ABAG POOLED LIABILITY ASSURANCE NETWORK CORPORATION (PLAN)

BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
ABAG PLAN Corporation
Oakland, California

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, 2012, 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 opinions 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 opinions.

In our opinion, the 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, 2012 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.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Ten-Year Claims Development Information 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 this information in accordance with generally accepted auditing standards 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

December 14, 2012

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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, 2012 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 2012 FINANCIAL HIGHLIGHTS

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

- Total assets at June 30, 2012 were \$45.1 million. At June 30, 2011, total assets were \$47.2 million.

- Total revenues, including program and general revenues, were \$9.1 million in FY 2012, while total expenses were \$15.2 million.

- Total net assets decreased by \$6.1 million in FY 2012 to a new total of \$20.5 million at June 30, 2012.

- General Liability program operating revenues were \$5.1 million in FY 2012, while Property Liability operating revenues were \$992 thousand and Administration operating revenues were \$2.6 million.

- General Liability program operating expenses were $11.2 million in FY 2012, while Property Liability operating expenses were $1.2 million and Administration operating expenses were $2.7 million.

- General revenues, comprising investment income, totaled $450 thousand in FY 2012, of which $423 thousand and $27 thousand were allocated to General Liability and Property Liability funds respectively (see Investment Activities below).

- General Liability net assets were $19.1 million at June 30, 2012, while Property Liability net assets were $1.1 million and Administration net assets were $244 thousand at that date.

CLAIMS SETTLEMENT AND RESERVES FOR CLAIMS

Above-deductible General Liability claims paid totaled $6.1 million in FY 2012 compared to $6.6 million during FY 2011. In FY 2012, the largest claim payout was for $2.1 million for a Police Liability Claim. PLAN also experienced three very large bodily injury claims this period with settlement payments of $876 thousand, $645 thousand and $700 thousand, respectively. The reserve level for claims was increased to $23.5 million in FY 2012 from $19.9 million in FY 2011. The increase in reserves reflects an increase in the severity of recent and prospective claim activity. PLAN paid losses have exceeded actuarial expected losses for the prior two fiscal years.

Above-deductible Property claims paid during FY 2012 amounted to $335 thousand. Liability reserve for Property claims were $250 thousand at June 30, 2012, and the reserves continue to be carefully analyzed and are capped at the PLAN aggregate stop loss limit..

INVESTMENT ACTIVITIES

As required by GASB, PLAN reports its investments at fair value. At June 30, 2012, PLAN has $3.1 million invested in the Local Agency Investment Fund (LAIF), $34.7 million in federal agency securities, and $5.0 million in corporate notes. With fair market value adjustments, the investment portfolio realized total earnings of $449 thousand. The overall average yield was 2.06% excluding adjustments for fair value.

The change in market values of PLAN's investment portfolio between June 30, 2011 and June 30, 2012 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 2012 AND OUTLOOK FOR FY 2013

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 2012, PLAN will continue to work on customizing the claim reporting system to meet the specific reporting needs of ABAG PLAN and its members. During FY 2012, PLAN released a fully automated deductible billing platform. The iVOS system has been 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.

In FY 2013, 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 has completed property appraisals and boiler inspections for key facilities and an Earthquake PML study is planned in FY 2013PLAN will also continue to focus on collection (subrogation) of property damage losses from responsible third parties. Our recovery efforts continue to realize significant financial savings against property losses in the past.

During FY 2012, PLAN offered and will continue to offer in FY 2013 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 focus on aggressive Risk Management Best Practices for Sewer and Storm Water management systems for member agencies.

