Public Employees Health Program

A DISCRETE COMPONENT UNIT OF THE STATE OF UTAH

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the Years Ended June 30, 2011 and 2010

LARSON & ROSENBERGER LLP

CERTIFIED PUBLIC ACCOUNTANTS

PUBLIC EMPLOYEES HEALTH PROGRAM

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LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Utah State Retirement Board
Public Employees Health Program:

We have audited the accompanying balance sheets of **Public Employees Health Program** (the "Program") as of June 30, 2011 and 2010, and the related statements of operations and reserve balances and of cash flows for the years then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Program as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements, but is supplementary information required by the Governmental 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 supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 12, 2011, on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Larson & Rosenberger

October 12, 2011
Salt Lake City, Utah

PUBLIC EMPLOYEES HEALTH PROGRAM
Management's Discussion and Analysis
For the Year Ended June 30, 2011
(Unaudited)

The management of Public Employees Health Program (PEHP) presents the following discussion and analysis of the financial statements for the year ended June 30, 2011. PEHP is authorized and created under Title 49, Chapters 20 and 21, of the Utah Code to organize and administer self insurance risk pools for employee benefits for the state, its educational institutions, and political subdivisions.

PEHP, as a trust organization, does not own any assets, have any liabilities, or earn income. All accounting transactions, including PEHP expenses, are recorded or allocated to the various risk pools. The results of operations do not flow to "Net Assets" as reported by most governmental entities, but to "Contingency Reserves" that are held on behalf of the participating employers. Unlike other business-type activities, a "Statement of Revenues, Expenses, and Net Assets" is not used to report the results of operations. They are reported in the "Statement of Operations and Reserve Balances". This is consistent with the statute that created PEHP, to organize and administer funded self-insurance risk pools. PEHP does not report the various risk pools as separate funds. Therefore, the risk pool reporting is provided as schedules in the supplemental information.

The long-term disability, term life, retiree life, and death benefit lines of business, and the Medicare supplement and reinsurance risk pools are singular risk pools in which all participating employers share the risk. The medical and the dental lines of business are divided into various risk pools of single or multiple employer pools. Including the Medicare supplement and reinsurance risk pools, the medical line of business encompasses 90.1% of PEHP's benefit expenses. Dental accounted for 4.2%, leaving 5.7% for all of the other lines business in total.

PEHP is a "public entity risk pool" as defined by GASB Statement #10, encompassing three of the four types of pools identified. Risk is shared in the long-term disability, term life, retiree life, and death benefit lines of business, the Medicare supplement program and in the medical and dental risk pools for the Utah School Board Association, and the Local Government Risk Pool. Catastrophic reinsurance is purchased from private insurance companies through the "Reinsurance" risk pool and the term life program. PEHP provides administrative services only and holds no contingency reserves for Jordan School District and Canyons School District.

GASB Statement #10 provides guidelines for recording and reporting of revenues, expenses, liabilities, assets, and specified supplementary information. PEHP records transactions according to these guidelines. Given the short term nature of PEHP's lines of business, the required supplementary information presented is deemed sufficient to meet the principles of GASB Statement #10.

PUBLIC EMPLOYEES HEALTH PROGRAM

Management's Discussion and Analysis
For the Year Ended June 30, 2011
(Unaudited)

FINANCIAL CONDITION

PEHP works with the employers to set medical and dental premium rates that will maintain appropriate reserve levels for each risk pool. The criteria vary depending on the type of risk pool. New risk pools provide an initial deposit or establish reserves over time. Total contingency reserves increased by $35.9 million as follows:

- The medical program contingency reserves increased by $41.1 million.
- Contingency reserves increased by $26,000 in the dental program.
- The long-term disability program realized a $1.0 million increase in contingency reserves.
- The term life, retiree life, and death benefit programs had contingency reserve decreases of $5.6 million, $0.1 million, and $0.5 million respectively. The term life program refunded $5.75 million is excess reserves.

Chapter 20 of Title 49 of the Utah Code requires that employers or agencies, responsible for the insurance risk in a PEHP pool, cure any deficiency in the actuarially recommended and board approved reserves. As of June 30, 2010, there were seven risk pools with contingency reserve deficits. Two had cash deficits, Provo City and Utah County. As of June 30, 2011, there were seven risk pools with contingency reserve deficits, five of which had cash deficits, Salt Lake County, Provo City, Utah County, Nebo School District, and Canyons School District. Salt Lake County and Canyons School District have since cured their deficits. PEHP is consulting with officials in the remaining risk pools on how to settle the deficiencies and establish minimum contingency reserve balances.

