ABAG POOLED LIABILITY ASSURANCE NETWORK CORPORATION (PLAN)

BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 • FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

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, 2011, 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, 2011 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

December 19, 2011

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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, 2011 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).

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 2011 FINANCIAL HIGHLIGHTS

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

- Total assets at June 30, 2011 were $47.2 million. At June 30, 2010, total assets were $50.4 million.

- Total revenues, including program and general revenues, were $9.7 million in FY 2011, while total expenses were $14.9 million.

- Total net assets decreased by $5.3 million in FY 2011 to a new total of $26.5 million at June 30, 2011.

- General Liability program operating revenues were $5.3 million in FY 2011, while Property Liability operating revenues were $1.1 million and Administration operating revenues were $2.5 million.
- General Liability program operating expenses were $11.2 million in FY 2011, while Property Liability operating expenses were $1.3 million and Administration operating expenses were $2.5 million.

- General revenues, comprising investment income, totaled $812 thousand in FY 2011, of which $785 thousand and $27 thousand were allocated to General Liability and Property Liability funds respectively (see Investment Activities below).

- General Liability net assets were $24.8 million at June 30, 2011, while Property Liability net assets were $1.3 million and Administration net assets were $433 thousand at that date.

CLAIMS SETTLEMENT AND RESERVES FOR CLAIMS

Above-deductible General Liability claims paid totaled $6.6 million in FY 2011 compared to $3.6 million during FY 2010. In FY 2011, the largest claim payout was for $1.5 million for a Flood Claim. PLAN also experienced three very large bodily injury claims this period with settlement payments of $485 thousand, $620 thousand and $850 thousand, respectively. The reserve level for claims was increased to $19.9 million in FY 2011 from $17.9 million in FY 2010. The increase in reserves reflects an increase in the severity of recent and prospective claim activity.

Above-deductible Property Liability claims paid during FY 2011 amounted to $375 thousand. Reserves for Property Liability claims were $158 thousand at June 30, 2011, and the reserves are being carefully analyzed to address emerging trends.

INVESTMENT ACTIVITIES

As required by GASB, PLAN reports its investments at fair value. At June 30, 2011, PLAN has $3.0 million invested in the Local Agency Investment Fund (LAIF), $33.3 million in federal agency securities, and $7.2 million in corporate notes. The investment portfolio realized total earnings of $812 thousand, representing an overall average yield of 2.11% for FY 2011, excluding adjustments for fair value.

The change in market values of PLAN's investment portfolio between June 30, 2010 and June 30, 2011 was insignificant. 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 2011 AND OUTLOOK FOR FY 2012

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 exposure continues to be effectively managed.

During FY 2011, PLAN has fully upgraded to Version 4.3.2 of the new claim processing software (iVOS). Work continues on customizing the system to meet the specific needs of ABAG PLAN. During FY 2011, PLAN created and is testing a fully automated deductible billing platform. The iVOS system was enhanced to allow members to have on-line access via a guest link to review claims information as it relates to deductible invoicing and recovery. Beginning January 2012, members will be able to receive deductible billing reports electronically via email and access the system remotely.

In FY 2012, PLAN will continue to offer its members $25 million in general liability coverage which includes an excess insurance policy with a limit of $20 million. The property program will offer property appraisals and boiler inspections for key facilities. PLAN will also continue to focus on collection (subrogation) of property damage losses from responsible third parties. Our recovery efforts have realized significant financial savings against property losses in the past.

During FY 2011, PLAN offered and will continue to offer in FY 2012 the following loss prevention programs:

- The Best Practices program offers special credits for consulting and training resources as incentives for implementing recommended practices.

- The Police Risk Management program offers up to $25,000 per jurisdiction to qualified members.

- The Defensive Driving program offers the latest training to all member staff, including police and other emergency personnel.

- The Sewer Smart Program website: www.sewersmart.org. PLAN will continue to host the annual Sewer Summit to provide Risk Management Best Practices and Regulatory updates on Sewer and Storm Water management systems to local jurisdictions.

