ABAG PLAN CORPORATION

BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

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ASSOCIATION OF BAY AREA GOVERNMENTS
PLAN CORPORATION
JUNE 30, 2005

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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, 2005, 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, 2005 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.

Maze & Associates

December 2, 2005

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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, 2005 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 2005 FINANCIAL HIGHLIGHTS

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

- Total assets at June 30, 2005 were $41.8 million. At June 30, 2004, total assets were $43.2 million.
- Total revenues, including program and general revenues, were $9.5 million in FY 2005, while total expenses were $15.5 million.
- Total net assets decreased $5.9 million in FY 2005 to a new total of $23.1 million at June 30, 2005.
- General Liability program operating revenues were $4.9 million in FY 2005, while Property Liability operating revenues were $984 thousand and Administration operating revenues were $2.1 million.
- General Liability program operating expenses were $12.3 million in FY 2005, while Property Liability operating expenses were $1.0 million and Administration operating expenses were $2.1 million.
- General revenues, comprising investment income of $1.7 million and unrealized loss on investments of $161 thousand, totaled $1.6 million for FY 2005 (see Investment Activities below).

- General Liability net assets were $20.9 million at June 30, 2005, while Property Liability net assets were $2.1 million and Administration net assets were $197 thousand at that date.

CLAIMS SETTLEMENT AND RESERVES FOR CLAIMS

Above-deductible General Liability claims paid totaled $6.8 million during FY 2005. Included in these payments is a $3.1 million settlement relating to a police pursuit case. We are happy to note that sewer related claims have declined significantly from $2.7 million in FY 2003 to $462 thousand in FY 2005. We attribute this favorable trend to the Sewer Smart Program implemented in 2003 and dedicated staff efforts in risk management and claims settlement over the past two years.

Due to several large claims that are not yet settled, we have increased General Liability Claim Reserves to $18.3 million at June 30, 2005 from $13.8 million at June 30, 2004. Management believes that that these several claims will likely settle for less than their reserved amounts.

Above-deductible Property Liability claims paid during FY 2005 amounted to $245 thousand. Reserves for Property Liability claims were $158 thousand at June 30, 2005, 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, 2005, PLAN has $735 thousand invested in the Local Agency Investment Fund (LAIF) and $40.2 million (at fair value) invested in various federal agency securities. The investment portfolio realized an overall average yield of 4.16% for FY 2005, excluding adjustments for fair value.

We have recorded a $161 thousand unrealized loss on investments representing the decrease in market value of PLAN's investment portfolio between June 30, 2004 and June 30, 2005. With the exception of PLAN's investment 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 IN FY 2005

During FY 2005, PLAN continued promoting the Sewer Smart Program launched in 2003, a web based sewer backup homeowner awareness campaign (www.sewersmart.org). The website provides a means to reach homeowners to promote awareness of backup risks and to distribute free Backup Prevention Devices (BPD). In addition, we have also published the Sewer Smart Program Statement of Standard Policies to assist member jurisdictions to set up prudent policies relating to sewer management.

Another loss prevention program PLAN offers is the matching grant program, which was recently increased to $10,000 annually per member, for purchase of digital in-car video cameras and teaser guns for member police departments.

Other risk management activities in the past year included establishing best practices for police, fire and public works departments, and performing training and audits with respect to these recommended practices.

OUTLOOK FOR FY 2006

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 outlook of Federal and State funding. 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 2006:

General Liability Program

- Implementation of revised coverage and governing documents to reflect changes in the legal and risk exposures of member jurisdictions
- Enhanced coverage and stable premiums

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

- Approval of risk management policy and standards
- 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 PLAN's finances. Questions about these statements should be directed to ABAG PLAN Corporation, 101 Eighth Street, Oakland, CA 94607.

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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, 2005

	General Liability Fund	Property Liability Fund	Administration Fund	Total
ASSETS				
Current Assets				
Cash and Cash Equivalents (Note 2)	$340,985	$161,052	$382,146	$884,183
Investments, at Fair Value (Note 2)	40,181,645			40,181,645
Total Cash and Investments	40,522,630	161,052	382,146	41,065,828
Interest Receivable	533,660			533,660
Receivable from Members	146,676	8,077		154,753
Internal Balances (Note 4)	(2,087,342)	2,087,342		
Total Current Assets	39,115,624	2,256,471	382,146	41,754,241
Noncurrent Assets				
Software, Net	92,751			92,751
Automobiles, Net			19,505	19,505
Total Noncurrent Assets	92,751		19,505	112,256
Total Assets	39,208,375	2,256,471	401,651	41,866,497
LIABILITIES				
Current Liabilities				
Payable to Association of Bay Area Governments	5,603		329,900	335,503
Total Current Liabilities	5,603		329,900	335,503
Noncurrent Liabilities (Note 3)				
Reserves for Claims and Claim Adjustment Expenses	17,533,000	150,000		17,683,000
Reserves for Unallocated Loss Adjustment Expenses	764,000	7,500		771,500
Total Noncurrent Liabilities	18,297,000	157,500		18,454,500
Total Liabilities	18,302,603	157,500	329,900	18,790,003
NET ASSETS				
Unrestricted	20,905,772	2,098,971	71,751	23,076,494
Total Net Assets	$20,905,772	$2,098,971	$71,751	$23,076,494