Payments made during the year for some risk pools have been insufficient to properly fund the risk pools for the current year and the previous deficit. While the participating entities are ultimately liable for unfunded claims, no receivables have been accrued for payments not received within ninety days of the fiscal year end. Such an accrual would incorrectly indicate that payment had been received shortly after year end and could mislead readers of the financial statements.

FINANCIAL STATEMENTS

The financial statements for PEHP are prepared on the accrual basis of accounting in accordance with the generally accepted accounting principles in the United States, as promulgated by the Governmental Accounting Standards Board. PEHP is reported as a discrete component unit of the State of Utah. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the footnotes for more information.

PUBLIC EMPLOYEES HEALTH PROGRAM

Management's Discussion and Analysis
For the Year Ended June 30, 2011
(Unaudited)

ASSETS	2009	2010	2011	2010 to 2011 Increase (Decrease)	Percent Increase (Decrease)
Current and other assets	$ 268,285,870	$ 294,654,443	**$ 331,770,655**	$ 37,116,212	12.6%
Capital assets	266,883	293,401	**219,898**	(73,503)	-25.1%
Total assets	$ 268,552,753	$ 294,947,844	**$ 331,990,553**	$ 37,042,709	12.6%
LIABILITIES AND RESERVES					
Current and other liabilities	$ 105,350,785	$ 92,987,477	**$ 93,099,258**	$ 111,781	0.1%
Long-term liabilities	51,959,817	55,598,406	**56,661,016**	1,062,610	1.9%
Total liabilities	157,310,602	148,585,883	**149,760,274**	1,174,391	0.8%
Reserves for claim contingency	111,242,151	146,361,961	**182,230,279**	35,868,318	24.5%
Total liabilities and reserves	$ 268,552,753	$ 294,947,844	**$ 331,990,553**	$ 37,042,709	12.6%

Financial Analysis

- The total of cash and investments increased by $36.0 million including an increase in assets held for securities lending of $12.5 million, results from operations of $13.5 million, and investment income of $10 million. Premiums receivable increased by $3.6 million. Rebates receivable decreased by $2.9 million and other receivables increased by $0.4 million.

- Capital assets include computers and office equipment. Asset retirements and the increase in accumulated depreciation exceeded the additions of new assets.

- Changes in the current and other liabilities include the increase of $12.5 million in the securities lending liability, offset by increases in amounts due to other agencies, ($0.9 million), other liabilities, ($2.2 million), and short term claims reserves, ($9.2 million).

- Long-term liabilities are life and long-term disability benefit reserves. The long-term disability reserves are calculated using a discount rate and an inflation rate that are consistent with the average of the last ten years of actual experience. The discount rate represents the expected long-term average rate of return on investments. The inflation rate is the expected "cost of living" increases to be given to benefit recipients. Life insurance benefit reserves increased $2.1 million.

PUBLIC EMPLOYEES HEALTH PROGRAM

Management's Discussion and Analysis
For the Year Ended June 30, 2011
(Unaudited)

REVENUES	2009	2010	2011	Increase (Decrease)	Percent Increase (Decrease)
Premiums and fees	$ 586,596,033	$ 591,016,289	**$ 571,795,861**	$ (19,220,428)	-3.3%
Investment income	12,159,090	17,778,553	**9,922,047**	(7,856,506)	-44.2%
Total revenues	598,755,123	608,794,842	**581,717,908**	(27,076,934)	-4.4%
EXPENSES					
Insurance benefits	568,770,800	550,469,905	**521,610,439**	(28,859,466)	-5.2%
Administrative expenses	23,083,981	23,205,127	**24,239,151**	1,034,024	4.5%
Total benefits and expenses	591,854,781	573,675,032	**545,849,590**	(27,825,442)	-4.9%
Revenues over benefits and expenses	6,900,342	35,119,810	**35,868,318**	748,508	2.1%
Beginning contingency reserves	104,341,809	111,242,151	**146,361,961**	35,119,810	31.6%
Ending contingency reserves	$ 111,242,151	$ 146,361,961	**$ 182,230,279**	$ 35,868,318	24.5%

- Premium and fee income decreased by $19.2 million, a $57.5 million premium decrease for departing agencies net of $38.3 million in premium increases.

