ABAG PLAN CORPORATION

BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

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ASSOCIATION OF BAY AREA GOVERNMENTS
PLAN CORPORATION
BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2009

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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, 2009, 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, 2009 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

October 9, 2009

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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, 2009 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 2009 FINANCIAL HIGHLIGHTS

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

- Total assets at June 30, 2009 were \$48.7 million. At June 30, 2008, total assets were \$45.0 million.
- Total revenues, including program and general revenues, were \$11.2 million in FY 2009, while total expenses were \$7.2 million.
- Total net assets increased by \$4.0 million in FY 2009 to a new total of \$31.4 million at June 30, 2009.
- General Liability program operating revenues were \$5.8 million in FY 2009, while Property Liability operating revenues were \$918 thousand and Administration operating revenues were \$2.5 million.
- General Liability program operating expenses were \$3.7 million in FY 2009, while Property Liability operating expenses were \$993 thousand and Administration operating expenses were \$2.5 million.
- General revenues, comprising investment income, totaled \$2.0 million in FY 2009, of which \$1.9 million, \$40 thousand and \$20 thousand were allocated to General

Liability, Property Liability and Administration funds respectively (see Investment Activities below).

- General Liability net assets were $29.3 million at June 30, 2009, while Property Liability net assets were $1.5 million and Administration net assets were $571 thousand at that date.

CLAIMS SETTLEMENT AND RESERVES FOR CLAIMS

Above-deductible General Liability claims paid totaled $1.4 million in FY 2009 comparing to $8.2 million during FY 2008. In FY 2008, there were two large claim settlements including one for outstanding litigation against PLAN and another for claims arising from a coastal development. These settlements included $1.6 million of legal costs that were booked as Unallocated Claims Expense. Also recorded was $8.0 million in adjustment to Claims Reserve in order to bring Claims Reserve up to the level recommended by PLAN's actuary consultant. There were no significant claim settlements in FY 2009. The reserve level for claims was reduced to $16.2 million in FY 2009 from $17.1 million in FY 2008.

Above-deductible Property Liability claims paid during FY 2009 amounted to $266 thousand. Reserves for Property Liability claims were $158 thousand at June 30, 2009, and have been at this level for the last several years.

INVESTMENT ACTIVITIES

As required by GASB, PLAN reports its investments at fair value. At June 30, 2009, PLAN has $12.1 million invested in the Local Agency Investment Fund (LAIF), $31.3 million in federal agency securities, and $4.1 million in corporate notes. The large LAIF balance was attributed to matured securities and securities that were called by issuers towards year end. Uninvested monies were deposited in PLAN's LAIF account. Some funds were reinvested in fixed income securities subsequent to June 30, 2009. The investment portfolio realized total earnings of $2.0 million, representing an overall average yield of 3.22% for FY 2009, excluding adjustments for fair value.

The change in market values of PLAN's investment portfolio between June 30, 2008 and June 30, 2009 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 2009 AND OUTLOOK FOR FY 2010

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 such exposure. The Board continues to have more discussions regarding the coverage of inverse claims not yet submitted but due to actions prior to July 1, 2008, and a new policy will be presented to members in FY 2010.

During FY 2009, PLAN selected and commenced implementation of a new claim processing software (iVOS). The web-based system will help PLAN to manage claims more effectively. It will enable PLAN to provide better results and services to members. Members will have on-line access to review claims and reports. The implementation process is expected to complete by the end of December 2009.

In FY 2010, 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 of property damage losses from responsible parties. This effort has realized significant recoveries against property losses in the past.

During FY 2009, PLAN offered and will continue to offer in FY 2010 the following loss prevention programs:

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

- The Framework Grant program offers up to $35,000 per member for those that have successfully implemented risk management framework and risk control plans.

- The Police Risk Management program offers up to $15,000 per jurisdiction to members that have performed procedure review and annual updates.

- 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 also continued to distribute backflow devices and partnered with other pools to expand our training offerings.