ABAG PLAN CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

	General Liability Fund	Property Liability Fund	Administration Fund	Total
PROGRAM OPERATING REVENUES				
Premiums from Members				
Administration			$2,109,540	$2,109,540
General Liability	$4,869,792			4,869,792
Property Insurance		$983,574		983,574
Total Program Operating Revenues	4,869,792	983,574	2,109,540	7,962,906
PROGRAM OPERATING EXPENSES				
Provision for Claims and Claim Adjustment Expenses	11,192,527	244,931		11,437,458
Provision for Unallocated Loss Adjustment Expenses	71,000			71,000
Property Insurance Coverage	22,814	773,550		796,364
Excess Insurance Coverage	520,704			520,704
Depreciation	61,834			61,834
Management and Administration (Note 1A)			1,836,937	1,836,937
Contract Services	309,445		350,208	659,653
Other Expenses	98,672			98,672
Total Program Operating Expenses	12,276,996	1,018,481	2,187,145	15,482,622
Net Program Operating Income (Loss)	(7,407,204)	(34,907)	(77,605)	(7,519,716)
GENERAL REVENUE (EXPENSE)				
Unrealized loss on investments	(161,179)			(161,179)
Investment Income	1,611,862	80,000	40,000	1,731,862
Total General Revenue (Expense)	1,450,683	80,000	40,000	1,570,683
Change in Net Assets	(5,956,521)	45,093	(37,605)	(5,949,033)
Beginning Net Assets	26,862,293	2,053,878	109,356	29,025,527
Ending Net Assets	$20,905,772	$2,098,971	$71,751	$23,076,494

ABAG PLAN CORPORATION
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

	General Liability Fund	Property Liability Fund	Administration Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from members	$5,022,229	$976,448	$2,129,741	$8,128,418
Payments for insurance and contract services	(848,880)	(773,550)	(216,446)	(1,838,876)
Payments to ABAG (Note 1A)			(1,836,937)	(1,836,937)
Claims paid	(6,758,527)	(244,931)		(7,003,458)
Other payments	(98,672)			(98,672)
Net cash provided by operating activities	(2,683,850)	(42,033)	76,358	(2,649,525)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund receipts (payments)	2,087,342	(2,087,342)		
Cash Flows from Capital Activities	2,087,342	(2,087,342)		
CASH FLOWS FROM CAPITAL ACTIVITIES				
Acquisition of capital assets			(19,505)	(19,505)
Cash Flows from Capital Activities			(19,505)	(19,505)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of Investments	(12,588,380)			(12,588,380)
Proceeds from sales and maturities of investments	7,515,495			7,515,495
Interest received	1,319,027	80,000	40,000	1,439,027
Cash Flows from Investing Activities	(3,753,858)	80,000	40,000	(3,633,858)
Net increase (decrease) in cash and cash equivalents	(4,350,366)	(2,049,375)	96,853	(6,302,888)
Cash and cash equivalents at beginning of year	4,691,351	2,210,427	285,293	7,187,071
Cash and cash equivalents at end of year	$340,985	$161,052	$382,146	$884,183
Reconciliation of operating income to net cash provided by operating activities:				
Operating loss	($7,407,204)	($34,907)	($77,605)	($7,519,716)
Adjustments to reconcile operating income to cash flows from operating activities:				
Depreciation	61,834			61,834
Change in assets and liabilities:				
Interest Receivable	10,570		20,201	30,771
Receivable from Members	141,867	(7,126)		134,741
Payable to Association of Bay Area Governments and Other Payables	4,083		133,762	137,845
Reserves for Claims and Claim Adjustment Expenses	4,434,000			4,434,000
Reserves for Unallocated Loss Adjustment Expenses	71,000			71,000
Net cash provided by operating activities	($2,683,850)	($42,033)	$76,358	($2,649,525)

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 $1,836,937 for these services in the fiscal year ended June 30, 2005.

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.

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. 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 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, 2005 were $1,317,068.

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.

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.

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

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) Maximum limit of 20% of the investment portfolio on mortgage-backed securities.
(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 of 5 years experience and $500 million under management.