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, 2011

	General Liability Fund	Property Liability Fund	Administration Fund	Total
ASSETS				
Current Assets				
Cash and Cash Equivalents (Note 2)	$3,100,049	$1,450,214	$702,362	$5,252,625
Investments, at Fair Value (Note 2)	40,562,908			40,562,908
Total Cash and Investments	43,662,957	1,450,214	702,362	45,815,533
Receivables				
Due from Members	611,046	50		611,096
Interest	314,821			314,821
Total Current Assets	44,588,824	1,450,264	702,362	46,741,450
Noncurrent Assets				
Capital Assets, Net of Accumulated Depreciation (Note 4)	408,932			408,932
Total Noncurrent Assets	408,932			408,932
Total Assets	44,997,756	1,450,264	702,362	47,150,382
LIABILITIES				
Current Liabilities				
Accounts Payable and Accrued Liabilities	329,759		268,913	598,672
Reserves for Claims and Claim Adjustment Expenses	1,293,000	150,000		1,443,000
Reserves for Unallocated Loss Adjustment Expenses		7,500		7,500
Total Current Liabilities	1,622,759	157,500	268,913	2,049,172
Noncurrent Liabilities (Note 3)				
Reserves for Claims and Claim Adjustment Expenses	16,583,000			16,583,000
Reserves for Unallocated Loss Adjustment Expenses	1,985,000			1,985,000
Total Noncurrent Liabilities	18,568,000			18,568,000
Total Liabilities	20,190,759	157,500	268,913	20,617,172
NET ASSETS (Note 5)				
Invested in Capital Assets, Net of Related Debt	408,932			408,932
Unrestricted	24,398,065	1,292,764	433,449	26,124,278
Total Net Assets	$24,806,997	$1,292,764	$433,449	$26,533,210

See accompanying notes to basic financial statements

ABAG PLAN CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	General Liability Fund	Property Liability Fund	Administration Fund	Total
PROGRAM REVENUES				
Premiums from Members				
General Liability	$5,260,584			$5,260,584
Administration			$2,520,000	2,520,000
Property Insurance		$1,080,207		1,080,207
Total Program Revenues	5,260,584	1,080,207	2,520,000	8,860,791
PROGRAM EXPENSES				
Provision for Claims and Claim Adjustment Expenses	8,601,390	374,763		8,976,153
Property Insurance Coverage		880,207		880,207
Excess Insurance Coverage	738,062		15,491	753,553
Depreciation	44,787			44,787
Management and Administration	9,450		2,125,419	2,134,869
Loss Prevention Programs	1,767,729			1,767,729
Contract Services			327,632	327,632
Other Expenses	39,420		11,092	50,512
Total Program Expenses	11,200,838	1,254,970	2,479,634	14,935,442
Net Program Operating Loss	(5,940,254)	(174,763)	40,366	(6,074,651)
GENERAL REVENUE				
Investment Income	784,754	27,000		811,754
Total General Revenue	784,754	27,000		811,754
CHANGES IN NET ASSETS	(5,155,500)	(147,763)	40,366	(5,262,897)
BEGINNING NET ASSETS	29,962,497	1,440,527	393,083	31,796,107
ENDING NET ASSETS	$24,806,997	$1,292,764	$433,449	$26,533,210

See accompanying notes to basic financial statements

ABAG PLAN CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

	General Liability Fund	Property Liability Fund	Administration Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from members	$5,072,274	$1,090,207	$2,520,000	$8,682,481
Payments for insurance and contract services	(2,520,730)	(880,207)	(343,123)	(3,744,060)
Payments to ABAG	(9,450)		(2,121,829)	(2,131,279)
Claims paid	(6,613,390)	(374,763)		(6,988,153)
Other payments	(39,420)		(11,092)	(50,512)
Net cash flows from operating activities	(4,110,716)	(164,763)	43,956	(4,231,523)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(25,977)			(25,977)
Net cash flows from capital and related financing activities	(25,977)			(25,977)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from investments	6,341,590			6,341,590
Interest received (paid)	879,024	27,000		906,024
Net cash flows from investing activities	7,220,614	27,000		7,247,614
Net cash flows	3,083,921	(137,763)	43,956	2,990,114
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	16,128	1,587,977	658,406	2,262,511
CASH AND CASH EQUIVALENTS AT END OF YEAR	$3,100,049	$1,450,214	$702,362	$5,252,625
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	($5,940,254)	($174,763)	$40,366	($6,074,651)
Adjustments to reconcile operating loss to cash flows from operating activities:				
Depreciation	44,787			44,787
Change in assets and liabilities:				
Receivable from members	(188,310)	10,000		(178,310)
Payables	(14,939)		3,590	(11,349)
Reserves for claims and claim adjustment expenses	1,779,000			1,779,000
Reserves for unallocated loss adjustment expenses	209,000			209,000
Net cash flows from operating activities	($4,110,716)	($164,763)	$43,956	($4,231,523)

See accompanying notes to basic financial statements

NOTE 1 – SUMMARY OF 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 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 $2,191,615 for these services and $286,217 for contract services in the fiscal year ended June 30, 2011. Of these services, $256,767 was due to ABAG at June 30, 2011.