- Investment income decreased by $7.9 million. The market value for the year increased by $0.5 million compared to an increase of $8.6 million the prior year. The yield of instruments held in the Dodge & Cox (D&C) managed portfolio, (63% of the cash and investments at June 30, 2010), was 5.55%. Total investment income (investment yield plus or minus adjustments to market value) for the fiscal year ended June 30, 2011 was $9.9 million for an overall return of 4.03%. The benchmark used to measure the D&C performance is Barclays Capital Intermediate Government/Credit Index. For the fiscal year, this index had a rate of return of 3.77%, where as the return net of fees for the D&C managed portfolio for the year was 5.42%.

- Insurance benefits decreased by $28.9 million, (departing agencies represent a decrease of $60.7 million). Claims paid decreased by $21.0 million. The provision for claims payable and claims incurred but not reported decreased by $10.7 million. PEHP paid $5.8 million in experience dividends, an increase of $2.8 million over the prior year.

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Enrollment – Covered Lives

The table below shows the number of covered lives by line of business and the number of participants for the flexible spending account (FLEX$™) administration. Term life coverage for dependents may cover one or more children. Each dependent coverage is counted as one life. The term life totals can also include multiple coverages on the same individuals, including term life, line-of-duty, spouse, dependent, and AD&D (Accidental Death and Dismemberment). Each coverage is included in the count because they each represent a separate potential liability. Grand totals are not given because many of the same individuals are covered in more than one line of business.

Year	Medical	Dental	Long-term Disability	Term Life	Retiree Life	Death Benefit	FLEX$™
2007	182,971	122,268	35,261	103,784	19,099	93,144	7,660
2008	177,577	120,507	35,783	123,943	18,930	94,785	9,599
2009	169,710	122,197	35,411	114,760	15,419	98,552	9,960
2010	169,310	126,513	37,097	134,158	16,433	98,002	10,072
2011	138,917	85,796	36,735	132,688	17,197	97,637	11,381

Significant Events

NEW PEHP DIRECTOR: In a re-organization during the fiscal year, Chet Loftis was hired as the Group Insurance Director over all of PEHP. Mr. Loftis brings significant experience and skills to help chart the future course for PEHP. A new, full-time Purchasing Manager was also hired to review, improve, and coordinate the purchasing processes.

COST REDUCTIONS: Reduced fees for provider services were negotiated for the Advantage Care network during the fiscal year. The contract with Medco Health Solutions, Inc. was also renewed on a lower cost basis for the Pharmacy Benefit Manager (PBM) services. Both of these are resulting in lower claims costs for the risk pools.

CONTINGENCY RESERVES: PEHP has begun the process of formalizing the appropriate contingency reserve balance for each risk pool. Actuarial calculations will be used and contracts modified to provide processes to maintain contingency reserves at the appropriate level from year to year.

LIFE INSURANCE REBATES: In May and June of 2011, PEHP sent out $5,752,000 in life insurance rebates to members participating in the Term Life insurance program. This program has continued to have good claims experience resulting in higher reserve balances than are needed.

FEDERAL LEGISLATION: PEHP continues to implement changes required by the Patient Protection and Affordable Care Act. Changes required by this act will take effect up to nine years in the future.

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STATE LEGISLATION: House Bill 404, State Health Insurance Amendments, was passed in the 2011 Legislative General Session. The bill requires the Retirement and Independent Entitles Interim Committee to study the way the state provides health insurance to its employees, retirees, and their families. The committee will also coordinate its study with the study done by the Health System Reform Task Force. PEHP will provide information and assistance to the committee.

OTHER POST EMPLOYMENT BENEFIT (OPEB) LIABILITIES: During the 2010-2011 fiscal year, PEHP paid $252,999 to fund the OPEB liability. The liability for PEHP's OPEB is recorded on the books of Utah Retirement Systems. PEHP's portion of the total liability as of June 30, 2011 is $3.5 million.

LONG-TERM DISABILITY MEDICAL INSURANCE BENEFIT LIABILITY: The Long Term Disability (LTD) program provides a medical insurance benefit for LTD benefit recipients who became eligible for LTD benefits after July 1, 1995 and prior to July 1, 2005. The liability for this benefit is being recognized over twenty years beginning with the year ended June 30, 2004. The total liability calculated as of June 30, 2011 and June 30, 2010 is **$7,240,042** and $8,249,785 respectively. The amount expensed for the years ending June 30, 2011 and June 30, 2010 was **$8,592** and $504,032, respectively.