NOTE 2 - CASH AND INVESTMENTS (Continued)

B. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of PLAN's investments to market interest rate fluctuations is provided by the following table that shows the distribution to PLAN's investments by maturity:

	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months	Total
U.S. Agency Obligations:					
Federal Home Loan Bank	$5,003,438		$10,102,187	$4,046,875	$19,152,500
Federal Home Loan Mortgage Corporation	3,079,687	$5,009,910	5,772,148		13,861,745
Federal National Mortgage Association	5,040,000				5,040,000
Federal Farm Credit Bank			2,127,400		2,127,400
Total Investments	$13,123,125	$5,009,910	$18,001,735	$4,046,875	40,181,645
Local Agency Investment Fund	$735,455				735,455
Cash in Banks					148,728
Total Cash and Investments					$41,065,828

C. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Presented below is the minimum rating required by the California Government Code or PLAN's investment policy and the actual rating by Moody's as of June 30, 2005 for each investment type:

	Exempt from Disclosure	Investments Rated as Aaa at year end	Total
U.S. Agency Obligations		$40,181,645	$40,181,645
Local Agency Investment Fund	$735,455		735,455
Total	$735,455	$40,181,645	$40,917,100

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, 2005:

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	Federal Agency Securities	$19,152,500
Federal Home Loan Mortgage Corporation	Federal Agency Securities	13,861,745
Federal National Mortgage Association	Federal Agency Securities	5,040,000
Federal Farm Credit Bank	Federal Agency Securities	2,127,400

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 will not be able to recover its deposits or will not be able to recover 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 City's cash on 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.

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 will 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, including collateral for repurchase agreements, 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 corporations.

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	
	2005	2004	2005	2004
Reserves for claims and claim settlement expenses, beginning of year	$13,792,000	$11,244,000	$157,500	$157,500
Provision for claims and claim settlement expenses attributable to insured events of:				
Current year	8,095,000	4,302,000	157,500	157,500
Prior years	3,168,527	1,013,859	87,431	(134,061)
Total incurred claims and claim settlement expenses	11,263,527	5,315,859	244,931	23,439
Less settlement of claims and claim settlement expenses attributable to insured events of current and prior fiscal years:				
Claims paid -- current year	(28,741)	(58,649)	(164,500)	(18,840)
Claims paid -- prior years	(6,729,786)	(2,709,210)	(80,431)	(4,599)
Total payments	(6,758,527)	(2,767,859)	(244,931)	(23,439)
Reserves for claims and claim settlement expenses, end of year	$18,297,000	$13,792,000	$157,500	$157,500
Components of unpaid claim liabilities:				
Reserves for claims and claim settlement expenses	$17,533,000	$13,099,000	$150,000	$150,000
Reserves for unallocated loss settlement expenses	764,000	693,000	7,500	7,500
Total	$18,297,000	$13,792,000	$157,500	$157,500

NOTE 4 – INTERNAL BALANCES

Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2005, the General Liability Fund owed the Property Liability Fund owed $2,087,342.

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)