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 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

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.

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, 2011 amounted to $1,618,269.

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.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments consist of the following at June 30, 2011:

	Cash and Cash Equivalents	Investments	Total
Cash in Banks	$2,269,838		$2,269,838
Local Agency Investment Fund	2,982,787		2,982,787
U.S. Agency Obligations		$33,321,158	33,321,158
Corporate Notes		7,241,750	7,241,750
Total Cash and Investments	$5,252,625	$40,562,908	$45,815,533

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	None
U.S. Agency Securities	7 years	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 on 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.
(D) Financial institution must have received a minimum overall satisfactory rating for meeting the credit needs for California Communities in its most recent evaluation.

NOTE 2 - CASH AND INVESTMENTS (Continued)

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 stated maturity date or callable dates, if applicable:

Cash and Investments	12 Months or less	13 to 24 Months	25 to 60 Months	Total
Investments with Original Maturities of 3 Months or Greater:				
U.S. Agency Obligations				
Federal Home Loan Bank	$6,009,220	$6,117,060	$2,193,320	$14,319,600
Federal Home Loan Mortgage Corporation	2,004,600	6,237,120		8,241,720
Federal National Mortgage Association		8,605,478	2,154,360	10,759,838
Corporate Notes				
PNC Funding	2,040,280			2,040,280
Citigroup Funding		2,038,780		2,038,780
General Electric Capital Corporation		3,162,690		3,162,690
Subtotal Investments	10,054,100	26,161,128	4,347,680	40,562,908
Cash and Cash Equivalents:				
Cash in Banks	2,269,838			2,269,838
Local Agency Investment Fund	2,982,787			2,982,787
Subtotal Cash and Cash Equivalents	5,252,625			5,252,625
Total Cash and Investments	$15,306,725	$26,161,128	$4,347,680	$45,815,533

As of year end, the weighted average maturity of the investments in the LAIF investment pool is approximately 237 days.

NOTE 2 - CASH AND INVESTMENTS (Continued)

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, 2011 for each investment type:

	Rating at year end				
	Exempt from Disclosure	Aaa	A3 (A)	Aa2 (B)	Total
Local Agency Investment Fund	$2,982,787				$2,982,787
U.S. Agency Obligations		$33,321,158			33,321,158
Corporate Notes					
PNC Funding			$2,040,280		2,040,280
Citigroup Funding			2,038,780		2,038,780
General Electric Capital Corporation				$3,162,690	3,162,690
Total	$2,982,787	$33,321,158	$4,079,060	$3,162,690	$43,545,695

(A) Two corporate notes are insured by the Federal Depository Insurance Corporation (FDIC). The total is $4,079,060.
(B) Credit Rating based on Moody's rating.

On August 5, 2011, Standard & Poor's Ratings Services (S&P) lowered its long-term credit rating on the United States of America from AAA to AA+. At the same time, S&P affirmed its A-1+ short-term rating on the United States of America.

On August 8, 2011, S&P lowered its issuer credit ratings and related issue ratings on ten of twelve Federal Home Loan Banks (FHLBs) and the senior debt issued by the FHLB System from AAA to AA+. S&P also lowered the ratings on the senior debt issued by the Federal Farm Credit Banks (FFCB) from AAA to AA+, and lowered the senior issue ratings on Fannie Mae (FNMA) and Freddie Mac (FHLMC) from AAA to AA+. The A subordinated debt rating and the C rating on the preferred stock of these entities remained unchanged. Finally, S&P affirmed the short-term issue ratings for these entities at A-1+. As of June 30, 2011, the City's investments in these agencies that were subject to the downgrade were as follows: FHLB $14,319,600, FHLMC $8,241,720 and FNMA $10,759,838.

