ABAG POOLED LIABILITY ASSURANCE NETWORK CORPORATION (PLAN)

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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ABAG POOLED LIABILITY ASSURANCE
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BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2015

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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, 2015, 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, 2015, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Ten-Year Claims Development Information-General Liability Pool and Ten-Year Claims Development Information-Property Liability Pool 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
December 29, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The ABAG PLAN Corporation (PLAN) has issued the financial reports for fiscal year ending June 30, 2015 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 continues to utilize full accrual basis of accounting and the format presentation is consistent with the prior year.

GASB 34 requires PLAN to provide an overview of financial activities for the fiscal year, in this discussion and analysis, 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 2015 FINANCIAL HIGHLIGHTS

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

- Total assets at June 30, 2015 were $47.8 million. At June 30, 2014, total assets were $45.5 million.

- Total revenues, including program and general revenues, were $10.1 million in FY 2015, while total net expenses were $485 thousand, including a loss of $235 thousand on disposal of capital assets and a $4.6 million expense reduction by an adjustment to the provision of claims, due to favorable claim development in the General Liability Fund.

- Total net position increased by $9.6 million in FY 2015 to a new total of $24.3 million at June 30, 2015. The increase is primarily attributed to favorable claims experience. The claims reserve in the General Liability Fund was reduced from $30 million to $22.1 million by a combination of payment of prior years' claims of $3.3 million and the net reduction to the claims provision of $4.6 million.

- General Liability program operating revenues were $5.3 million in FY 2015, while Property Liability operating revenues were $1.4 million and Administration operating revenues were $2.3 million.

- General Liability program operating expenses were a negative $3.4 million in FY 2015 due to a second consecutive year of favorable claims experience. Property Liability operating expenses were $1.4 million and Administration operating expenses were $2.3 million.

- General revenues, comprising investment income, totaled $1.1 million in FY 2015 with the recognition of fair market value adjustments, of which $1.1 million and $27 thousand were allocated to General Liability and Property Liability funds, respectively.

- General expenses totaled $235 thousand for the disposal of PLAN's risk software, which was no longer used do to the out-sourcing of claims servicing to York Risk Services.

- General Liability net position was $22.7 million at June 30, 2015, while Property Liability net position was $862 thousand and Administration net position was $706 thousand at that date.

CLAIMS SETTLEMENT AND RESERVES FOR CLAIMS

Above-deductible General Liability claims paid totaled $3.3 million in FY 2015 compared to $4.5 million during FY 2014. PLAN has experienced a slight reduction in claim frequency and has been very aggressive in reducing claim adjustment expenses. Prior fiscal year payouts were a function of the closure of more mature and higher valued claims. The reserve level for claims was decreased to $22.1 million in FY 2015 from $30.0 million in FY 2014. The decrease in reserves is primarily a function of an overall reduction in expected losses and a change in the ultimate loss forecast by PLAN's actuary.

Above-deductible Property claims paid during FY 2015 amounted to $233 thousand compared to $398 thousand during FY 2014. Liability reserve for Property claims were $350 thousand at June 30, 2015. PLAN property losses continue to be stable and predictable with additional insulation provided by our Stop Loss Aggregate program.

INVESTMENT ACTIVITIES

As of June 30, 2015, total book value (including the Local Agency Investment Fund) of the portfolio was $45.9 million, comprised of investments in LAIF, certificates of deposit, and federal agency securities. PLAN has $1.5 million invested in the Local Agency Investment Fund (LAIF), $1.0 million in certificates of deposit, and $43.4 million in federal agency securities. Total market value of the investments was $45.7 million as of that date.

The investment income was $678 thousand before fair market value adjustments. The investment income was $1.1 million with fair market value adjustments. The overall average yield was 1.42% when the adjustments for fair market value are excluded.

At June 30, 2015, the market value of PLAN's investments is $224 thousand below book value. With the exception of PLAN's investment in LAIF and certificates of deposit, 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 2015 AND OUTLOOK FOR FY 2016

In FY 2015, PLAN continues with its Risk Assessment audit program to ensure member Risk Management Best Practices are up to date and adhered to. Additional focus is being placed on our Sewer Risk Management protocols (OERP) and Urban Forest Best Practices. PLAN's annual Urban Forest Conference and Sewer Summit were well attended and will be ongoing.

