pooled Liability Assurance Network Corporation (PLAN) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise PLAN's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to PLAN's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PLAN's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of PLAN as of June 30, 2013, and the respective changes in financial position and cash flows thereof listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2013 that resulted in certain changes in nomenclature on the financial statements:

Statement 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

The emphasis of this matter does not constitute a modification to our opinion.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Ten-Year Claims Development Information-General Liability Pool and Ten-Year Claims Development Information-Property Liability Pool be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Maze + Associates

Pleasant Hill, California
November 8, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The ABAG PLAN Corporation (PLAN) has issued the financial reports for fiscal year ending June 30, 2013 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. PLAN has always used 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 Position—provides information about the financial position of PLAN, including assets, liabilities and net position. The difference between this statement and the traditional Balance Sheet is that net position (fund equity) is 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 2013 FINANCIAL HIGHLIGHTS

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

- Total assets at June 30, 2013 were \$44.4 million. At June 30, 2012, total assets were \$45.1 million.
- Total revenues, including program and general revenues, were \$8.0 million in FY 2013, while total expenses were \$20.4 million including \$14.9 million for provision for claims and claim adjustment expenses. Expenses include both actual expenses and reserves for claims expected to be paid out in the future for claims incurred this past year and prior years.
- Total net position decreased by \$12.4 million in FY 2013 to a new total of \$8.1 million at June 30, 2013. The decrease is primarily attributed to the provision for claims and claim adjustment expenses stated above.

- General Liability program operating revenues were \$4.9 million in FY 2013, while Property Liability operating revenues including claims reserves were \$1.2 million and Administration operating revenues were \$2.9 million.
- General Liability program operating expenses were \$16.7 million in FY 2013, while Property Liability operating expenses were \$1.2 million and Administration operating expenses were \$2.6 million.
- General revenues, comprising investment income, totaled \$790 thousand in FY 2013 prior to the recognition of fair market value adjustments, of which \$763 thousand and \$27 thousand were allocated to General Liability and Property Liability funds, respectively. With the recognition of fair market value adjustments, there was a loss of \$897 thousand resulting from unrealized investment loss (see Investment Activities below).
- General Liability net position was \$6.4 million at June 30, 2013, while Property Liability net position was \$1.1 million and Administration net position was \$543 thousand at that date.

CLAIMS SETTLEMENT AND RESERVES FOR CLAIMS

Above-deductible General Liability claims paid totaled \$2.7 million in FY 2013 compared to \$6.1 million during FY 2012. This was less than projected on an Actuarial basis; however, the claims from this period are still immature. In FY 2013, the claim payments were impacted by significant storm activity in one of our member jurisdictions. The reserve level for claims was increased to \$35.5 million in FY 2013 from \$23.5 million in FY 2012. The increase in reserves reflects the unfavorable loss development that PLAN has experienced over the past three years. PLAN paid losses have exceeded actuarial expected losses for the prior three fiscal years.

Above-deductible Property claims paid during FY 2013 amounted to \$196 thousand compared to \$335 thousand during FY 2012. Liability reserve for Property claims were \$250 thousand at June 30, 2013. PLAN property losses are impacted by the PLAN aggregate stop loss limit of \$250 thousand which tempers the program from adverse loss experience in any single program year.

INVESTMENT ACTIVITIES

As of June 30, 2013, total book value (including the Local Agency Investment Fund) of the portfolio was \$43.9 million, comprised of investments in LAIF and federal agency securities. PLAN has \$4.7 million invested in the Local Agency Investment Fund (LAIF) and \$39.1 million in federal agency securities. Total market value of the investments was \$42.5 million as of that date.

The investment income was \$790 thousand. After fair market value adjustments, the investment portfolio realized a net loss of \$897 thousand for the year. The overall average yield was 1.74% when the adjustments for fair market value are excluded.

At June 30, 2013, the market value of PLAN's investments is \$1.4 million below book value. 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 securities to maturity; 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 2013 AND OUTLOOK FOR FY 2014

In response to the litigation and land development claim settlements (inverse condemnation) incurred in FY 2008, the Board of Directors of PLAN approved a revised Memorandum of Coverage effective July 1, 2008 designed to prevent and reduce such exposure. On February 2, 2010, a resolution was adopted authorizing implementation of the Inverse Tail Claim Program (ITC Program) with the following components: Set aside of Seven Million Dollars (\$7,000,000) from the ABAG PLAN Program "Self-Insurance Retention Fund" for the purpose of funding the ITC Program; how said claims affect a member's experience modification factor from the date the claim is tendered to PLAN for five years; set a final date for members to submit claims under the ITC Program to June 30, 2013; set a cap in ITC payments of \$1 million per member; and other specific limitations.

