ABAG POOLED LIABILITY ASSURANCE NETWORK CORPORATION (PLAN)

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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

For the Year Ended June 30, 2014

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MAZE
& ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the ABAG Pooled Liability Assurance Network Corporation (PLAN) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise PLAN's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and each major fund of PLAN as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2014, but did not have a material effect on the financial statements:

Statement 65 – *Items Previously Reported as Assets and Liabilities*.

Statement 67 – *Financial Reporting for Pension Plans*.

Statement 70 – *Accounting and Reporting for Non-exchange Financial Guarantees.*

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

Other Matters

Required Supplementary Information

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

Maze + Associates

Pleasant Hill, California
January 20, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The ABAG PLAN Corporation (PLAN) has issued the financial reports for fiscal year ending June 30, 2014 based on the provisions of the Government Accounting Standards Board Statement 34, "Basic Financial Statement and Management's Discussion & Analysis—for State and Local Governments," (GASB 34). One of the most significant requirements of GASB 34 is for government entities to prepare financial reports using the full accrual basis of accounting. PLAN has always used this method of accounting; changes in its financial reports are primarily in the format of presentation.

GASB 34 requires PLAN to provide an overview of financial activities in the fiscal year and it should be read in conjunction with the accompanying financial statements.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The Basic Financial Statements required under GASB 34 include:

(1) Statement of Net Position—provides information about the financial position of PLAN, including assets, liabilities and net position. The difference between this statement and the traditional Balance Sheet is that net position (fund equity) is shown as the difference between total assets and total liabilities.

(2) Statement of Activities—presents revenues, expenses and changes in net assets for the fiscal year. It differs with the traditional Statement of Revenues and Expenses in that revenues and expenses directly attributable to operating programs are presented separately from investment income and financing costs.

(3) Statement of Cash Flows—provides itemized categories of cash flows. This statement differs from the traditional Statement of Cash Flows in that it presents itemized categories of cash in flows and out flows instead of computing the net cash flows from operation by backing out non-cash revenues and expenses from net operating income. In addition, cash flows related to investments and financing activities are presented separately.

FISCAL YEAR 2014 FINANCIAL HIGHLIGHTS

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

- Total assets at June 30, 2014 were $45.5 million. At June 30, 2013, total assets were $44.4 million.

- Total revenues, including program and general revenues, were $12.0 million in FY 2014, while total expenses were $5.5 million including a $987 thousand reduction for provision of claims and claim adjustment expenses due to favorable claim development in the General Liability Fund.

- Total net position increased by $6.5 million in FY 2014 to a new total of $14.6 million at June 30, 2014. The increase is primarily attributed to favorable claim development in which the claim reserves for the General Liability Fund was reduced to $30.0 million in FY 2014 from $35.5 million in FY 2013.

- General Liability program operating revenues were $6.6 million in FY 2014, while Property Liability operating revenues were $1.4 million and Administration operating revenues were $2.9 million.

- General Liability program operating expenses were $1.2 million in FY 2014, while Property Liability operating expenses were $1.7 million and Administration operating expenses were $2.6 million.

- General revenues, comprising investment income, totaled $1.3 million in FY 2014 with the recognition of fair market value adjustments, of which $1.2 million and $27 thousand were allocated to General Liability and Property Liability funds, respectively.

- General Liability net position was $13.1 million at June 30, 2014, while Property Liability net position was $824 thousand and Administration net position was $743 thousand at that date.

CLAIMS SETTLEMENT AND RESERVES FOR CLAIMS

Above-deductible General Liability claims paid totaled $4.5 million in FY 2014 compared to $2.7 million during FY 2013. This was a function of the closure of more mature and higher valued claims. The reserve level for claims was decreased to $30.0 million in FY 2014 from $35.5 million in FY 2013. The decrease in reserves is primarily a function of an overall reduction in expected losses and lower than anticipated loss development.