In FY 2016, 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.

PLAN will also increase its focus on managing severe weather related risk. PLAN is working closely with the ABAG Resilience team and PLAN members updating Local Hazard Mitigation plans (LHMP) and formulating resilience strategies. PLAN is also investing resources in developing community outreach information for "El Nino" and unseasonal storm/flood activity.

PLAN will continue to 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.

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ABAG PLAN CORPORATION
STATEMENT OF NET POSITION
JUNE 30, 2015

	General Liability Fund	Property Liability Fund	Administration Fund	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents (Note 2)	$313,124	$1,212,081	$949,310	$2,474,515
Investments, at Fair Value (Note 2)	44,237,115			44,237,115
Total Cash and Investments	44,550,239	1,212,081	949,310	46,711,630
Receivables:				
Due from Members	972,218		10,000	982,218
Interest	145,200			145,200
Total Assets	45,667,657	1,212,081	959,310	47,839,048
LIABILITIES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	846,912		253,458	1,100,370
Reserves for Claims and Claim Adjustment Expenses (Note 3)	1,546,000	350,000		1,896,000
Total Current Liabilities	2,392,912	350,000	253,458	2,996,370
Noncurrent Liabilities (Note 3):				
Reserves for Claims and Claim Adjustment Expenses	18,429,000			18,429,000
Reserves for Unallocated Loss Adjustment Expenses	2,160,000			2,160,000
Total Noncurrent Liabilities	20,589,000			20,589,000
Total Liabilities	22,981,912	350,000	253,458	23,585,370
NET POSITION (Note 5)				
Restricted			667,362	667,362
Unrestricted	22,685,745	862,081	38,490	23,586,316
Total Net Position	$22,685,745	$862,081	$705,852	$24,253,678

See accompanying notes to basic financial statements

ABAG PLAN CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	General Liability Fund	Property Liability Fund	Administration Fund	Total
PROGRAM REVENUES				
Premiums from Members:				
General Liability	$5,330,116			$5,330,116
Administration			$2,250,002	2,250,002
Property Insurance		$1,391,698		1,391,698
Total Program Revenues	5,330,116	1,391,698	2,250,002	8,971,816
PROGRAM EXPENSES				
Provision for Claims and Claim Adjustments (Note 3)	(4,626,107)	233,326		(4,392,781)
Property Insurance Coverage		1,147,595		1,147,595
Excess Insurance Coverage	629,179			629,179
Depreciation (Note 4)	47,369			47,369
Management and Administration			1,653,170	1,653,170
Loss Prevention Programs	529,712			529,712
Contract Services			620,437	620,437
Other Expenses	782		13,868	14,650
Total Program Expenses	(3,419,065)	1,380,921	2,287,475	249,331
Net Program Operating Income (Loss)	8,749,181	10,777	(37,473)	8,722,485
GENERAL REVENUE (EXPENSES)				
Loss on Disposal of Capital Assets (Note 4)	(235,204)			(235,204)
Investment Income	1,100,713	26,658		1,127,371
Total General Revenue	865,509	26,658		892,167
CHANGE IN NET POSITION	9,614,690	37,435	(37,473)	9,614,652
NET POSITION - BEGINNING	13,071,055	824,646	743,325	14,639,026
NET POSITION - ENDING	$22,685,745	$862,081	$705,852	$24,253,678