The ITC program was closed effective June 30, 2013. As of June 30, 2013, PLAN has total incurred losses of \$585,605 reported under the program. The program exposure to latent claims has been significantly lower than anticipated and no further reserve adjustment activity is warranted for these claims.

In FY 2014, PLAN will focus on continuing to provide stable loss funding rates for the Liability Program. Premium stabilization and broadening coverage will be a focus of our Property Program.

During FY 2014, PLAN will continue to work on customizing the claim reporting system to meet the specific reporting needs of ABAG PLAN and its members. PLAN will also focus on collection (subrogation) of property damage losses from responsible third parties. Our recovery efforts continue to realize significant financial savings and reduce our property net claim payments.

PLAN will also provide a broad range of technical training to our members to enhance their technical skills in Claims and Risk Management.

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 POSITION
JUNE 30, 2013

	General Liability Fund	Property Liability Fund	Administration Fund	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents (Note 2)	\$2,769,365	\$1,353,965	\$771,448	\$4,894,778
Investments, at Fair Value (Note 2)	37,714,860			37,714,860
Total Cash and Investments	40,484,225	1,353,965	771,448	42,609,638
Receivables:				
Due from Members	1,257,526		30,000	1,287,526
Interest	217,339			217,339
Total Current Assets	41,959,090	1,353,965	801,448	44,114,503
Noncurrent Assets:				
Due from ABAG				
Capital Assets, Net of Accumulated Depreciation (Note 4)	329,942			329,942
Total Noncurrent Assets	329,942			329,942
Total Assets	42,289,032	1,353,965	801,448	44,444,445
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	379,026		258,559	637,585
Reserves for Claims and Claim Adjustment Expenses (Note 3)	1,380,000	242,500		1,622,500
Reserves for Unallocated Loss Adjustment Expenses (Note 3)		7,500		7,500
Total Current Liabilities	1,759,026	250,000	258,559	2,267,585
Noncurrent Liabilities (Note 3):				
Reserves for Claims and Claim Adjustment Expenses	30,634,000			30,634,000
Reserves for Unallocated Loss Adjustment Expenses	3,453,000			3,453,000
Total Noncurrent Liabilities	34,087,000			34,087,000
Total Liabilities	35,846,026	250,000	258,559	36,354,585
NET POSITION (Note 5)				
Net Investment in Capital Assets	329,942			329,942
Unrestricted	6,113,064	1,103,965	542,889	7,759,918
Total Net Position	\$6,443,006	\$1,103,965	\$542,889	\$8,089,860

See accompanying notes to basic financial statements

ABAG PLAN CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	General Liability Fund	Property Liability Fund	Administration Fund	Total
PROGRAM REVENUES				
Premiums from Members:				
General Liability	\$4,934,859			\$4,934,859
Administration			\$2,850,002	2,850,002
Property Insurance		\$1,151,053		1,151,053
Total Program Revenues	<u>4,934,859</u>	<u>1,151,053</u>	<u>2,850,002</u>	<u>8,935,914</u>
PROGRAM EXPENSES				
Provision for Claims and Claim Adjustment Expenses (Note 3)	14,696,014	196,251		14,892,265
Property Insurance Coverage		960,808		960,808
Excess Insurance Coverage	651,691		21,668	673,359
Depreciation (Note 4)	47,370			47,370
Management and Administration			2,316,748	2,316,748
Loss Prevention Programs	1,300,750			1,300,750
Contract Services			200,917	200,917
Other Expenses	9,671		11,906	21,577
Total Program Expenses	<u>16,705,496</u>	<u>1,157,059</u>	<u>2,551,239</u>	<u>20,413,794</u>
Net Program Operating Loss	<u>(11,770,637)</u>	<u>(6,006)</u>	<u>298,763</u>	<u>(11,477,880)</u>
GENERAL REVENUE				
Investment Income (Loss)	(923,792)	27,000		(896,792)
Total General Revenue	<u>(923,792)</u>	<u>27,000</u>		<u>(896,792)</u>
CHANGE IN NET POSITION	(12,694,429)	20,994	298,763	(12,374,672)
NET POSITION - BEGINNING	<u>19,137,435</u>	<u>1,082,971</u>	<u>244,126</u>	<u>20,464,532</u>
NET POSITION - ENDING	<u>\$6,443,006</u>	<u>\$1,103,965</u>	<u>\$542,889</u>	<u>\$8,089,860</u>