Above-deductible Property claims paid during FY 2014 amounted to $398 thousand compared to $196 thousand during FY 2013. Liability reserve for Property claims were $350 thousand at June 30, 2014. Property losses at the program level have breached the Stop Loss Aggregate (SLA) feature for the 2008/09, 2010/11 and 2011/12 program years. Our review of the property claims paid in each year noted indicates that PLAN will be recouping approximately $153,700 from our insurer for these fiscal years. These recoveries will be processed in the upcoming fiscal year (FY 2015).

INVESTMENT ACTIVITIES

As of June 30, 2014, total book value (including the Local Agency Investment Fund) of the portfolio was $44.1 million, comprised of investments in LAIF and federal agency securities. PLAN has $1.1 million invested in the Local Agency Investment Fund (LAIF) and $43.0 million in federal agency securities. Total market value of the investments was $43.4 million as of that date.

The investment income was $523 thousand before fair market value adjustments. The investment income was $1.3 million with fair market value adjustments. The overall average yield was 1.57% when the adjustments for fair market value are excluded.

At June 30, 2014, the market value of PLAN's investments is $674 thousand below book value. With the exception of PLAN's investment in LAIF, all other investments are fixed income securities. The market value of a fixed income security falls during periods of rising interest rates, and increases when interest rates decline. It is PLAN's investment objective to hold all securities to maturity; therefore, temporary unrealized gains and losses have no real financial significance for the pool. As all securities in PLAN's investment portfolio are highly rated, they are generally regarded as safe investments that will mature at their full face values.

MAJOR PROGRAM INITIATIVES IN FY 2014 AND OUTLOOK FOR FY 2015

The Inverse Tail Claim program (ITC) was closed effective June 30, 2013. The program exposure to these latent claims has been significantly lower than anticipated and no further reserve adjustment activity is warranted for these claims.

In FY 2015, PLAN will focus on continuing to provide stable loss funding rates for the Liability Program. Premium stabilization and broadening coverage will be a focus of our Property Program.

During FY 2015, PLAN contracted an outside Third Party Claims Administrator (York Risk Services Group) to handle its claims administration responsibilities. The change is projected to save approximately $1.3 million in Administrative costs over the next two year period. PLAN has migrated to a new automated claim system and platform (Claims Connect and FOCUS) and is customizing claim reports and Risk Management reports to meet the specific reporting needs of PLAN and its members. PLAN will continue its focus on collection (subrogation) of property damage losses from responsible third parties by retaining a dedicated subrogation specialist. Our recovery efforts continue to realize significant financial savings and reduce our property net claim payments.

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

CONTACTING PLAN'S FINANCIAL MANAGEMENT

The Basic Financial Statements are intended to provide PLAN members, citizens, creditors and other interested parties a general overview of PLAN's finances. Questions about these statements should be directed to ABAG PLAN Corporation, 101 Eighth Street, Oakland, CA 94607.

ABAG PLAN CORPORATION
STATEMENT OF NET POSITION
JUNE 30, 2014

	General Liability Fund	Property Liability Fund	Administration Fund	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents (Note 2)	$29,970	$1,174,646	$967,649	$2,172,265
Investments, at Fair Value (Note 2)	42,275,620			42,275,620
Total Cash and Investments	42,305,590	1,174,646	967,649	44,447,885
Receivables:				
Due from Members	556,224		20,000	576,224
Interest	153,266			153,266
Total Current Assets	43,015,080	1,174,646	987,649	45,177,375
Noncurrent Assets:				
Capital Assets, Net of Accumulated Depreciation (Note 4)	282,573			282,573
Total Noncurrent Assets	282,573			282,573
Total Assets	43,297,653	1,174,646	987,649	45,459,948
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	201,598		244,324	445,922
Reserves for Claims and Claim Adjustment Expenses (Note 3)	1,388,000	350,000		1,738,000
Total Current Liabilities	1,589,598	350,000	244,324	2,183,922
Noncurrent Liabilities (Note 3):				
Reserves for Claims and Claim Adjustment Expenses	25,712,000			25,712,000
Reserves for Unallocated Loss Adjustment Expenses	2,925,000			2,925,000
Total Noncurrent Liabilities	28,637,000			28,637,000
Total Liabilities	30,226,598	350,000	244,324	30,820,922
NET POSITION (Note 5)				
Net Investment in Capital Assets	282,573			282,573
Unrestricted	12,788,482	824,646	743,325	14,356,453
Total Net Position	$13,071,055	$824,646	$743,325	$14,639,026