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. 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, 2011:

Issuer	Investment Type	Amount
Federal Home Loan Bank	Federal Agency Securities	$14,319,600
Federal Home Loan Mortgage Corporation	Federal Agency Securities	8,241,720
Federal National Mortgage Association	Federal Agency Securities	10,759,838
General Electric Capital Corporation	Corporate Note	3,162,690

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.

NOTE 2 - CASH AND INVESTMENTS (Continued)

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.

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	
	2011	2010	2011	2010
Reserves for claims and claim settlement expenses, beginning of year	$17,873,000	$16,171,000	$157,500	$157,500
Provision for claims and claim settlement expenses attributable to insured events of:				
Current year	4,789,000	4,199,000	157,500	157,500
Prior years	3,812,390	1,072,265	217,263	81,100
Total incurred claims and claim settlement expenses	8,601,390	5,271,265	374,763	238,600
Less settlement of claims and claim settlement expenses attributable to insured events of current and prior fiscal years:				
Claims paid -- current year	(22,699)	(305,022)	(317,572)	(148,439)
Claims paid -- prior years	(6,590,691)	(3,264,243)	(57,191)	(90,161)
Total payments	(6,613,390)	(3,569,265)	(374,763)	(238,600)
Reserves for claims and claim settlement expenses, end of year	$19,861,000 **	$17,873,000	$157,500	$157,500
Components of unpaid claim liabilities:				
Reserves for claims and claim settlement expenses	$17,876,000	$16,097,000	$150,000	$150,000
Reserves for unallocated loss settlement expenses	1,985,000	1,776,000	7,500	7,500
Total	$19,861,000	$17,873,000	$157,500	$157,500
Current portion	$1,293,000	$982,981	$157,500	$157,500

** The liability is recorded at present value using a discount rate of 4%. Undiscounted liability claims totaled $21,836,169 at June 30, 2011.

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

Capital Assets activity was as follows for the year ended June 30, 2011:

	June 30, 2010	Additions	Transfers	June 30, 2011
Capital assets not being depreciated:				
Construction in progress	$427,742		($427,742)	
Total capital assets not being depreciated	427,742		(427,742)	
Capital assets being depreciated:				
Capitalized software		$25,977	427,742	$453,719
Vehicles	52,715			52,715
Total capital assets being depreciated	52,715	25,977	427,742	506,434
Less accumulated depreciation for:				
Capitalized software		44,787		44,787
Vehicles	52,715			52,715
Total accumulated depreciation	52,715	$44,787		97,502
Net capital assets being depreciated				408,932
Capital Assets, Net	$427,742			$408,932

NOTE 5 – NET ASSETS

Net Assets is the excess of a fund's assets over all its liabilities. PLAN's Net Assets are divided into the two captions described below:

Invested in Capital Assets, net of related debt is the current net book value of PLAN's capital assets, less the outstanding balance of any debt issued to finance these assets.