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, 2009

	General Liability Fund	Property Liability Fund	Administration Fund	Total
ASSETS				
Current Assets				
Cash and Cash Equivalents (Note 2)	$9,835,478	$1,608,741	$803,416	$12,247,635
Investments, at Fair Value (Note 2)	35,383,019			35,383,019
Total Cash and Investments	45,218,497	1,608,741	803,416	47,630,654
Receivables				
Due from Members	381,657	50		381,707
Interest	507,459			507,459
Total Current Assets	46,107,613	1,608,791	803,416	48,519,820
Capital Assets (Note 4)				
Construction in Progress	192,369			192,369
Vehicles, Net			2,918	2,918
Capital Assets, net	192,369		2,918	195,287
Total Assets	46,299,982	1,608,791	806,334	48,715,107
LIABILITIES				
Current Liabilities				
Accounts Payable and Accrued Liabilities	796,317		235,317	1,031,634
Total Current Liabilities	796,317		235,317	1,031,634
Noncurrent Liabilities (Note 3)				
Reserves for Claims and Claim Adjustment Expenses	14,558,000	150,000		14,708,000
Reserves for Unallocated Loss Adjustment Expenses	1,613,000	7,500		1,620,500
Total Noncurrent Liabilities	16,171,000	157,500		16,328,500
Total Liabilities	16,967,317	157,500	235,317	17,360,134
NET ASSETS				
Unrestricted	29,332,665	1,451,291	571,017	31,354,973
Total Net Assets	$29,332,665	$1,451,291	$571,017	$31,354,973

See accompanying notes to basic financial statements

ABAG PLAN CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	General Liability Fund	Property Liability Fund	Administration Fund	Total
PROGRAM OPERATING REVENUES				
Premiums from Members				
General Liability	$5,761,872			$5,761,872
Administration			$2,499,999	2,499,999
Property Insurance		$917,716		917,716
Total Program Operating Revenues	5,761,872	917,716	2,499,999	9,179,587
PROGRAM OPERATING EXPENSES				
Provision for Claims and Claim Adjustment Expenses	473,326	265,761		739,087
Property Insurance Coverage		725,761		725,761
Excess Insurance Coverage	763,706		15,473	779,179
Depreciation			8,742	8,742
Management and Administration (Note 1A)	222,198		2,180,756	2,402,954
Contract Services	1,215,457		318,834	1,534,291
Other Expenses	1,010,002	1,000	17,587	1,028,589
Total Program Operating Expenses	3,684,689	992,522	2,541,392	7,218,603
Net Program Operating Income (Loss)	2,077,183	(74,806)	(41,393)	1,960,984
GENERAL REVENUE (EXPENSE)				
Investment Income	1,971,709	40,000	19,831	2,031,540
Total General Revenue (Expense)	1,971,709	40,000	19,831	2,031,540
CHANGES IN NET ASSETS	4,048,892	(34,806)	(21,562)	3,992,524
BEGINNING NET ASSETS	25,283,773	1,486,097	592,579	27,362,449
ENDING NET ASSETS	$29,332,665	$1,451,291	$571,017	$31,354,973

See accompanying notes to basic financial statements

ABAG PLAN CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

	General Liability Fund	Property Liability Fund	Administration Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from members	$5,631,420	$918,716	$2,499,999	$9,050,135
Payments for insurance and contract services	(1,337,534)	(725,761)	(334,307)	(2,397,602)
Payments to ABAG	(222,198)		(2,167,424)	(2,389,622)
Claims paid	(1,385,326)	(265,761)		(1,651,087)
Other payments	(1,010,002)	(1,000)	(17,587)	(1,028,589)
Net cash flows from operating activities	1,676,360	(73,806)	(19,319)	1,583,235
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(192,369)			(192,369)
Net cash flows from capital and related financing activities	(192,369)			(192,369)
CASH FLOWS FROM INVESTING ACTIVITIES				
Maturities and sales of investments	4,105,797			4,105,797
Interest received	2,126,144	40,000	19,831	2,185,975
Net cash flows from investing activities	6,231,941	40,000	19,831	6,291,772
Net increase (decrease) in cash and cash equivalents	7,715,932	(33,806)	512	7,682,638
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,119,546	1,642,547	802,904	4,564,997
CASH AND CASH EQUIVALENTS AT END OF YEAR	$9,835,478	$1,608,741	$803,416	$12,247,635
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	$2,077,183	($74,806)	($41,393)	$1,960,984
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation			8,742	8,742
Change in assets and liabilities:				
Receivable from Members	(130,452)	1,000		(129,452)
Payables	641,629		13,332	654,961
Reserves for claims and claim adjustment expenses	(823,000)			(823,000)
Reserves for unallocated loss adjustment expenses	(89,000)			(89,000)
Net cash flows from operating activities	$1,676,360	($73,806)	($19,319)	$1,583,235

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 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.