See accompanying notes to basic financial statements

ABAG PLAN CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	General Liability Fund	Property Liability Fund	Administration Fund	Total
PROGRAM REVENUES				
Premiums from Members:				
General Liability	$6,565,078			$6,565,078
Administration			$2,850,001	2,850,001
Property Insurance		$1,356,510		1,356,510
Total Program Revenues	6,565,078	1,356,510	2,850,001	10,771,589
PROGRAM EXPENSES				
Provision for Claims and Claim Adjustments (Note 3)	(987,333)	497,912		(489,421)
Property Insurance Coverage		1,165,259		1,165,259
Excess Insurance Coverage	672,993		18,360	691,353
Depreciation (Note 4)	47,369			47,369
Management and Administration			2,378,524	2,378,524
Loss Prevention Programs	728,923			728,923
Contract Services			210,157	210,157
Other Expenses	715,135		42,524	757,659
Total Program Expenses	1,177,087	1,663,171	2,649,565	5,489,823
Net Program Operating Income (Loss)	5,387,991	(306,661)	200,436	5,281,766
GENERAL REVENUE				
Investment Income	1,240,058	27,342		1,267,400
Total General Revenue	1,240,058	27,342		1,267,400
CHANGE IN NET POSITION	6,628,049	(279,319)	200,436	6,549,166
NET POSITION - BEGINNING	6,443,006	1,103,965	542,889	8,089,860
NET POSITION - ENDING	$13,071,055	$824,646	$743,325	$14,639,026

See accompanying notes to basic financial statements

ABAG PLAN CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	General Liability Fund	Property Liability Fund	Administration Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from members	$7,266,380	$1,356,510	$2,860,001	$11,482,891
Payments for insurance and contract services	(1,579,344)	(1,165,259)	(228,517)	(2,973,120)
Payments to ABAG			(2,392,759)	(2,392,759)
Claims paid	(4,454,667)	(397,912)		(4,852,579)
Other payments	(715,135)		(42,524)	(757,659)
Net cash flows from (used by) operating activities	517,234	(206,661)	196,201	506,774
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase (sale) of investments	(4,560,760)			(4,560,760)
Interest received	1,304,131	27,342		1,331,473
Net cash flows from investing activities	(3,256,629)	27,342		(3,229,287)
Net cash flows	(2,739,395)	(179,319)	196,201	(2,722,513)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,769,365	1,353,965	771,448	4,894,778
CASH AND CASH EQUIVALENTS AT END OF YEAR	$29,970	$1,174,646	$967,649	$2,172,265
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	$5,387,991	($306,661)	$200,436	$5,281,766
Adjustments to reconcile operating loss to cash flows from operating activities:				
Depreciation	47,369			47,369
Change in assets and liabilities:				
Receivable from members	701,302		10,000	711,302
Payables	(177,428)		(14,235)	(191,663)
Reserves for claims and claim adjustment expenses	(4,914,000)	107,500		(4,806,500)
Reserves for unallocated loss adjustment expenses	(528,000)	(7,500)		(535,500)
Net cash flows from operating activities	$517,234	($206,661)	$196,201	$506,774

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 supports. PLAN paid ABAG $2,469,657 for these services and $190,399 for contract services in the fiscal year ended June 30, 2014.

The members of PLAN must be members of ABAG, but not all ABAG members are members of PLAN. For that reason, PLAN is not a component unit of ABAG.

B. Basis of Presentation

PLAN's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

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

The Statement of Net Position and the Statement of Activities display the overall financial activities of PLAN's programs. These statements display the *business-type activities* of PLAN that are financed in whole or in part by fees charged to external parties.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Major Funds

Major funds are defined as funds that have either assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenses equal to at least ten percent of their fund-type total and five percent of the grand total.