See accompanying notes to basic financial statements

ABAG PLAN CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	General Liability Fund	Property Liability Fund	Administration Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from members	\$4,987,178	\$1,151,103	\$2,860,063	\$8,998,344
Payments for insurance and contract services	(2,243,010)	(960,808)	(222,585)	(3,426,403)
Payments to ABAG			(2,323,924)	(2,323,924)
Claims paid	(2,721,014)	(196,251)		(2,917,265)
Other payments	(9,671)		(11,906)	(21,577)
Net cash flows from (used by) operating activities	<u>13,483</u>	<u>(5,956)</u>	<u>301,648</u>	<u>309,175</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from investments	2,046,752			2,046,752
Interest received	(824,524)	27,000		(797,524)
Net cash flows from investing activities	<u>1,222,228</u>	<u>27,000</u>		<u>1,249,228</u>
Net cash flows	1,235,711	21,044	301,648	1,558,403
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,533,654</u>	<u>1,332,921</u>	<u>469,800</u>	<u>3,336,375</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$2,769,365</u></u>	<u><u>\$1,353,965</u></u>	<u><u>\$771,448</u></u>	<u><u>\$4,894,778</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	(\$11,770,637)	(\$6,006)	\$298,763	(\$11,477,880)
Adjustments to reconcile operating loss to cash flows from operating activities:				
Depreciation	47,370			47,370
Change in assets and liabilities:				
Receivable from members	52,319	50	10,061	62,430
Payables	(290,569)		(7,176)	(297,745)
Reserves for claims and claim adjustment expenses	10,869,000			10,869,000
Reserves for unallocated loss adjustment expenses	1,106,000			1,106,000
Net cash flows from operating activities	<u><u>\$13,483</u></u>	<u><u>(\$5,956)</u></u>	<u><u>\$301,648</u></u>	<u><u>\$309,175</u></u>

See accompanying notes to basic financial statements

ABAG PLAN CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description and Programs

The ABAG Pooled Liability Assurance Network Corporation (PLAN) is a non-profit public benefit corporation created by the Association of Bay Area Governments (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.

ABAG assists PLAN by providing administrative, accounting and clerical support. PLAN paid ABAG \$2,383,469 for these services and \$159,454 for contract services in the fiscal year ended June 30, 2013.

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 United States of America.

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

The Statement of Net Position and the Statement of Activities display the overall financial activities of PLAN's programs. 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 may be received and are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that may be received and are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues are presented as general revenues.

ABAG PLAN CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Major Funds

Major funds are defined as funds that have either assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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:

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, deferred inflows/outflows of resources, net position, 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.

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.

ABAG PLAN CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 \$20 million (above the \$5 million PLAN layer) 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, 2013 amounted to \$673,359.

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.

E. *Estimates*

PLAN's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses and the disclosure of contingent liabilities to prepare these financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Actual results could differ from those estimates.

ABAG PLAN CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

NOTE 2 - CASH AND INVESTMENTS

Cash and investments consist of the following at June 30, 2013:

	Cash and Cash Equivalents	Investments	Total
Cash in Banks	\$165,671		\$165,671
Local Agency Investment Fund	4,729,107		4,729,107
U.S. Agency Securities:			
Federal National Mortgage Association		\$18,438,910	18,438,910
Federal Home Loan Bank		11,594,230	11,594,230
Federal Farm Credit Bank		3,840,920	3,840,920
Federal Loan Mortgage Corporation		3,840,800	3,840,800
Total Cash and Investments	\$4,894,778	\$37,714,860	\$42,609,638