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, 2012

	General Liability Fund	Property Liability Fund	Administration Fund	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents (Note 2)	$1,533,654	$1,332,921	$469,800	$3,336,375
Investments, at Fair Value (Note 2)	39,761,612			39,761,612
Total Cash and Investments	41,295,266	1,332,921	469,800	43,097,987
Receivables:				
Due from Members	1,309,845	50	61	1,309,956
Interest	316,607			316,607
Total Current Assets	42,921,718	1,332,971	469,861	44,724,550
Noncurrent Assets:				
Due from ABAG			40,000	40,000
Capital Assets, Net of Accumulated Depreciation (Note 4)	377,312			377,312
Total Noncurrent Assets	377,312		40,000	417,312
Total Assets	43,299,030	1,332,971	509,861	45,141,862
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	669,595		265,735	935,330
Reserves for Claims and Claim Adjustment Expenses (Note 3)	2,044,000	242,500		2,286,500
Reserves for Unallocated Loss Adjustment Expenses (Note 3)		7,500		7,500
Total Current Liabilities	2,713,595	250,000	265,735	3,229,330
Noncurrent Liabilities (Note 3):				
Reserves for Claims and Claim Adjustment Expenses	19,101,000			19,101,000
Reserves for Unallocated Loss Adjustment Expenses	2,347,000			2,347,000
Total Noncurrent Liabilities	21,448,000			21,448,000
Total Liabilities	24,161,595	250,000	265,735	24,677,330
NET ASSETS (Note 5)				
Invested in Capital Assets	377,312			377,312
Unrestricted	18,760,123	1,082,971	244,126	20,087,220
Total Net Assets	$19,137,435	$1,082,971	$244,126	$20,464,532

See accompanying notes to basic financial statements

ABAG PLAN CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	General Liability Fund	Property Liability Fund	Administration Fund	Total
PROGRAM REVENUES				
Premiums from Members:				
General Liability	$5,118,459			$5,118,459
Administration			$2,550,000	2,550,000
Property Insurance		$992,209		992,209
Total Program Revenues	5,118,459	992,209	2,550,000	8,660,668
PROGRAM EXPENSES				
Provision for Claims and Claim Adjustment Expenses (Note 3)	8,879,310	427,036		9,306,346
Property Insurance Coverage		801,967		801,967
Excess Insurance Coverage	634,259		15,491	649,750
Depreciation	46,620			46,620
Management and Administration	2,766		2,440,126	2,442,892
Loss Prevention Programs	1,647,529			1,647,529
Contract Services			271,819	271,819
Other Expenses	350		11,887	12,237
Total Program Expenses	11,210,834	1,229,003	2,739,323	15,179,160
Net Program Operating Loss	(6,092,375)	(236,794)	(189,323)	(6,518,492)
GENERAL REVENUE				
Investment Income	422,813	27,001		449,814
Total General Revenue	422,813	27,001		449,814
CHANGES IN NET ASSETS	(5,669,562)	(209,793)	(189,323)	(6,068,678)
BEGINNING NET ASSETS	24,806,997	1,292,764	433,449	26,533,210
ENDING NET ASSETS	$19,137,435	$1,082,971	$244,126	$20,464,532

See accompanying notes to basic financial statements

ABAG PLAN CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	General Liability Fund	Property Liability Fund	Administration Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from members	$4,419,660	$992,209	$2,509,939	$7,921,808
Payments for insurance and contract services	(1,941,952)	(801,967)	(287,310)	(3,031,229)
Payments to ABAG	(2,766)		(2,443,304)	(2,446,070)
Claims paid	(5,248,310)	(334,536)		(5,582,846)
Other payments	(350)		(11,887)	(12,237)
Net cash flows from (used by) operating activities	(2,773,718)	(144,294)	(232,562)	(3,150,574)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(15,000)			(15,000)
Net cash flows from (used by) capital and related financing activities	(15,000)			(15,000)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from investments	801,296			801,296
Interest received	421,027	27,001		448,028
Net cash flows from investing activities	1,222,323	27,001		1,249,324
Net cash flows	(1,566,395)	(117,293)	(232,562)	(1,916,250)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,100,049	1,450,214	702,362	5,252,625
CASH AND CASH EQUIVALENTS AT END OF YEAR	$1,533,654	$1,332,921	$469,800	$3,336,375
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	($6,092,375)	($236,794)	($189,323)	($6,518,492)
Adjustments to reconcile operating loss to cash flows from operating activities:				
Depreciation	46,620			46,620
Change in assets and liabilities:				
Receivable from members	(698,799)		(40,061)	(738,860)
Payables	339,836		(3,178)	336,658
Reserves for claims and claim adjustment expenses	3,269,000	92,500		3,361,500
Reserves for unallocated loss adjustment expenses	362,000			362,000
Net cash flows from operating activities	($2,773,718)	($144,294)	($232,562)	($3,150,574)

See accompanying notes to basic financial statements

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 $2,505,818 for these services and $251,966 for contract services in the fiscal year ended June 30, 2012. Of these services, $265,535 was due to ABAG at June 30, 2012.