PLAN reported all its enterprise funds as major funds in the accompanying financial statements:

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

Property Liability Fund – this fund accounts for revenues and expenses for the property liability program for its participating members.

Administration Fund – this fund accounts for revenues and expenses for management and administration activities of PLAN.

D. Basis of Accounting

PLAN accounts for all transactions in enterprise funds, which are separate sets of self-balancing accounts that comprise assets, liabilities, deferred inflows/outflows of resources, net position, revenues and expenses. All transactions are accounted for on the accrual basis, which means that expenses are recorded when the liability is incurred and revenues are recorded when earned, rather than when cash changes hands.

<u>Premiums from Members</u> - 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.

<u>Losses and Claims</u> - 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, 2014 amounted to $691,353.

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, 2014:

	Cash and Cash Equivalents	Investments	Total
Cash in Banks	$1,028,145		$1,028,145
Local Agency Investment Fund	1,144,120		1,144,120
U.S. Agency Securities:			
Federal National Mortgage Association		$16,672,510	16,672,510
Federal Home Loan Bank		13,226,730	13,226,730
Federal Farm Credit Bank		3,942,220	3,942,220
Federal Loan Mortgage Corporation		8,434,160	8,434,160
Total Cash and Investments	$2,172,265	$42,275,620	$44,447,885

A. Authorized Investments by PLAN

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

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

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

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 the earlier of stated maturity date or callable dates, if applicable:

Cash and Investments	12 Months or less	13 to 24 Months	25 to 60 Months	Total
U.S. Agency Securities:				
Federal National Mortgage Association	$13,711,720		$2,960,790	$16,672,510
Federal Home Loan Bank	11,203,570	$2,023,160		13,226,730
Federal Farm Credit Bank	3,942,220			3,942,220
Federal Loan Mortgage Corporation	8,434,160			8,434,160
Subtotal Investments	37,291,670	2,023,160	2,960,790	42,275,620
Cash and Cash Equivalents:				
Cash in Banks	1,028,145			1,028,145
Local Agency Investment Fund	1,144,120			1,144,120
Subtotal Cash and Cash Equivalents	2,172,265			2,172,265
Total Cash and Investments	$39,463,935	$2,023,160	$2,960,790	$44,447,885

As of year end, the weighted average maturity of the investments in the LAIF investment pool is approximately 232 days.

C. Credit Risk

Credit risk is the risk of failure of an issuer of an investment in fulfilling its obligation to the holder of the investment. Presented below is the actual rating by Moody's investment rating service as of June 30, 2014 for each investment type:

	Aaa
U.S. Agency Securities:	
Federal National Mortgage Association	$16,672,510
Federal Home Loan Bank	13,226,730
Federal Farm Credit Bank	3,942,220
Federal Loan Mortgage Corporation	8,434,160
Total Investments	$42,275,620

NOTE 2 - CASH AND INVESTMENTS (Continued)

D. Concentration of Credit Risk

PLAN's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Included in the table at C above are investments held by the General Liability Fund.

E. Custodial Credit Risk

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

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

F. Local Agency Investment Fund

PLAN is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. PLAN reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporate notes.

G. Statement of Cash Flows

For purposes of the statement of cash flows, PLAN considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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	
	2014	2013	2014	2013
Reserves for claims and claim settlement expenses, beginning of year	$35,467,000	$23,492,000	$250,000	$250,000
Provision for claims and claim settlement expenses attributable to insured events of:				
Current year	5,534,000	6,493,000	350,000	242,500
Prior years	(6,521,333) *	8,203,014	147,912	(46,249)
Total incurred claims and claim settlement expenses	(987,333)	14,696,014	497,912	196,251
Less settlement of claims and claim settlement expenses attributable to insured events of current and prior fiscal years:				
Claims paid -- current year		(430,441)	(116,758)	(102,879)
Claims paid -- prior years	(4,454,667)	(2,290,573)	(281,154)	(93,372)
Total payments	(4,454,667)	(2,721,014)	(397,912)	(196,251)
Reserves for claims and claim settlement expenses, end of year	$30,025,000 **	$35,467,000	$350,000	$250,000
Components of unpaid claims liabilities:				
Reserves for claims and claim settlement expenses	$27,100,000	$32,014,000	$350,000	$242,500
Reserves for unallocated loss settlement expenses	2,925,000	3,453,000		7,500
Total	$30,025,000	$35,467,000	$350,000	$250,000
Current portion	$1,388,000	$1,380,000	$350,000	$250,000

* Includes costs to be recovered from members

** The liability is recorded at present value using a discount rate of 0.909. Undiscounted liability claims totaled $32,174,809 at June 30, 2014.