ENROLLMENT CHANGES: Provo City and Utah County terminated their medical insurance with PEHP effective January 1, 2009. PEHP continued to pay claims incurred prior to January 1, 2009 during the run-out period. Provo City and Utah County have disputed the amount they owe PEHP. Settlement negotiations for amounts owed by Provo City and Utah County have been ongoing for the last four months. It is anticipated that both debts will be settled by December 31, 2011.

The Department of Health terminated their medical insurance for the "CHIP" program with PEHP effective June 30, 2010. PEHP has continued to pay claims incurred prior to July 1, 2010 during the run-out period. Final settlement is expected by October 31, 2011.

Nebo School District terminated their medical insurance with PEHP effective September 1, 2010. PEHP continues to pay claims incurred prior to September 1, 2010 during the run-out period. Additional revenues from the Early Retiree Reinsurance program are anticipated by December 31, 2011. Final settlement will be concluded soon after those revenues are received.

BUDGETS

Since the risk pools belong to the participating employers, PEHP does not budget revenues and insurance benefit expenses. Budgets are prepared on administrative expenses. For the years ended June 30, 2011 and June 30, 2010, the administrative expenses were **$1,732,601** and $1,638,684 under budget, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

PEHP has no major capital asset activity and has issued no long-term debt.

FUTURE EVENTS

COST REDUCTIONS: PEHP is in the process of implementing several cost savings initiatives. The "WeeCare", "Disease Management", and "Mental Health Review" programs will be brought in-house at a reduced cost. PEHP continues to review the processes, expenses, and staffing for opportunities to reduce the cost, while maintaining the effectiveness of service to the various groups.

FIXED ADMINISTRATION AND REINSURANCE COSTS: Beginning January 1, 2012, PEHP will change the method of how administration and reinsurance costs are charged to participating groups. As groups renew their contracts, PEHP will change from allocating administration and reinsurance costs. Instead, these costs will be charged on a prospective PMPM (per member per month) fixed basis. This will eliminate the true-up at the end of the fiscal year and will allow groups to budget administration and reinsurance costs at the beginning of their plan year. This change follows industry best practices and will be consistent with other carriers in the market.

PUBLIC EMPLOYEES HEALTH PROGRAM

Balance Sheets

June 30, 2011 and 2010

ASSETS	2011	2010
Cash and cash equivalents	**$ 15,307,810**	$ 27,710,854
Investments	**269,592,951**	221,218,338
Receivables:		
Premium and service fees	**37,811,178**	34,179,933
Accrued investment income	**1,782,520**	1,781,329
Total receivables	**39,593,698**	35,961,262
Prepaid expenses and other current assets	**7,276,196**	9,763,989
Furniture and equipment, net of accumulated depreciation of **$1,244,813** and $1,354,077 for 2011 and 2010, respectively	**219,898**	293,401
Total assets	**$ 331,990,553**	$ 294,947,844
LIABILITIES AND RESERVES FOR CLAIMS CONTINGENCY		
Liabilities:		
Claims payable	**$ 18,071,848**	$ 18,956,175
Liability for claims incurred but not reported	**31,645,776**	40,895,489
Benefit reserves:		
Life insurance	**38,713,863**	36,670,879
Long-term disability claims reserves	**22,903,899**	22,978,386
Long-term disability medical premium reserves	**2,896,017**	2,887,425
Premiums payable	**72,578**	64,953
Unearned premiums	**3,180,147**	2,086,511
Accrued expenses	**3,561,876**	6,900,113
Due to other agencies	**3,431,509**	4,359,013
Securities lending liability	**25,282,761**	12,786,939
Total liabilities	**149,760,274**	148,585,883
Reserves for claims contingency	**182,230,279**	146,361,961
Total liabilities and reserves for claims contingency	**$ 331,990,553**	$ 294,947,844

The accompanying notes to financial statements are an integral part of these statements

PUBLIC EMPLOYEES HEALTH PROGRAM

Statements of Operations and Reserve Balances
For the Years Ended June 30, 2011 and 2010