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 Assets 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.

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, 2012 amounted to $1,436,226.

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, 2012:

	Cash and Cash Equivalents	Investments	Total
Cash in Banks	$281,381		$281,381
Local Agency Investment Fund	3,054,994		3,054,994
U.S. Agency Obligations:			
Federal Home Loan Bank		$8,139,700	8,139,700
Federal Loan Mortgage Corporation		8,105,670	8,105,670
Federal National Mortgage Association		18,473,502	18,473,502
Corporate Notes:			
Citigroup Funding		2,000,740	2,000,740
General Electric Capital Corporation		3,042,000	3,042,000
Total Cash and Investments	$3,336,375	$39,761,612	$43,097,987

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.

(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.

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	Total
U.S. Agency Obligations:			
Federal Home Loan Bank	$6,031,000	$2,108,700	$8,139,700
Federal Home Loan Mortgage	8,105,670		8,105,670
Federal National Mortgage Association	14,365,342	4,108,160	18,473,502
Corporate Notes:			
Citigroup Funding	2,000,740		2,000,740
General Electric Capital Corporation	3,042,000		3,042,000
Subtotal Investments	33,544,752	6,216,860	39,761,612
Cash and Cash Equivalents:			
Cash in Banks	281,381		281,381
Local Agency Investment Fund	3,054,994		3,054,994
Subtotal Cash and Cash Equivalents	3,336,375		3,336,375
Total Cash and Investments	$36,881,127	$6,216,860	$43,097,987

As of year end, the weighted average maturity of the investments in the LAIF investment pool is approximately 268 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, 2012 for each investment type:

	Rating at year end			
	Noted Rated	Aaa (A)	A1 (B)	Total
Local Agency Investment Fund	$3,054,994			$3,054,994
U.S. Agency Obligations				
Federal Home Loan Bank		$8,139,700		8,139,700
Federal Loan Mortgage Corporation		8,105,670		8,105,670
Federal National Mortgage Association		18,473,502		18,473,502
Corporate Notes				
Citigroup Funding		2,000,740		2,000,740
General Electric Capital Corporation			$3,042,000	3,042,000
Total	$3,054,994	$36,719,612	$3,042,000	$42,816,606

(A) One corporate note is insured by the Federal Depository Insurance Corporation (FDIC). The total is $2,000,740.
(B) Credit Rating based on Moody's rating.

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 investments, are as follows at June 30, 2012:

Issuer	Investment Type	Amount
Federal Home Loan Bank	Federal Agency Securities	$8,139,700
Federal Home Loan Mortgage Corporation	Federal Agency Securities	8,105,670
Federal National Mortgage Association	Federal Agency Securities	18,473,502
General Electric Capital Corporation	Corporate Note	3,042,000

NOTE 2 - CASH AND INVESTMENTS (Continued)

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.

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	
	2012	2011	2012	2011
Reserves for claims and claim settlement expenses, beginning of year	$19,861,000	$17,873,000	$157,500	$157,500
Provision for claims and claim settlement expenses attributable to insured events of:				
Current year	4,918,000	4,789,000	242,500	157,500
Prior years	4,819,310 *	3,812,390	184,536	217,263
Total incurred claims and claim settlement expenses	9,737,310	8,601,390	427,036	374,763
Less settlement of claims and claim settlement expenses attributable to insured events of current and prior fiscal years:				
Claims paid -- current year	(70,901)	(22,699)	(251,657)	(317,572)
Claims paid -- prior years	(6,035,409)	(6,590,691)	(82,879)	(57,191)
Total payments	(6,106,310)	(6,613,390)	(334,536)	(374,763)
Reserves for claims and claim settlement expenses, end of year	$23,492,000 **	$19,861,000	$250,000	$157,500
Components of unpaid claims liabilities:				
Reserves for claims and claim settlement expenses	$21,145,000	$17,876,000	$242,500	$150,000
Reserves for unallocated loss settlement expenses	2,347,000	1,985,000	7,500	7,500
Total	$23,492,000	$19,861,000	$250,000	$157,500
Current portion	$2,044,000	$1,293,000	$250,000	$157,500