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

NOTE 4 - CAPITAL ASSETS (Continued)

Capital Assets activity was as follows for the year ended June 30, 2014:

	June 30, 2013	Additions	June 30, 2014
Capital assets being depreciated:			
Capitalized software	$468,719		$468,719
Vehicles	52,715		52,715
Total capital assets being depreciated	521,434		521,434
Less accumulated depreciation for:			
Capitalized software	138,777	$47,369	186,146
Vehicles	52,715		52,715
Total accumulated depreciation	191,492	$47,369	238,861
Net capital assets being depreciated	329,942		282,573
Capital assets, net	$329,942		$282,573

NOTE 5 – NET POSITION

Net Position is the excess of a fund's assets and deferred outflows of resources over all its liabilities and deferred inflows of resources0. PLAN's Net Position is divided into the two captions described below:

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

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

NOTE 6 – COMMITMENTS AND CONTINGENCIES

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

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

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
(1)	Earned premiums	$6,979	$7,475	$8,085	$7,906	$8,262	$8,326	$7,753	$7,562	$7,685	$9,218
	Excess insurance premiums	544	562	777	710	764	776	738	634	652	673
	Net Earned	6,435	6,913	7,308	7,196	7,498	7,550	7,015	6,928	7,033	8,545
(2)	Investment income allocation:										
	FY 13-14	36	2	44	(51)	(9)	20	16	12	29	52
	FY 12-13	55	3	69	(63)	(4)	31	30	59	49	
	FY 11-12	68	4	85	(76)	2	58	51	76		
	FY 10-11	73	6	105	(15)	14	89	63			
	FY 09-10	79	53	129	36	60	98				
	FY 08-09	119	140	206	92	106					
	FY 07-08	146	199	259	116						
	FY 06-07	181	213	237							
	FY 05-06	207	206								
	FY 04-05	196									
(3)	Net earned premiums and investment revenues	7,595	7,739	8,442	7,235	7,667	7,846	7,175	7,075	7,111	8,597
(4)	Unallocated expenses	2,532	2,825	2,799	5,086	5,013	3,673	4,422	3,579	3,909	4,143
(5)	Funds available for claims	5,063	4,914	5,643	2,149	2,654	4,173	2,753	3,496	3,202	4,454
(6)	Paid (cumulative) as of:										
	End of program year	29	97	15		24	305	23	71	430	
	One year later	102	255	57	95	405	363	359	198	662	
	Two years later	873	905	235	1,009	2,064	1,474	1,004	2,569		
	Three years later	1,838	1,471	506	2,954	2,595	2,350	1,354			
	Four years later	1,874	2,894	1,061	5,719	2,918	2,353				
	Five years later	1,874	4,649	1,646	5,847	3,473					
	Six years later	1,874	4,721	1,657	6,756						
	Seven years later	1,876	4,742	1,657							
	Eight years later	1,876	4,756								
	Nine years later	1,874									
(7)	Estimated reserves for claims and claims adjustment expenses										
	End of policy year	8,095	8,581	4,938	5,194	5,029	4,199	4,789	4,918	6,063	5,534
	One year later	5,170	4,183	4,412	4,351	3,995	6,944	7,353	8,977	8,299	
	Two years later	3,151	3,678	2,449	3,595	3,660	4,643	11,270	6,830		
	Three years later	1,625	2,429	1,447	2,392	2,871	3,029	6,164			
	Four years later	790	4,110	937	2,231	3,139	1,592				
	Five years later	274	442	281	1,939	219					
	Six years later		715	125	632						
	Seven years later	87	629	86							
	Eight years later		518								
	Nine years later										
(8)	Re-estimated incurred claims and claims adjustment expenses:										
	End of policy year	8,124	8,678	4,953	5,194	5,053	4,504	4,812	4,989	6,493	5,534
	One year later	5,272	4,438	4,469	4,446	4,400	7,307	7,712	9,175	8,961	
	Two years later	4,024	4,583	2,684	4,604	5,724	6,117	12,274	9,399		
	Three years later	3,463	3,900	1,953	5,346	5,466	5,379	7,518			
	Four years later	2,664	7,004	1,998	7,950	6,057	3,945				
	Five years later	2,148	5,091	1,927	7,786	3,692					
	Six years later	1,874	5,436	1,782	7,388						
	Seven years later	1,963	5,371	1,743							
	Eight years later	1,876	5,274								
	Nine years later	1,874									
(9)	Change in estimated net incurred claims from end of policy year	(6,250)	(3,404)	(3,210)	2,194	(1,361)	(559)	2,706	4,410	2,468	
(10)	Net distributions								106	100	198
(11)	Funds available after estimated claims and net asset distributions	3,189	(360)	3,900	(5,239)	(1,038)	228	(4,765)	(5,797)	(5,659)	(882)