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

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
(1) Earned premiums	$5,486	$6,223	$6,300	$6,979	$7,475	$8,085	$7,906	$8,262	$8,326	$7,753
Excess insurance premiums	250	370	445	544	562	777	710	764	776	738
Net Earned	5,236	5,853	5,856	6,436	6,913	7,308	7,196	7,498	7,550	7,015
(2) Investment income allocation:										
FY 10-11	(8)	(135)	68	73	6	105	(15)	14	89	63
FY 09-10	25	(135)	74	79	53	129	36	60	98	
FY 08-09	39	(204)	123	119	140	206	92	106		
FY 07-08	(20)	(267)	192	146	199	259	116			
FY 06-07	47	(215)	173	181	213	237				
FY 05-06	43	(203)	179	207	206					
FY 04-05	53	(71)	170	196						
FY 03-04	69	143	179							
FY 02-03	171	161								
FY 01-02	191									
(3) Net earned premiums and investment revenues	5,846	4,927	7,014	7,437	7,730	8,244	7,425	7,678	7,737	7,078
(4) Unallocated expenses	1,597	1,844	2,137	2,532	2,825	2,799	5,086	5,013	3,673	4,422
(5) Funds available for claims	4,249	3,083	4,877	4,905	4,905	5,445	2,339	2,665	4,064	2,656
(6) Paid (cumulative) as of:										
End of program year		955	59	29	97	15		24	305	23
One year later	580	1,247	529	102	255	57	95	405	363	
Two years later	2,589	5,716	600	873	905	235	1,009	2,064		
Three years later	3,016	8,180	969	1,838	1,471	506	2,954			
Four years later	3,284	8,124	944	1,874	2,894	1,061				
Five years later	3,278	8,667	1,766	1,874	4,649					
Six years later	4,573	8,277	2,026	1,874						
Seven years later	3,289	8,279	2,042							
Eight years later	3,303	8,716								
Nine years later	4,601									
(7) Estimated reserves for claims and claims adjustment expenses										
End of policy year	3,985	3,039	4,302	8,095	8,581	4,938	5,194	5,029	4,199	4,789
One year later	2,832	4,464	3,935	5,170	4,183	4,412	4,351	3,995	6,944	
Two years later	2,119	3,378	3,116	3,151	3,678	2,449	3,595	3,660		
Three years later	1,280	1,166	1,874	1,625	2,429	1,447	2,392			
Four years later	856	1,095	950	790	4,110	937				
Five years later	1,899	789	404	274	442					
Six years later	376	469	182							
Seven years later	190	45	479							
Eight years later	26	179								
Nine years later	39									
(8) Re-estimated incurred claims and claims adjustment expenses:										
End of policy year	3,985	3,994	4,361	8,124	8,678	4,953	5,194	5,053	4,504	4,812
One year later	3,412	5,711	4,464	5,272	4,438	4,469	4,446	4,400	7,307	
Two years later	4,708	9,094	3,716	4,024	4,583	2,684	4,604	5,724		
Three years later	4,296	9,346	2,843	3,463	3,900	1,953	5,346			
Four years later	4,140	9,219	1,894	2,664	7,004	1,998				
Five years later	5,177	9,456	2,170	2,148	5,091					
Six years later	4,949	8,746	2,208	1,874						
Seven years later	3,479	8,324	2,521							
Eight years later	3,329	8,895								
Nine years later	4,640									
(9) Change in estimated net incurred claims from end of policy year	655	4,901	(1,840)	(6,250)	(3,587)	(2,955)	152	671	2,803	
(10) Funds available after estimated claims and net asset distributions	(391)	(5,812)	2,356	3,031	(186)	3,447	(3,007)	(3,059)	(3,243)	(2,156)

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

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
(1)	Earned premiums	$516	$829	$822	$984	$893	$1,004	$892	$918	$1,086	$1,080
	Excess insurance premiums	347	679	658	774	718	858	727	726	885	880
	Net Earned	169	150	164	210	175	146	165	192	201	200
(2)	Investment income allocation:										
	FY 10-11	2		(1)	1	(1)	(1)	(15)	(4)	(1)	(2)
	FY 09-10	2		(1)	1	(1)	(1)	(13)	(4)	1	
	FY 08-09	3	(1)	(1)	2	(1)	(1)	(16)	(5)		
	FY 07-08	7	(1)	(2)	(4)	(15)	(9)	(15)			
	FY 06-07	5	(1)	(1)	(4)	(12)	(4)				
	FY 05-06	4	(1)	3	(2)	(1)					
	FY 04-05	4		2	2						
	FY 03-04	2	(2)	2							
	FY 02-03	3	(2)								
	FY 01-02	9									
(3)	Net earned premiums and investment revenues	210	142	165	206	144	130	106	179	201	198
(4)	Unallocated expenses	1	13						1		
(5)	Funds available for claims	209	129	165	206	144	130	106	178	201	198
(6)	Paid (cumulative) as of:										
	End of program year	63	214	19	165	208	225	415	379	148	318
	One year later	76	243	105	273	420	294	796	407	242	
	Two years later	82	237	102	283	424	181	859	374		
	Three years later	82	255	199	283	187	181	859			
	Four years later	81	255	199	132	187	177				
	Five years later	81	255	199	132	187					
	Six years later	81	255	199	132						
	Seven years later	81	255	199							
	Eight years later	81	255								
	Nine years later	81									
(7)	Estimated reserves for claims and claims adjustment expenses										
	End of policy year	150	157	157	157	158	158	158	158	158	158
	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	213	371	176	322	365	383	573	537	306	476
	One year later	76	243	105	273	420	294	796	407	242	
	Two years later	82	237	102	283	424	181	859	374		
	Three years later	82	255	199	283	187	181	859			
	Four years later	81	255	199	132	187	177				
	Five years later	81	255	199	132	187					
	Six years later	81	255	199	132						
	Seven years later	81	255	199							
	Eight years later	81	255								
	Nine years later	81									
(9)	Change in estimated net incurred claims from end of policy year	(132)	(116)	23	(190)	(178)	(206)	286	(163)	(64)	
(10)	Net Asset Adjustment FY 04-05		104								
(11)	Funds available after estimated claims	128	(22)	(34)	74	(43)	(47)	(753)	(196)	(41)	(278)

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 allocation of net asset 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 distributions.