* Includes costs to be recovered from members

** The liability is recorded at present value using a discount rate of 4%. Undiscounted liability claims totaled $25,814,021 at June 30, 2012.

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, 2012:

	June 30, 2011	Additions	June 30, 2012
Capital assets being depreciated:			
Capitalized software	$453,719	$15,000	$468,719
Vehicles	52,715		52,715
Total capital assets being depreciated	506,434	15,000	521,434
Less accumulated depreciation for:			
Capitalized software	44,787	46,620	91,407
Vehicles	52,715		52,715
Total accumulated depreciation	97,502	$46,620	144,122
Net capital assets being depreciated	408,932		377,312
Capital Assets, Net	$408,932		$377,312

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 is the current net book value of PLAN's capital assets.

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

NOTE 6 – COMMITMENTS AND CONTINGENCIES

City of San Mateo Withdrawal

As of July 1, 2011 the City of San Mateo elected to withdraw its membership from the PLAN Program. Bickmore Risk Management Services, PLAN's actuary has calculated San Mateo's withdrawal assessment in which the City of San Mateo may owe or have a refund due in each year until fiscal 2015-16. As of June 30, 2012, the San Mateo settlement receivable due to PLAN was $48,719.

NOTE 7 – SUBSEQUENT EVENT

City of Los Altos Withdrawal

As of July 1, 2012, the City of Los Altos elected to withdraw its membership from the PLAN Program. An assessment will be made as to whether the City will owe or have a refund beginning fiscal year 2013.

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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,

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
(1) Earned premiums	$6,223	$6,300	$6,979	$7,475	$8,085	$7,906	$8,262	$8,326	$7,753	$7,562
Excess insurance premiums	370	445	544	562	777	710	764	776	738	634
Net Earned	5,853	5,856	6,436	6,913	7,308	7,196	7,498	7,550	7,015	6,928
(2) Investment income allocation:										
FY 11-12	(127)	51	68	4	85	(76)	2	58	51	76
FY 10-11	(135)	68	73	6	105	(15)	14	89	63	
FY 09-10	(135)	74	79	53	129	36	60	98		
FY 08-09	(204)	123	119	140	206	92	106			
FY 07-08	(267)	192	146	199	259	116				
FY 06-07	(215)	173	181	213	237					
FY 05-06	(203)	179	207	206						
FY 04-05	(71)	170	196							
FY 03-04	143	179								
FY 02-03	161									
(3) Net earned premiums and investment revenues	4,800	7,065	7,505	7,734	8,329	7,349	7,680	7,795	7,129	7,004
(4) Unallocated expenses	1,844	2,137	2,532	2,825	2,799	5,086	5,013	3,673	4,422	3,579
(5) Funds available for claims	2,956	4,928	4,973	4,909	5,530	2,263	2,667	4,122	2,707	3,425
(6) Paid (cumulative) as of:										
End of program year	955	59	29	97	15		24	305	23	71
One year later	1,247	529	102	255	57	95	405	363	359	
Two years later	5,716	600	873	905	235	1,009	2,064	1,474		
Three years later	8,180	969	1,838	1,471	506	2,954	2,595			
Four years later	8,124	944	1,874	2,894	1,061	5,719				
Five years later	8,667	1,766	1,874	4,649	1,646					
Six years later	8,277	2,026	1,874	4,721						
Seven years later	8,279	2,042	1,876							
Eight years later	8,716	2,608								
Nine years later	8,769									
(7) Estimated reserves for claims and claims adjustment expenses										
End of policy year	3,039	4,302	8,095	8,581	4,938	5,194	5,029	4,199	4,789	4,918
One year later	4,464	3,935	5,170	4,183	4,412	4,351	3,995	6,944	7,353	
Two years later	3,378	3,116	3,151	3,678	2,449	3,595	3,660	4,643		
Three years later	1,166	1,874	1,625	2,429	1,447	2,392	2,871			
Four years later	1,095	950	790	4,110	937	2,231				
Five years later	789	404	274	442	281					
Six years later	469	182		715						
Seven years later	45	479	87							
Eight years later	179	28								
Nine years later	250									
(8) Re-estimated incurred claims and claims adjustment expenses:										
End of policy year	3,994	4,361	8,124	8,678	4,953	5,194	5,053	4,504	4,812	4,883
One year later	5,711	4,464	5,272	4,438	4,469	4,446	4,400	7,307	7,712	
Two years later	9,094	3,716	4,024	4,583	2,684	4,604	5,724	6,117		
Three years later	9,346	2,843	3,463	3,900	1,953	5,346	5,466			
Four years later	9,219	1,894	2,664	7,004	1,998	7,950				
Five years later	9,456	2,170	2,148	5,091	1,927					
Six years later	8,746	2,208	1,874	5,436						
Seven years later	8,324	2,521	1,963							
Eight years later	8,895	2,636								
Nine years later	9,019									
(9) Change in estimated net incurred claims from end of policy year	5,025	(1,725)	(6,161)	(3,242)	(3,026)	2,756	413	1,613	2,900	
(11) Funds available after estimated claims and net asset distributions	(6,063)	2,292	3,010	(527)	3,603	(5,687)	(2,799)	(1,995)	(5,005)	(1,458)