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 (E)	N/A	None	None
U.S. Agency Securities	7 years (E)	N/A	None, (A)	None
Bankers Acceptances	180 days	A1/P1	25%	10%
Commercial Paper	270 days	A1/P1/F1	10%	10%
Medium Term/Corporate Notes	5 years	AA	10%	10%
Negotiable Certificates of Deposit	2 years	AA/A-1	30%	10%
Time Certificates of Deposit	1 years	(D)	10%	10%
Money Market Mutual Funds	N/A	AAA or (B)	10%	10%
California Local Agency Investment Fund	N/A	N/A	None, (C)	None

- (A) Maximum limit of 20% of the investment portfolio in mortgage-backed securities.
(B) ABAG PLAN can also purchase money market funds managed by a manager with a minimum 5 year history and \$500 million under management.
(C) LAIF has a limit of \$50 million per account.
(D) Financial institution must have received a minimum overall satisfactory rating for meeting the credit needs for California Communities in its most recent evaluation.
(E) The Board approved investment policy allows maximum maturity of 7 years, which is longer than the 5 years as specified in the Government code.

ABAG PLAN CORPORATION NOTES TO BASIC FINANCIAL STATEMENTS For The Year Ended June 30, 2013

NOTE 2 - CASH AND INVESTMENTS (Continued)
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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.

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 which has been prepared using the earlier of stated maturity date or callable dates, if applicable:

Cash and Investments	12 Months or less	13 to 24 Months	Total
U.S. Agency Securities:			
Federal National Mortgage Association	\$18,438,910		\$18,438,910
Federal Home Loan Bank	11,594,230		11,594,230
Federal Farm Credit Bank	3,840,920		3,840,920
Federal Loan Mortgage Corporation	1,923,820	\$1,916,980	3,840,800
Subtotal Investments	35,797,880	1,916,980	37,714,860
Cash and Cash Equivalents:			
Cash in Banks	165,671		165,671
Local Agency Investment Fund	4,729,107		4,729,107
Subtotal Cash and Cash Equivalents	4,894,778		4,894,778
Total Cash and Investments	\$40,692,658	\$1,916,980	\$42,609,638

As of year end, the weighted average maturity of the investments in the LAIF investment pool is approximately 268 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 investment rating service as of June 30, 2013 for each investment type:

	Aaa
U.S. Agency Securities:	
Federal National Mortgage Association	\$18,438,910
Federal Home Loan Bank	11,594,230
Federal Farm Credit Bank	3,840,920
Federal Loan Mortgage Corporation	3,840,800
Total Investments	\$37,714,860

ABAG PLAN CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

NOTE 2 - CASH AND INVESTMENTS (Continued)

D. 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. Included in the table at C above are investments held by the General Liability Fund.

E. 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.

F. Local Agency Investment Fund

PLAN is a 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.

G. 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 BASIC FINANCIAL STATEMENTS
For The Year Ended June 30, 2013

NOTE 3 - RESERVES FOR CLAIMS AND CLAIM ADJUSTMENT EXPENSES

Reconciliation of Reserves

Reserves for claims and claim adjustment expenses changed as follows:

	General Liability Pool		Property Liability Pool	
	2013	2012	2013	2012
Reserves for claims and claim settlement expenses, beginning of year	\$23,492,000	\$19,861,000	\$250,000	\$157,500
Provision for claims and claim settlement expenses attributable to insured events of:				
Current year	6,493,000	4,918,000	242,500	242,500
Prior years	8,203,014 *	4,819,310	(46,249)	184,536
Total incurred claims and claim settlement expenses	<u>14,696,014</u>	<u>9,737,310</u>	<u>196,251</u>	<u>427,036</u>
Less settlement of claims and claim settlement expenses attributable to insured events of current and prior fiscal years:				
Claims paid -- current year	(430,441)	(70,901)	(102,879)	(251,657)
Claims paid -- prior years	<u>(2,290,573)</u>	<u>(6,035,409)</u>	<u>(93,372)</u>	<u>(82,879)</u>
Total payments	<u>(2,721,014)</u>	<u>(6,106,310)</u>	<u>(196,251)</u>	<u>(334,536)</u>
Reserves for claims and claim settlement expenses, end of year	<u>\$35,467,000</u> **	<u>\$23,492,000</u>	<u>\$250,000</u>	<u>\$250,000</u>
Components of unpaid claims liabilities:				
Reserves for claims and claim settlement expenses	\$32,014,000	\$21,145,000	\$242,500	\$242,500
Reserves for unallocated loss settlement expenses	<u>3,453,000</u>	<u>2,347,000</u>	<u>7,500</u>	<u>7,500</u>
Total	<u>\$35,467,000</u>	<u>\$23,492,000</u>	<u>\$250,000</u>	<u>\$250,000</u>
Current portion	<u>\$1,380,000</u>	<u>\$2,044,000</u>	<u>\$250,000</u>	<u>\$250,000</u>