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ABAG POOLED LIABILITY ASSURANCE NETWORK CORPORATION (PLAN)
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED
JUNE 30, 2011

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ABAG POOLED LIABILITY ASSURANCE NETWORK CORPORATION (PLAN)
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

For the Year Ended June 30, 2011

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MAZE &
ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 • FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

MEMORANDUM ON INTERNAL CONTROL

December 19, 2011

To the Board of Directors of the
ABAG Pooled Liability Assurance Network Corporation (PLAN)
Oakland, California

In planning and performing our audit of the financial statements of the ABAG Pooled Liability Assurance Network Corporation (PLAN) as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered PLAN's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PLAN's internal control. Accordingly, we do not express an opinion on the effectiveness of PLAN's internal control. As PLAN's administration and the majority of its internal controls are provided by the Association of Bay Area Government (the Association) staff we included tests of procedures and controls performed by them as part of our work.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of PLAN's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This communication is intended solely for the information and use of management, the Board, others within the organization, and agencies and pass-through entities requiring compliance with generally accepted government auditing standards, and is not intended to be and should not be used by anyone other than these specified parties.

Maze + Associates

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MAZE &
ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 • FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

REQUIRED COMMUNICATIONS

December 19, 2011

To the Board of Directors of the
ABAG Pooled Liability Assurance Network Corporation (PLAN)
Oakland, California

We have audited the financial statements of the ABAG Pooled Liability Assurance Network Corporation (PLAN) as of and for the year ended June 30, 2011 and have issued our report thereon dated December 19, 2011. Professional standards require that we advise you of the following matters relating to our audit.

Financial Statement Audit Assurance: Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit in accordance with generally accepted auditing standards does not provide absolute assurance about, or guarantee the accuracy of, the financial statements. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is an inherent risk that material errors, fraud, or illegal acts may exist and not be detected by us.

Other Information Included with the Audited Financial Statements: Pursuant to professional standards, our responsibility as auditors for other information in documents containing PLAN's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. Our responsibility also includes communicating to you any information that we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements. This other information and the extent of our procedures is explained in our audit report.

Accounting Policies: Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by PLAN is included in Note 1 to the financial statements. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during 2011. During the year, the following pronouncements became effective without materially impacting PLAN's financial statements:

- **Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions**

  This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

  Disclosure of the policies in the notes to the financial statements is required.

  The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

- **Statement No. 59 - Financial Instruments Omnibus**

  The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This is a technical clean up pronouncement that had no material impact to the financial statements.

Unusual Transactions, Controversial or Emerging Areas: No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during 2011.

Estimates: Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are unbilled receivables. The PLAN has recorded claims liabilities approximating $20 million. Actual losses and the ultimate payment may vary from this estimate.

Disagreements with Management: For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to PLAN's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

ABAG POOLED LIABILITY ASSURANCE NETWORK CORPORATION (PLAN)

REQUIRED COMMUNICATIONS

Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Retention Issues: We did not discuss any major issues with management regarding the application of accounting principles and auditing standards that resulted in a condition to our retention as PLAN's auditors.

Difficulties: We encountered no serious difficulties in dealing with management relating to the performance of the audit.

Audit Adjustments: For purposes of this communication, professional standards define an audit adjustment, whether or not recorded by the PLAN, as a proposed correction of the financial statements that, in our judgment, may not have been detected except through the audit procedures performed. These adjustments may include those proposed by us but not recorded by PLAN that could potentially cause future financial statements to be materially misstated, even though we have concluded that the adjustments are not material to the current financial statements.

We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the PLAN's financial reporting process.

Uncorrected Misstatements: Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the audit committee.

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This report is intended solely for the information and use of the Board, its committees, and management and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

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