See accompanying notes to basic financial statements

ABAG PLAN CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	General Liability Fund	Property Liability Fund	Administration Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from members	$4,914,122	$1,391,698	$2,260,002	$8,565,822
Payments for insurance and contract services	(513,577)	(1,147,595)	(620,437)	(2,281,609)
Payments to ABAG			(1,644,036)	(1,644,036)
Claims paid	(3,263,893)	(233,326)		(3,497,219)
Other payments	(782)		(13,868)	(14,650)
Net cash flows from (used by) operating activities	1,135,870	10,777	(18,339)	1,128,308
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(1,961,495)			(1,961,495)
Interest received	1,108,779	26,658		1,135,437
Net cash flows from (used by) investing activities	(852,716)	26,658		(826,058)
Net cash flows	283,154	37,435	(18,339)	302,250
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	29,970	1,174,646	967,649	2,172,265
CASH AND CASH EQUIVALENTS AT END OF YEAR	$313,124	$1,212,081	$949,310	$2,474,515
RECONCILIATION OF NET PROGRAM OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES:				
Net program operating income (loss)	$8,749,181	$10,777	($37,473)	$8,722,485
Adjustments to reconcile net program operating income (loss) to cash flows from operating activities:				
Depreciation	47,369			47,369
Change in assets and liabilities:				
Receivable from members	(415,994)		10,000	(405,994)
Payables	645,314		9,134	654,448
Reserves for claims and claim adjustment expenses	(7,125,000)			(7,125,000)
Reserves for unallocated loss adjustment expenses	(765,000)			(765,000)
Net cash flows from (used by) operating activities	$1,135,870	$10,777	($18,339)	$1,128,308
NON-CASH TRANSACTIONS				
Loss on disposal of capital assets	($235,204)			

See accompanying notes to basic financial statements

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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. On behalf of PLAN, ABAG incurred $1,690,878 for these services and $498,090 for contract services in the fiscal year ended June 30, 2015.

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 program expenses and program revenues for each function of PLAN's business-type activities. Program 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, 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 $25 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, 2015 amounted to $629,179.

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, liabilities, revenues, 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, 2015:

	Cash and Cash Equivalents	Investments	Total
Cash in Banks	$1,020,265		$1,020,265
Local Agency Investment Fund	1,454,250		1,454,250
U.S. Agency Securities:			
Federal National Mortgage Association		$16,904,360	16,904,360
Federal Home Loan Bank		13,386,715	13,386,715
Federal Farm Credit Bank		3,978,760	3,978,760
Federal Home Loan Mortgage Corporation		8,968,730	8,968,730
Certificate of Deposits		998,550	998,550
Total Cash and Investments	$2,474,515	$44,237,115	$46,711,630

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 (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.

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 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	$13,886,780		$3,017,580	$16,904,360
Federal Home Loan Bank	13,386,715			13,386,715
Federal Farm Credit Bank	3,978,760			3,978,760
Federal Home Loan Mortgage Corporation	6,976,090		1,992,640	8,968,730
Certificates of Deposit		$998,550		998,550
Subtotal Investments	38,228,345	998,550	5,010,220	44,237,115
Cash and Cash Equivalents:				
Cash in Banks	1,020,265			1,020,265
Local Agency Investment Fund	1,454,250			1,454,250
Subtotal Cash and Cash Equivalents	2,474,515			2,474,515
Total Cash and Investments	$40,702,860	$998,550	$5,010,220	$46,711,630

As of year end, the weighted average maturity of the investments in the LAIF investment pool is approximately 239 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, 2015 for each investment type:

	Aaa	Not Rated	Total
U.S. Agency Securities:			
Federal National Mortgage Association	$16,904,360		$16,904,360
Federal Home Loan Bank	13,386,715		13,386,715
Federal Farm Credit Bank	3,978,760		3,978,760
Federal Home Loan Mortgage Corporation	8,968,730		8,968,730
Certificates of Deposit		$998,550	998,550
Total Investments	$43,238,565	$998,550	$44,237,115

NOTE 2 - CASH AND INVESTMENTS (Continued)

D. Concentration of Credit Risk

PLAN's investment policy contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code, as listed in Section A of this note. No investments exceeded these limits at June 30, 2015. 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. The Federal Deposit Insurance Corporation ("FDIC") insures account balances at each insured institution. PLAN maintains deposit accounts with a financial institution and frequently carries balances that exceed FDIC insurance limits. The risk is managed by maintaining all deposits in high quality financial institutions.