* Includes costs to be recovered from members

** The liability is recorded at present value using a discount rate of 3%. Undiscounted liability claims totaled \$37,709,280 at June 30, 2013.

NOTE 4 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.

Capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation expense is calculated on the straight line method over the estimated useful lives of assets, which are as follows:

Vehicles	4 Years
Capitalized software	10 Years

ABAG PLAN CORPORATION NOTES TO BASIC FINANCIAL STATEMENTS For The Year Ended June 30, 2013

NOTE 4 - CAPITAL ASSETS (Continued)
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Capital Assets activity was as follows for the year ended June 30, 2013:

	June 30, 2012	Additions	June 30, 2013
Capital assets being depreciated:			
Capitalized software	\$468,719		\$468,719
Vehicles	52,715		52,715
Total capital assets being depreciated	521,434		521,434
Less accumulated depreciation for:			
Capitalized software	91,407	\$47,370	138,777
Vehicles	52,715		52,715
Total accumulated depreciation	144,122	\$47,370	191,492
Net capital assets being depreciated	377,312		329,942
Capital assets, net	\$377,312		\$329,942

NOTE 5 – NET POSITION

Net Position is the excess of a fund’s assets and deferred outflows of resources over all its liabilities and deferred inflows of resources. PLAN’s Net Position is divided into the two captions described below:

Net Investment in Capital Assets is the current net book value of PLAN’s capital assets.

Unrestricted describes the portion of the Net Position which may be used for any PLAN purpose.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Litigation – PLAN is subject to litigation arising in the normal course of business. In the opinion of the Attorney, there is no pending litigation which is likely to have a material adverse effect on the financial position of PLAN.

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
(1) Earned premiums	\$6,300	\$6,979	\$7,475	\$8,085	\$7,906	\$8,262	\$8,326	\$7,753	\$7,562	\$7,685
Excess insurance premiums	445	544	562	777	710	764	776	738	634	652
Net Earned	5,856	6,436	6,913	7,308	7,196	7,498	7,550	7,015	6,928	7,033
(2) Investment income allocation:										
FY 12-13	42	55	3	69	(63)	(4)	31	30	59	49
FY 11-12	51	68	4	85	(76)	2	58	51	76	
FY 10-11	68	73	6	105	(15)	14	89	63		
FY 09-10	74	79	53	129	36	60	98			
FY 08-09	123	119	140	206	92	106				
FY 07-08	192	146	199	259	116					
FY 06-07	173	181	213	237						
FY 05-06	179	207	206							
FY 04-05	170	196								
FY 03-04	179									
(3) Net earned premiums and investment revenues	7,107	7,560	7,737	8,398	7,286	7,676	7,826	7,159	7,063	7,082
(4) Unallocated expenses	2,137	2,532	2,825	2,799	5,086	5,013	3,673	4,422	3,579	3,909
(5) Funds available for claims	4,970	5,028	4,912	5,599	2,200	2,663	4,153	2,737	3,484	3,173
(6) Paid (cumulative) as of:										
End of program year	59	29	97	15		24	305	23	71	430
One year later	529	102	255	57	95	405	363	359	198	
Two years later	600	873	905	235	1,009	2,064	1,474	1,004		
Three years later	969	1,838	1,471	506	2,954	2,595	2,350			
Four years later	944	1,874	2,894	1,061	5,719	2,918				
Five years later	1,766	1,874	4,649	1,646	5,847					
Six years later	2,026	1,874	4,721	1,657						
Seven years later	2,042	1,876	4,742							
Eight years later	2,608	1,876								
Nine years later	2,575									
(7) Estimated reserves for claims and claims adjustment expenses										
End of policy year	4,302	8,095	8,581	4,938	5,194	5,029	4,199	4,789	4,918	6,063
One year later	3,935	5,170	4,183	4,412	4,351	3,995	6,944	7,353	8,977	
Two years later	3,116	3,151	3,678	2,449	3,595	3,660	4,643	11,270		
Three years later	1,874	1,625	2,429	1,447	2,392	2,871	3,029			
Four years later	950	790	4,110	937	2,231	3,139				
Five years later	404	274	442	281	1,939					
Six years later	182		715	125						
Seven years later	479	87	629							
Eight years later	28									
Nine years later	2									
(8) Re-estimated incurred claims and claims adjustment expenses:										
End of policy year	4,361	8,124	8,678	4,953	5,194	5,053	4,504	4,812	4,883	6,493
One year later	4,464	5,272	4,438	4,469	4,446	4,400	7,307	7,712	9,175	
Two years later	3,716	4,024	4,583	2,684	4,604	5,724	6,117	12,274		
Three years later	2,843	3,463	3,900	1,953	5,346	5,466	5,379			
Four years later	1,894	2,664	7,004	1,998	7,950	6,057				
Five years later	2,170	2,148	5,091	1,927	7,786					
Six years later	2,208	1,874	5,436	1,782						
Seven years later	2,521	1,963	5,371							
Eight years later	2,636	1,876								
Nine years later	2,577									
(9) Change in estimated net incurred claims from end of policy year	(1,784)	(6,248)	(3,307)	(3,171)	2,592	1,004	875	7,462	4,292	
(11) Funds available after estimated claims and net asset distributions	2,393	3,152	(459)	3,817	(5,586)	(3,394)	(1,226)	(9,537)	(5,691)	(3,320)