The Association of Bay Area Governments (ABAG) assists PLAN by providing administrative, accounting and clerical support. PLAN paid ABAG $2,482,451 for these services and $274,165 for contract services in the fiscal year ended June 30, 2009. Of these services, $5,774 was due to ABAG at June 30, 2009.

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.

<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 $15 million 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, 2009 amounted to $1,489,467.

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.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments consist of the following at June 30, 2009:

	Cash and Cash Equivalents	Investments	Total
Cash in Banks	$107,071		$107,071
Local Agency Investment Fund	12,140,564		12,140,564
U.S. Agency Obligations		$31,323,569	31,323,569
Corporate Notes		4,059,450	4,059,450
Total Cash and Investments	$12,247,635	$35,383,019	$47,630,654

NOTE 2 - CASH AND INVESTMENTS (Continued)

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 Notes	5 years	AA	10%	10%
Negotiable Certificates of Deposit	2 years	AA/A-1	30%	10%
Time Certificates of Deposit	1 years	CRA - Satisfactory	10%	10%
Money Market Mutual Funds	N/A	AAA or (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 $40 million

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.

NOTE 2 - CASH AND INVESTMENTS (Continued)

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	$7,035,759	$4,191,054	$2,179,012	$13,405,825
Federal Home Loan Mortgage Corporation	10,055,646			10,055,646
Federal National Mortgage Association	2,018,868		1,769,136	3,788,004
Federal Farm Credit Bank	2,005,276	2,068,818		4,074,094
Corporate Notes				
HSBC			976,920	976,920
General Electric Capital			3,082,530	3,082,530
Subtotal Investments	21,115,549	6,259,872	8,007,598	35,383,019
Cash and Cash Equivalents:				
Cash in Banks	107,071			107,071
Local Agency Investment Fund	12,140,564			12,140,564
Subtotal Cash and Cash Equivalents	12,247,635			12,247,635
Total Cash and Investments	$33,363,184	$6,259,872	$8,007,598	$47,630,654

As of year end, the weighted average maturity of the investments in the LAIF investment pool is approximately 235 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 as of June 30, 2009 for each investment type:

	Rating at year end			
	Exempt from Disclosure	Aaa	A3	Aa2
Local Agency Investment Fund	$12,140,564			
U.S. Agency Obligations		$31,323,569		
Corporate Notes				
HSBC			$976,920	
General Electric Capital Corporation				$3,082,530
Total	$12,140,564	$31,323,569	$976,920	$3,082,530

NOTE 2 - CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

PLAN's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools that represent 5% or more of total entity-wide investments, are as follows at June 30, 2009:

Issuer	Investment Type	Amount
Federal Home Loan Bank	Federal Agency Securities	$13,405,825
Federal Home Loan Mortgage Corporation	Federal Agency Securities	10,055,646
Federal National Mortgage Association	Federal Agency Securities	3,788,004
Federal Farm Credit Bank	Federal Agency Securities	4,074,094
Corporation	Corporate Note	3,082,530

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, PLAN 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.

E. Local Agency Investment Fund

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

NOTE 2 - CASH AND INVESTMENTS (Continued)

F. Statement of Cash Flows

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

NOTE 3 - RESERVES FOR CLAIMS AND CLAIM ADJUSTMENT EXPENSES

Reconciliation of Reserves

Reserves for claims and claim adjustment expenses changed as follows:

	General Liability Pool		Property Liability Pool	
	2009	2008	2009	2008
Reserves for claims and claim settlement expenses, beginning of year	$17,083,000	$17,471,091	$157,500	$157,500
Provision for claims and claim settlement expenses attributable to insured events of:				
Current year	5,029,000	5,184,000	157,500	157,500
Prior years	(4,555,674)	2,660,970	108,261	330,819
Total incurred claims and claim settlement expenses	473,326	7,844,970	265,761	488,319
Less settlement of claims and claim settlement expenses attributable to insured events of current and prior fiscal years:				
Claims paid -- current year	(24,415)		(378,598)	(414,942)
Claims paid -- prior years	(1,360,911)	(8,233,061)	112,837	(73,377)
Total payments	(1,385,326)	(8,233,061)	(265,761)	(488,319)
Reserves for claims and claim settlement expenses, end of year	$16,171,000 **	$17,083,000	$157,500	$157,500
Components of unpaid claim liabilities:				
Reserves for claims and claim settlement expenses	$14,558,000	$15,381,000	$150,000	$150,000
Reserves for unallocated loss settlement expenses	1,613,000	1,702,000	7,500	7,500
Total	$16,171,000	$17,083,000	$157,500	$157,500