	2011	2010
Revenue:		
Premiums earned and service fees, net of refunds	**$ 564,870,770**	$ 585,769,448
Net investment income	**9,922,047**	17,778,553
Federal subsidy	**6,811,357**	5,226,254
Miscellaneous income	**113,734**	20,587
Total revenue	**581,717,908**	608,794,842
Insurance benefits:		
Claims	**517,682,009**	538,145,850
Change in unpaid claims and claims incurred but not reported	**(8,165,543)**	2,565,174
Provision for medical premium reserve	**8,592**	504,032
Network access fees	**775,659**	879,152
Policyholder experience dividends	**5,751,930**	2,992,584
Claims review expense	**5,557,792**	5,383,113
Total insurance benefits	**521,610,439**	550,469,905
Administrative expenses:		
Salaries, wages and benefits	**16,447,452**	15,884,861
Other administrative expenses	**7,791,699**	7,320,266
Total administrative expenses	**24,239,151**	23,205,127
Total benefits and expenses	**545,849,590**	573,675,032
Revenue over benefits and expenses	**35,868,318**	35,119,810
Beginning reserves for claims contingency	**146,361,961**	111,242,151
Ending reserves for claims contingency	**$ 182,230,279**	$ 146,361,961

The accompanying notes to financial statements are an integral part of these statements

PUBLIC EMPLOYEES HEALTH PROGRAM

Statements of Cash Flows

For the Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from premiums	**$ 571,960,714**	$ 586,936,992
Cash paid for benefits	**(524,007,835)**	(546,268,247)
Cash paid to suppliers and employees	**(28,639,877)**	(24,242,879)
Policyholder experience dividends paid	**(5,751,930)**	(2,992,584)
Net cash provided by operating activities	**13,561,072**	13,433,282
Cash flows from investing activities:		
Interest received	**9,920,856**	17,809,416
Purchases of fixed income securities	**(29,865,177)**	(17,647,630)
Redemptions of money market funds - net	**(6,013,614)**	3,488,487
Net cash (used) provided by investing activities	**(25,957,935)**	3,650,273
Cash flows from capital and related financing activities:		
Proceeds from sale of assets	**(1,044)**	-
Purchases of equipment	**(5,137)**	(116,331)
Net cash used by financing activities	**(6,181)**	(116,331)
Net (decrease) increase in cash and cash equivalents	**(12,403,044)**	16,967,224
Cash and cash equivalents at beginning of year	**27,710,854**	10,743,630
Cash and cash equivalents at end of year	**$ 15,307,810**	$ 27,710,854

The accompanying notes to financial statements are an integral part of these statements

	2011	2010
Reconciliation of revenue over benefits and expenses to net cash provided by operating activities:		
Revenue over benefits and expenses	**$ 35,868,318**	$ 35,119,810
Adjustments to reconcile revenue over benefits and expenses to net cash provided by operating activities:		
Depreciation	**78,639**	89,813
Net investment income	**(9,922,047)**	(17,778,553)
Gain from the disposal of furniture and equipment	**1,044**	-
Change in assets and liabilities:		
Premiums and service fees receivable	**(3,631,245)**	(5,381,153)
Prepaid expenses and other current assets	**2,487,793**	1,277,778
Claims payable	**(884,327)**	(5,440)
Liability for claims incurred but not reported	**(9,249,713)**	811,133
Benefit reserves	**1,977,089**	2,263,513
Due to other agencies	**(927,504)**	(1,165,848)
Premiums payable	**7,625**	62,717
Unearned premiums	**1,093,636**	(731,722)
Accrued expenses	**(3,338,236)**	(1,128,766)
Net cash provided by operating activities	**$ 13,561,072**	$ 13,433,282

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

Public Employees Health Program (the "Program") is a discrete component unit of the State of Utah created under the State of Utah Retirement Act to provide insurance services to public employees of the State of Utah. The Program also provides insurance services to employees of approximately 300 municipalities, school districts, and other public entities within the State of Utah. Under authority granted by the Retirement Act, the Program is administered by the Utah State Retirement Board (the "Board").

The Program provides insurance services predominately for agencies of the State of Utah. Effective with the year ended June 30, 2003, the State of Utah changed its accounting for the Program from an internal service fund to a discrete component unit of the State of Utah, in accordance with the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 10, Accounting for Financial Reporting for Risk Financing and Related Insurance Issues as defined in that statement.