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
(1) Earned premiums	\$822	\$984	\$893	\$1,004	\$892	\$918	\$1,086	\$1,080	\$992	1,151
Excess insurance premiums	658	774	718	858	727	726	885	880	802	961
Net Earned	164	210	175	146	165	192	201	200	190	190
(2) Investment income allocation:										
FY 12-13	(1)	2	(1)	(1)	(10)	(4)		(6)	(7)	2
FY 11-12	(1)	2	(1)	(1)	(16)	(4)	(1)	(4)	(1)	
FY 10-11	(1)	1	(1)	(1)	(15)	(4)	(1)	(2)		
FY 09-10	(1)	1	(1)	(1)	(13)	(4)	1			
FY 08-09	(1)	2	(1)	(1)	(16)	(5)				
FY 07-08	(2)	(4)	(15)	(9)	(15)					
FY 06-07	(1)	(4)	(12)	(4)						
FY 05-06	3	(2)	(1)							
FY 04-05	2	2								
FY 03-04	2									
(3) Net earned premiums and investment revenues	163	210	142	128	80	171	200	188	182	192
(4) Unallocated expenses						1				
(5) Funds available for claims	163	210	142	128	80	170	200	188	182	192
(6) Paid (cumulative) as of:										
End of program year	19	165	208	225	415	379	148	318	252	103
One year later	105	273	420	294	796	407	242	409	555	
Two years later	102	283	424	181	859	374	236	486		
Three years later	199	283	187	181	859	371	224			
Four years later	199	132	187	177	859	371				
Five years later	199	132	187	177	585					
Six years later	199	132	187	177						
Seven years later	199	132	187							
Eight years later	199	132								
Nine years later	199									
(7) Estimated reserves for claims and claims adjustment expenses:										
End of policy year	157	157	158	158	158	158	158	158	250	250
One year later										
Two years later										
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	176	322	365	383	573	537	306	476	502	353
One year later	105	273	420	294	796	407	242	409	555	
Two years later	102	283	424	181	859	374	236	486		
Three years later	199	283	187	181	859	371	224			
Four years later	199	132	187	177	859	371				
Five years later	199	132	187	177	585					
Six years later	199	132	187	177						
Seven years later	199	132	187							
Eight years later	199	132								
Nine years later	199									
(9) Change in estimated net incurred claims from end of policy year	23	(190)	(178)	(206)	12	(166)	(82)	10	53	
(10) Funds available after estimated claims	(36)	78	(45)	(49)	(505)	(201)	(24)	(298)	(373)	(161)

<p style="text-align: center;">ABAG PLAN CORPORATION NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For The Year Ended June 30, 2013</p>
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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) This line shows the funds available after reestimated claims and distributions.