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	
	2015	2014	2015	2014
Reserves for claims and claim settlement expenses, beginning of year	$30,025,000	$35,467,000	$350,000	$250,000
Provision for claims and claim settlement expenses attributable to insured events of:				
Current year	5,666,742	5,534,000	350,000	350,000
Prior years	(10,292,849)	(6,521,333)	(116,674)	147,912
Total incurred claims and claim settlement expenses	(4,626,107)	(987,333)	233,326	497,912
Less settlement of claims and claim settlement expenses attributable to insured events of current and prior fiscal years:				
Claims paid -- current year	(324,742)		(227,115)	(116,758)
Claims paid -- prior years	(2,939,151)	(4,454,667)	(6,211)	(281,154)
Total payments	(3,263,893)	(4,454,667)	(233,326)	(397,912)
Reserves for claims and claim settlement expenses, end of year	$22,135,000 *	$30,025,000	$350,000	$350,000
Components of unpaid claims liabilities:				
Reserves for claims and claim settlement expenses	$19,975,000	$27,100,000	$350,000	$342,500
Reserves for unallocated loss settlement expenses	2,160,000	2,925,000		7,500
Total	$22,135,000	$30,025,000	$350,000	$350,000
Current portion	$1,546,000	$1,388,000	$350,000	$250,000

* The liability is recorded at present value using a discount rate of 3.0%. Undiscounted liability claims totaled $23,756,698 at June 30, 2015.

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, 2015:

	June 30, 2014	Additions	Retirements	June 30, 2015
Capital assets being depreciated:				
Capitalized software	$468,719		($468,719)	
Vehicles	52,715			$52,715
Total capital assets being depreciated	521,434		(468,719)	52,715
Less accumulated depreciation for:				
Capitalized software	186,146	$47,369	(233,515)	
Vehicles	52,715			52,715
Total accumulated depreciation	238,861	47,369	(233,515)	52,715
Net capital assets being depreciated	282,573	(47,369)	(235,204)	
Capital assets, net	$282,573			

During fiscal year 2015, PLAN opted to outsource its claims services to the York Risk Services Group. As a result, PLAN disposed of its risk software.

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 resources. All of PLAN's net position is classified as follows:

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of donations received by PLAN. As of June 30, 2015, the amount in the Restricted Net Position is restricted for capital and contingency reserve.

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 PLAN's Legal Counsel, 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,

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
(1) Earned premiums	$7,475	$8,085	$7,906	$8,262	$8,326	$7,753	$7,562	$7,685	$9,218	$8,499
Excess insurance premiums	562	777	710	764	776	738	634	652	673	629
Net Earned	6,913	7,308	7,196	7,498	7,550	7,015	6,928	7,033	8,545	7,870
(2) Investment income allocation:										
FY 14-15	2	58	(67)	(13)	26	10	9	23	58	51
FY 13-14	2	44	(51)	(9)	20	16	12	29	52	
FY 12-13	3	69	(63)	(4)	31	30	59	50		
FY 11-12	4	85	(76)	2	58	52	76			
FY 10-11	6	106	(15)	14	89	63				
FY 09-10	53	129	36	60	98					
FY 08-09	140	206	92	106						
FY 07-08	199	259	116							
FY 06-07	213	237								
FY 05-06	206									
(3) Net earned premiums and investment revenues	7,741	8,501	7,168	7,654	7,872	7,186	7,084	7,135	8,655	7,921
(4) Unallocated expenses	2,825	2,799	5,086	5,013	3,673	4,422	3,579	3,909	4,143	3,101
(5) Funds available for claims	4,916	5,702	2,082	2,641	4,199	2,764	3,505	3,226	4,512	4,820
(6) Paid (cumulative) as of:										
End of program year	97	15		24	305	23	71	430		325
One year later	255	57	95	405	363	359	198	662	648	
Two years later	905	235	1,009	2,064	1,474	1,004	2,569	1,689		
Three years later	1,471	506	2,954	2,595	2,350	1,354	3,006			
Four years later	2,894	1,061	5,719	2,918	2,353	2,060				
Five years later	4,649	1,646	5,847	3,473	2,402					
Six years later	4,721	1,657	6,756	3,526						
Seven years later	4,742	1,657	6,756							
Eight years later	4,756	1,657								
Nine years later	4,756									
(7) Estimated reserves for claims and claims adjustment expenses										
End of policy year	8,581	4,938	5,194	5,029	4,199	4,789	4,918	6,063	5,534	5,342
One year later	4,183	4,412	4,351	3,995	6,944	7,353	8,977	8,299	5,505	
Two years later	3,678	2,449	3,595	3,660	4,643	11,270	6,830	4,033		
Three years later	2,429	1,447	2,392	2,871	3,029	6,164	3,830			
Four years later	4,110	937	2,231	3,139	1,592	1,230				
Five years later	442	281	1,939	219	1,359					
Six years later	715	125	632	266						
Seven years later	629	86	340							
Eight years later	518	55								
Nine years later	60									
(8) Re-estimated incurred claims and claims adjustment expenses:										
End of policy year	8,678	4,953	5,194	5,053	4,504	4,812	4,989	6,493	5,534	5,667
One year later	4,438	4,469	4,446	4,400	7,307	7,712	9,175	8,961	6,153	
Two years later	4,583	2,684	4,604	5,724	6,117	12,274	9,399	5,722		
Three years later	3,900	1,953	5,346	5,466	5,379	7,518	6,836			
Four years later	7,004	1,998	7,950	6,057	3,945	3,290				
Five years later	5,091	1,927	7,786	3,692	3,761					
Six years later	5,436	1,782	7,388	3,792						
Seven years later	5,371	1,743	7,096							
Eight years later	5,274	1,712								
Nine years later	4,816									
(9) Change in estimated net incurred claims from end of policy year	(3,862)	(3,241)	1,902	(1,261)	(743)	(1,522)	1,847	(771)	619	
(10) Net distributions							106	100	198	-919
(11) Funds available after estimated claims and net asset distributions	100	3,990	(5,014)	(1,151)	438	(526)	(3,225)	(2,396)	(1,443)	(1,766)