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

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
(1)	Earned premiums	$829	$822	$984	$893	$1,004	$892	$918	$1,086	$1,080	$992
	Excess insurance premiums	679	658	774	718	858	727	726	885	880	802
	Net Earned	150	164	210	175	146	165	192	201	200	190
(2)	Investment income allocation:										
	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)	(1)	2	(1)	(1)	(16)	(5)			
	FY 07-08	(1)	(2)	(4)	(15)	(9)	(15)				
	FY 06-07	(1)	(1)	(4)	(12)	(4)					
	FY 05-06	(1)	3	(2)	(1)						
	FY 04-05		2	2							
	FY 03-04	(2)	2								
	FY 02-03	(2)									
(3)	Net earned premiums and investment revenues	142	164	208	143	129	90	175	200	194	189
(4)	Unallocated expenses	13						1			
(5)	Funds available for claims	129	164	208	143	129	90	174	200	194	189
(6)	Paid (cumulative) as of:										
	End of program year	214	19	165	208	225	415	379	148	318	252
	One year later	243	105	273	420	294	796	407	242	409	
	Two years later	237	102	283	424	181	859	374	236		
	Three years later	255	199	283	187	181	859	371			
	Four years later	255	199	132	187	177	859				
	Five years later	255	199	132	187	177					
	Six years later	255	199	132	187						
	Seven years later	255	199	132							
	Eight years later	255	199								
	Nine years later	255									
(7)	Estimated reserves for claims and claims adjustment expenses										
	End of policy year	157	157	157	158	158	158	158	158	158	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	371	176	322	365	383	573	537	306	476	502
	One year later	243	105	273	420	294	796	407	242	409	
	Two years later	237	102	283	424	181	859	374	236		
	Three years later	255	199	283	187	181	859	371			
	Four years later	255	199	132	187	177	859				
	Five years later	255	199	132	187	177					
	Six years later	255	199	132	187						
	Seven years later	255	199	132							
	Eight years later	255	199								
	Nine years later	255									
(9)	Change in estimated net incurred claims from end of policy year	(116)	23	(190)	(178)	(206)	286	(166)	(70)	(67)	
(10)	Net Asset Adjustment FY 04-05	104									
(11)	Funds available after estimated claims	(22)	(35)	76	(44)	(48)	(769)	(197)	(36)	(215)	(313)

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) This line shows the funds available after reestimated claims and distributions.