** The liability is recorded at present value using a discount rate of 4%.

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	7 Years

Capital Assets activity was as follows for the year ended June 30, 2009:

	June 30, 2008	Additions	June 30, 2009
Capital assets not being depreciated:			
Construction in progress		$192,369	$192,369
Total capital assets not being depreciated		$192,369	192,369
Capital assets being depreciated:			
Capitalized software	$432,838		432,838
Vehicles	52,715		52,715
Total capital assets being depreciated	485,553		485,553
Less accumulated depreciation for:			
Capitalized software	432,838		432,838
Vehicles	41,055	8,742	49,797
Total accumulated depreciation	473,893	$8,742	482,635
Net capital assets being depreciated	11,660		2,918
Capital Assets, Net	$11,660		$195,287

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

	(dollars in thousands)									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
(1) Earned premiums	$4,695	$4,916	$5,486	$6,223	$6,300	$6,979	$7,475	$8,085	$7,906	$8,262
Excess insurance premiums			250	370	445	544	562	777	710	764
Net Earned	4,695	4,916	5,236	5,853	5,856	6,436	6,913	7,308	7,196	7,498
(2) Investment income allocation:										
FY 08-09	$148	$96	$39	($203)	$123	$119	$139	$206	$92	$106
FY 07-08	179	185	(20)	(266)	191	146	198	258	116	
FY 06-07	163	167	47	(214)	172	180	212	236		
FY 05-06	151	184	43	(203)	179	206	206			
FY 04-05	141	176	54	(71)	171	196				
FY 03-04	131	163	69	143	179					
FY 02-03	140	171	172	161						
FY 01-02	140	198	191							
FY 00-01	166	230								
FY 99-00	159									
(3) Net earned premiums and investment revenues	6,213	6,486	5,831	5,200	6,871	7,283	7,668	8,008	7,404	7,604
(4) Unallocated expenses	1,647	1,394	1,597	1,844	2,137	2,532	2,825	2,799	5,086	5,013
(5) Funds available for claims	4,566	5,092	4,234	3,356	4,734	4,751	4,843	5,209	2,318	2,591
(6) Paid (cumulative) as of:										
End of program year	66	53		955	59	29	97	15		24
One year later	735	234	580	1,247	529	102	255	57	95	
Two years later	928	960	2,589	5,716	600	873	905	235		
Three years later	1,073	1,046	3,016	8,180	969	1,838	1,471			
Four years later	1,203	1,070	3,284	8,124	944	1,874				
Five years later	1,213	1,146	3,278	8,667	1,766					
Six years later	1,213	1,710	4,573	8,277						
Seven years later	1,200	1,710	3,289							
Eight years later	1,200	3,013								
Nine years later	1,213									
(7) Estimated reserves for claims and claims adjustment expenses										
End of policy year	3,444	3,926	3,985	3,039	4,302	8,095	8,581	4,938	5,194	5,029
One year later	3,022	3,573	2,832	4,464	3,935	5,170	4,183	4,412	4,351	
Two years later	2,632	2,177	2,119	3,378	3,116	3,151	3,678	2,449		
Three years later	1,234	1,297	1,280	1,166	1,874	1,625	2,429			
Four years later	211	483	856	1,095	950	790				
Five years later	334	272	1,899	789	404					
Six years later	144	100	276	469						
Seven years later	49	69	190							
Eight years later										
Nine years later										
(8) Re-estimated incurred claims and claims adjustment expenses:										
End of policy year	3,510	3,979	3,985	3,994	4,361	8,124	8,678	4,953	5,194	5,053
One year later	3,756	3,807	3,412	5,711	4,464	5,272	4,438	4,469	4,446	
Two years later	3,560	3,137	4,708	9,094	3,716	4,024	4,583	2,684		
Three years later	2,307	2,343	4,296	9,346	2,843	3,463	3,900			
Four years later	1,414	1,553	4,140	9,219	1,894	2,664				
Five years later	1,547	1,418	5,177	9,456	2,170					
Six years later	1,357	1,810	4,949	8,746						
Seven years later	1,249	1,778	3,479							
Eight years later	1,200	3,013								
Nine years later	1,213									
(9) Change in estimated net incurred claims from end of policy year	(2,297)	(966)	(506)	4,752	(2,191)	(5,460)	(4,778)	(2,269)	(748)	5,053
(10) Net Asset Distributions										
Paid 7/01	(217)	(254)								
(11) Total Net Asset Distributed	(217)	(254)								
(12) Funds available after estimated claims and net asset distributions	3,570	2,333	755	(5,390)	2,564	2,087	943	2,525	(2,128)	(2,462)