Insurance products offered by the Program include medical, dental, long-term disability, and life insurance. Public entities participating in the medical and dental programs are grouped into various risk pools for purposes of establishing rates, providing policyholder experience dividends, and retaining risk of loss from such insurance products. Under the Board's current policy, medical risk pools can elect to participate in the Program's internal reinsurance fund. This fund provides specific stop-loss insurance for individual claimants who incur claims in excess of $75,000 during the fiscal year ended June 30. The fund also provides aggregate stop-loss coverage at various levels. Management believes that it has recorded claims payable and benefit reserves adequate to meet all actuarially determined losses. The Program has reinsurance coverage for a life catastrophic occurrence in excess of $4,000,000, not to exceed $80,000,000 per year with a one-time reinstatement with additional premium. The Program has also entered into an excess medical reinsurance agreement which provides for the Program to retain medical losses on the first $1,000,000 of loss or losses on any one person insured during the term of the reinsurance agreement, after which the reinsurer will pay 100% of the amount which exceeds $1,000,000. The upper limit of the reinsurer's liability ranges from $2,000,000 to $5,000,000 during the lifetime of the person. The limit is dependent on the participating group's lifetime maximum. The retention per person will be reapplied to the Program each calendar year. During the year ended June 30, 2011 and 2010, the Program paid **$726,596** and $763,996 respectively, in premiums under all reinsurance agreements. The Program also collects and passes through premiums for certain independent insurers.

The accounting policies of the Program conform to accounting principles generally accepted in the United States of America in all material respects. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund and Other Governmental Entities That Use Proprietary Fund Accounting*, the Program has opted to apply all pronouncements issued by the Financial Accounting Standards Board ("FASB") unless the FASB pronouncements conflict with or contradict GASB pronouncements. The following is a summary of the more significant of such policies.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents reported on the Balance Sheets and the Statements of Cash Flows include a demand account at a commercial financial institution and funds held on deposit with Utah Retirement Systems. The demand account is covered by an overnight repurchase agreement with the financial institution. The Program considers all highly liquid debt instruments with a maturity of less than three months to be cash equivalents.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates which are particularly susceptible to change relate to the actuarial valuation of the claims incurred but not reported and benefit reserves. Actual results could differ from those estimates.

The program invests in various investment securities which, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that those changes could materially affect the amounts reported in the balance sheets.

Investments

Investments are comprised of U.S. government securities and money market funds invested in U.S. government securities, agency notes and mortgage-backed securities, and corporate notes and asset backed securities. These investments are carried at fair value determined on quoted market prices. Changes in the fair value of investments are recognized as investment income in the Statements of Operations.

Furniture and Equipment

Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives for furniture and equipment range from three to ten years. It is the Program’s policy to capitalize all acquisitions of furniture and equipment with a unit cost of $5,000 or more.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Claim Liabilities and Benefit Reserves

The Program establishes claim liabilities and benefit reserves based on actuarial and other estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Long-term disability benefit reserves are reported using discount rates between 4.00% and 7.75**%** to calculate the present value of estimated future cash payments as of June 30, 2011 and 2010. Because actual claim costs depend on such complex factors as inflation and changes in insurance benefits, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically by an actuary to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. Inflation is implicit in the calculation because reliance is based on historical data that reflects past inflation and other appropriate modifiers. Adjustments to claims liabilities and benefit reserves for changes in estimates are recorded in the statements of operations in the period for which the estimates are made.

Premium Revenue and Unearned Premiums

Premium revenue is recorded in the month in which coverage is provided. Premiums received in advance are recorded as unearned premiums.

Federal Income Taxes

The Program is exempt from the payment of Federal income taxes under Section 115 of the Internal Revenue Code.

Allowance for Doubtful Accounts

The Program considers all receivables collectible and writes off any bad debt in the period in which it was determined.

2. CASH AND INVESTMENTS

Listed below is a summary of the deposit and investment portfolios as of June 30, 2011 and 2010. Investing is governed by the prudent man rule in accordance with statutes of the State of Utah. All investments of the Program are considered to have been made in accordance with these governing statues.