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

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
(1)	Earned premiums	$893	$1,004	$892	$918	$1,086	$1,080	$992	$1,151	$1,357	$1,392
	Excess insurance premiums	718	858	727	726	885	880	802	961	1,165	1,147
	Net Earned	175	146	165	192	201	200	190	190	192	245
(2)	Investment income allocation:										
	FY 14-15	(1)	(1)	(12)	(3)	(1)	(5)	(8)	(4)	(2)	
	FY 13-14	(1)	(1)	(12)	(5)	(1)	(7)	(9)	(5)	2	
	FY 12-13	(1)	(1)	(10)	(4)		(6)	(7)	2		
	FY 11-12	(1)	(1)	(16)	(4)	(1)	(4)	(1)			
	FY 10-11	(1)	(1)	(15)	(4)	(1)	(2)				
	FY 09-10	(1)	(1)	(13)	(4)	1					
	FY 08-09	(1)	(1)	(16)	(5)						
	FY 07-08	(15)	(9)	(15)							
	FY 06-07	(12)	(4)								
	FY 05-06	(1)									
(3)	Net earned premiums and investment revenues	140	126	56	163	198	176	165	183	192	245
(4)	Unallocated expenses				1						
(5)	Funds available for claims	140	126	56	162	198	176	165	183	192	245
(6)	Paid (cumulative) as of:										
	End of program year	208	225	415	379	148	318	252	103	117	227
	One year later	420	294	796	407	242	409	555	388	286	
	Two years later	424	181	859	374	236	486	556	367		
	Three years later	187	181	859	371	224	477	532			
	Four years later	187	177	859	371	227	412				
	Five years later	187	177	585	371	227					
	Six years later	187	177	585	319						
	Seven years later	187	177	585							
	Eight years later	187	177								
	Nine years later	187									
(7)	Estimated reserves for claims and claims adjustment expenses										
	End of policy year	158	158	158	158	158	158	250	250	350	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	365	383	573	537	306	476	502	353	467	577
	One year later	420	294	796	407	242	409	555	388	286	
	Two years later	424	181	859	374	236	486	556	367		
	Three years later	187	181	859	371	224	477	532			
	Four years later	187	177	859	371	227	412				
	Five years later	187	177	585	371	227					
	Six years later	187	177	585	319						
	Seven years later	187	177	585							
	Eight years later	187	177								
	Nine years later	187									
(9)	Change in estimated net incurred claims from end of policy year	(178)	(206)	12	(218)	(79)	(64)	30	14	(181)	
(10)	Net distributions	0	0	0	0	0	0	0	0	0	
(11)	Funds available after estimated claims	(47)	(51)	(529)	(157)	(29)	(236)	(367)	(184)	(94)	(332)

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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