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

(dollars in thousands)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
(1) Earned premiums	$529	$439	$516	$829	$822	$984	$893	$1,004	$892	$918
Excess insurance premiums	319	380	347	679	658	774	718	858	727	726
Net Earned	210	59	169	150	164	210	175	146	165	192
(2) Investment income allocation:										
FY 08-09	5	2	3	(1)	(1)	2	(1)	(1)	(16)	(5)
FY 07-08	11	4	7	(1)	(2)	(4)	(15)	(9)	(15)	
FY 06-07	9	3	5	(1)	(1)	(4)	(12)	(4)		
FY 05-06	7	2	4	(1)	3	(2)	(1)			
FY 04-05	6	2	4		2	2				
FY 03-04	3	1	2	(2)	2					
FY 02-03	4	1	3	(2)						
FY 01-02	10	9	9							
FY 00-01	10	9								
FY 99-00	10									
(3) Net earned premiums and investment revenues	285	92	206	142	167	204	146	132	134	187
(4) Unallocated expenses	56		1	13						1
(5) Funds available for claims	229	92	205	129	167	204	146	132	134	186
(6) Paid (cumulative) as of:										
End of program year	7	9	63	214	19	165	208	225	415	379
One year later	20	21	76	243	105	273	420	294	796	
Two years later	20	22	82	237	102	283	424	181		
Three years later	20	22	82	255	199	283	187			
Four years later	20	22	81	255	199	132				
Five years later	20	22	81	255	199					
Six years later	20	22	81	255						
Seven years later	20	22	81							
Eight years later	20	22								
Nine years later	20									
(7) Estimated reserves for claims and claims adjustment expenses										
End of policy year	150	51	150	157	157	157	158	158	158	158
One year later	1									
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	7	9	213	371	176	322	365	452	573	537
One year later	21	21	76	243	105	273	420	294	796	
Two years later	20	22	82	237	102	283	424	181		
Three years later	20	22	82	255	199	283	187			
Four years later	20	22	81	255	199	132				
Five years later	20	22	81	255	199					
Six years later	20	22	81	255						
Seven years later	20	22	81							
Eight years later	20	22								
Nine years later	20									
(9) Change in estimated net incurred claims from end of policy year	13	13	(132)	(116)	23	(190)	(178)	(271)	223	537
(10) Net Asset Adjustment FY 04-05				104						
(12) Funds available after estimated claims	209	70	124	(22)	(32)	72	(41)	(49)	(662)	(351)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The preceding tables illustrate how PLAN's earned revenue (net of excess insurance) and investment income compare to related costs of loss and other expenses assumed by PLAN as of the end of each of the past ten years. The rows of table are defined as follows:

(1) This line shows the total of each fiscal year's gross earned premium revenue, premium revenue ceded to excess insurers and net earned premium revenues.

(2) This line shows investment income allocation to policy year from investment income earned during each of the past ten fiscal years.

(3) This line shows the total of net earned premiums and investment revenues.

(4) This line shows each fiscal year's other operating costs of PLAN not allocable to individual claims.

(5) This line shows the net funds available for claims, after payments for excess insurance and unallocated expenses.

(6) This section of ten rows shows the cumulative net claims paid at the end of successive years for each policy year.

(7) This section of ten rows shows the estimated outstanding reserves as of the end of the current year for each policy year. This annual reestimation results from new information received on reported claims not previously reported.

(8) This section of ten rows is the total of (6) and (7) and shows how each policy year's net incurred claims has changed as of the end of successive years.

(9) This line compares the latest reestimated net incurred claims amount to the amount for each policy year originally established (first row of line 8) and shows the difference between the current and original amounts. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years.

(10) (General Liability Pool only) This line shows the allocation of 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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