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

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
(1)	Earned premiums	$984	$893	$1,004	$892	$918	$1,086	$1,080	$992	$1,151	$1,357
	Excess insurance premiums	774	718	858	727	726	885	880	802	961	1,165
	Net Earned	210	175	146	165	192	201	200	190	190	192
(2)	Investment income allocation:										
	FY 13-14	2	(1)	(1)	(12)	(5)	(1)	(7)	(9)	(5)	2
	FY 12-13	2	(1)	(1)	(10)	(4)		(6)	(7)	2	
	FY 11-12	2	(1)	(1)	(16)	(4)	(1)	(4)	(1)		
	FY 10-11	1	(1)	(1)	(15)	(4)	(1)	(2)			
	FY 09-10	1	(1)	(1)	(13)	(4)	1				
	FY 08-09	2	(1)	(1)	(16)	(5)					
	FY 07-08	(4)	(15)	(9)	(15)						
	FY 06-07	(4)	(12)	(4)							
	FY 05-06	(2)	(1)								
	FY 04-05	2									
(3)	Net earned premiums and investment revenues	212	141	127	68	166	199	181	173	187	194
(4)	Unallocated expenses					1					
(5)	Funds available for claims	212	141	127	68	165	199	181	173	187	194
(6)	Paid (cumulative) as of:										
	End of program year	165	208	225	415	379	148	318	252	103	117
	One year later	273	420	294	796	407	242	409	555	388	
	Two years later	283	424	181	859	374	236	486	556		
	Three years later	283	187	181	859	371	224	477			
	Four years later	132	187	177	859	371	227				
	Five years later	132	187	177	585	371					
	Six years later	132	187	177	585						
	Seven years later	132	187	177							
	Eight years later	132	187								
	Nine years later	132									
(7)	Estimated reserves for claims and claims adjustment expenses										
	End of policy year	157	158	158	158	158	158	158	250	250	350
	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	322	365	383	573	537	306	476	502	353	467
	One year later	273	420	294	796	407	242	409	555	388	
	Two years later	283	424	181	859	374	236	486	556		
	Three years later	283	187	181	859	371	224	477			
	Four years later	132	187	177	859	371	227				
	Five years later	132	187	177	585	371					
	Six years later	132	187	177	585						
	Seven years later	132	187	177							
	Eight years later	132	187								
	Nine years later	132									
(9)	Change in estimated net incurred claims from end of policy year	(190)	(178)	(206)	12	(166)	(79)	1	54	35	
(10)	Net distributions	0	0	0	0	0	0	0	0	0	0
(11)	Funds available after estimated claims	80	(46)	(50)	(517)	(206)	(28)	(296)	(383)	(201)	(273)

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 net distributions for claims dividends and tail assessments.

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

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