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
(1)	Earned premiums	$5,222	$5,151	$5,269	$4,980	$4,695	$4,916	$5,486	$6,223	$6,300	$6,979
	Excess insurance premiums							250	370	445	544
	Net Earned	$5,222	$5,151	$5,269	$4,980	$4,695	$4,916	$5,236	$5,853	$5,856	$6,436
(2)	Investment income allocation:										
	FY 04-05	$229	$213	$112	($53)	$121	$150	$45	($63)	$147	$170
	FY 03-04	213	198	104	5	113	141	59	124	156	
	FY 02-03	217	202	98	12	121	148	148	139		
	FY 01-02	238	223	125	29	140	198	191			
	FY 00-01	264	248	141	246	166	230				
	FY 99-00	240	219	173	190	159					
	FY 98-99	254	220	215	89						
	FY 97-98	274	246	232							
	FY 96-97	238	220								
	FY 95-96	243									
(3)	Net earned premiums and investment revenues	7,632	7,140	6,469	5,498	5,515	5,783	5,679	6,053	6,159	6,606
(4)	Unallocated expenses	1,085	1,140	1,409	1,514	1,647	1,394	1,597	1,844	2,137	2,532
(5)	Funds available for claims	6,547	6,000	5,060	3,984	3,868	4,389	4,082	4,209	4,022	4,074
(6)	Paid (cumulative) as of:										
	End of program year	24	0	6	1,865	66	53	0	955	59	29
	One year later	42	145	230	2,574	735	234	580	1,247	529	
	Two years later	71	524	1,074	3,280	928	960	2,589	5,716		
	Three years later	277	568	2,262	3,659	1,073	1,046	3,016			
	Four years later	449	601	2,299	3,979	1,203	1,070				
	Five years later	457	601	2,645	4,141	1,213					
	Six years later	458	627	2,464	5,470						
	Seven years later	458	628	2,464							
	Eight years later	452	628								
	Nine years later	452									
(7)	Estimated reserves for claims and claims adjustment expenses										
	End of policy year	3,683	3,663	3,429	3,400	3,444	3,926	3,985	3,039	4,302	8,095
	One year later	3,391	3,495	3,106	2,537	3,022	3,573	2,832	4,464	3,935	
	Two years later	2,962	2,671	2,319	2,042	2,632	2,177	2,119	3,378		
	Three years later	1,989	1,925	2,005	1,752	1,234	1,297	1,280			
	Four years later	1,166	1,197	1,259	1,455	211	483				
	Five years later	865	563	266	1,054	334					
	Six years later	374	46	185	366						
	Seven years later	21	34	198							
	Eight years later	14	20								
	Nine years later	16									
(8)	Reestimated incurred claims and claims adjustment expenses.										
	End of policy year	3,707	3,663	3,435	5,265	3,510	3,979	3,985	3,994	4,361	8,124
	One year later	3,433	3,640	3,336	5,111	3,756	3,807	3,412	5,711	4,464	
	Two years later	3,033	3,195	3,393	5,322	3,560	3,137	4,708	9,094		
	Three years later	2,266	2,493	4,268	5,411	2,307	2,343	4,296			
	Four years later	1,615	1,798	3,558	5,434	1,414	1,553				
	Five years later	1,323	1,164	2,911	5,195	1,547					
	Six years later	832	673	2,649	5,836						
	Seven years later	479	662	2,662							
	Eight years later	466	648								
	Nine years later	468									
(9)	Change in estimated net incurred claims from end of policy year	(3,239)	(3,015)	(773)	571	(1,963)	(2,426)	311	5,100	103	0
(10)	Equity Distribution										
	Paid 7/01	322	204	(78)	(225)	(217)	(254)	0	0	0	0
	Paid 7/00	135	74	21	0	0	0				
	Paid 7/99	158	36	0							
	Paid 7/98	45	0								
	Paid 7/97	0									
	Paid 7/96										
	Paid 7/95										
(11)	Total Equity Distributed	660	314	(57)	(225)	(217)	(254)	0	0	0	
(12)	Funds available after estimated claims and equity distributions	5,419	5,038	2,455	(1,627)	2,538	3,090	(214)	(4,885)	(442)	(4,050)

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

(dollars in thousands)

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
(1)	Earned premiums	$494	$515	$528	$529	$529	$439	$516	$829	$822	$984
	Excess insurance premiums	272	287	282	248	319	380	347	679	658	774
	Net Earned	$222	$228	$246	$281	$210	$59	$169	$150	$164	$210
(2)	Investment income allocation:										
	FY 04-05	$6	$10	$10	$10	$6	$2	$4	$0	$2	$2
	FY 03-04	2	4	5	4	3	1	2	(2)	1	
	FY 02-03	4	6	7	7	4	1	2	(3)		
	FY 01-02	8	11	11	10	10	9	9			
	FY 00-01	9	11	12	11	10	9				
	FY 99-00	8	10	11	10	9					
	FY 98-99	6	8	8	7						
	FY 97-98	6	7	8							
	FY 96-97	6	8								
	FY 95-96	7									
	FY 94-95										
(3)	Net earned premiums and investment revenues	284	303	318	340	252	81	186	145	167	212
(4)	Unallocated expenses	0	0	0	16	56	0	1	13	0	0
(5)	Funds available for claims	284	303	318	324	196	81	185	132	167	212
(6)	Paid (cumulative) as of:										
	End of program year	86	7	4	6	7	9	63	214	19	165
	One year later	123	36	9	54	20	21	76	243	105	
	Two years later	124	36	9	65	20	22	82	237		
	Three years later	124	36	10	65	20	22	82			
	Four years later	124	36	7	65	20	22				
	Five years later	124	36	7	40	20					
	Six years later	124	36	7	40						
	Seven years later	124	36	7							
	Eight years later	124	36								
	Nine years later	124									
(7)	Estimated reserves for claims and claims adjustment expenses										
	End of policy year	150	150	150	150	150	51	150	157	157	157
	One year later	0	0	0	0	1	0	0	0	0	
	Two years later	0	0	0	2	0	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	236	157	154	156	7	9	213	371	176	322
	One year later	123	36	9	54	21	21	76	243	105	
	Two years later	124	36	9	67	20	22	82	237		
	Three years later	124	36	10	65	20	22	82			
	Four years later	124	36	7	65	20	22				
	Five years later	124	36	7	40	20					
	Six years later	124	36	7	40						
	Seven years later	124	36	7							
	Eight years later	124	36								
	Nine years later	124									
(9)	Change in estimated net incurred claims from end of policy year	(112)	(121)	(147)	(116)	13	13	(131)	(134)	0	0
(10)	Equity Adjustment FY 04-05								105		
(12)	Funds available after estimated claims	160	267	311	284	176	59	103	0	62	(110)

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