2. CASH AND INVESTMENTS (Continued)

Deposits

Deposits of the Program are carried at cost plus accrued interest. The carrying amount of the deposits, net of outstanding checks, is accounted for in the "Cash and Investments" balance sheet within "Cash and Cash Equivalents" and is **$(3,583,828)** and $(6,128,261) as of June 30, 2011 and 2010, respectively. The corresponding bank balance of the deposits was **$1,853,358** and $1,357,274 as of June 30, 2011 and 2010, respectively. As of June 30, 2011 and 2010, 100% of the Program's deposits were insured by the FDIC, respectively. Cash and cash equivalents consisted of the following as of June 30, 2011 and 2010:

	2011	2010
Overnight repurchase agreements	**$ 19,113,008**	$ 32,283,728
Cash on deposit with Zions Bank	**(3,583,828)**	(6,128,261)
Cash on deposit (owed) with URS	**(221,670)**	1,555,087
Petty cash	**300**	300
Total	**$ 15,307,810**	$ 27,710,854

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2011 and 2010, the overnight repurchase agreements of **$19,113,009** and $32,283,728, respectively are uninsured and are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Program's name.

The carrying values of deposits and investments are reconciled to the amounts recorded in the balance sheets as of June 30, 2011 and 2010 as follows:

	2011	2010
Cash and equivalents	**$ 15,307,810**	$ 27,710,854
Investments	**269,592,950**	221,218,338
Total	**$ 284,900,760**	$ 248,929,192

2. CASH AND INVESTMENTS (Continued)

Investments

The schedules below provide information about the credit risk, interest rate risk, and concentration of credit risk associated with the Program's investments as of June 30, 2011 and 2010, respectively.

		Investment Maturities (in Years) (in thousands)				
	Fair Value	Less Than 1	1-5	6-10	10-20	More Than 20
Investment type as of June 30, 2011:						
U.S. Treasuries	**$ 33,908**	**$ 21,657**	**$ 12,251**	**$ -**	**$ -**	**$ -**
U.S. Agencies	**10,838**	**-**	**2,189**	**5,942**	**2,707**	**-**
Corporate bonds	**84,012**	**1,980**	**22,440**	**52,451**	**7,142**	**-**
Gov't mortgage backed securities	**78,236**	**1,024**	**1,732**	**5,069**	**6,945**	**63,465**
Asset backed securities	**2,465**	**-**	**760**	**1,140**	**565**	**-**
Short-term investment funds	**34,852**	**34,852**	**-**	**-**	**-**	**-**
Securities lending cash collateral invested in the Northern Trust Co. short-term investment pool (excludes $**0** value of non-cash collateral as of June 30, 2011)	**25,283**	**25,283**	**-**	**-**	**-**	**-**
Total investments	**$ 269,593**	**$ 84,795**	**$ 39,372**	**$ 64,602**	**$ 17,359**	**$ 63,465**

	Fair Value	Less Than 1	1-5	6-10	10-20	More Than 20
Investment type as of June 30, 2010:						
U.S. Treasuries	$ 5,078	$ -	$ 5,078	$ -	$ -	$ -
U.S. Agencies	9,518	-	1,760	2,074	3,850	1,835
Corporate bonds	79,279	1,608	21,150	49,998	5,782	741
Gov't mortgage backed securities	80,244	630	2,183	12,167	6,091	59,172
Asset backed securities	3,663	152	236	2,359	917	-
Short-term investment funds	30,649	30,649	-	-	-	-
Securities lending cash collateral invested in the Northern Trust Co. short-term investment pool (excludes $**0** value of non-cash collateral as of June 30, 2010)	12,787	12,787	-	-	-	-
Total investments	$ 221,218	$ 45,826	$ 30,406	$ 66,598	$ 16,640	$ 61,749

2. CASH AND INVESTMENTS (Continued)

Interest Rate Risk

The Program has not adopted a formal policy relating to interest rate risk.

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. It is the Program's policy to limit its investments to the top ratings issued by nationally recognized statistical rating organizations (NRSROs) so the total investment portfolio maintains an "A" (S&P) or equivalent minimum rating. The Program's debt investments as of June 30, 2011 and 2010 were rated by S&P and/or an equivalent NRSRO and the ratings are presented below:

		Quality Ratings (ooo's)						
	Fair Value	AAA	AA	A	BBB	BB	B	NR
Investment type as of June 30, 2011:								
U.S. Treasuries	$ 33,908	$ 33,908	$ -	$ -	$ -	$ -	$ -	$ -
U.S. Agencies	10,838	3,572	-	7,266	-	-	-	-
Corporate bonds	84,012	-	13,458	27,963	31,784	1,731	-	9,075
Gov't mortgage backed securities	78,236	78,236	-	-	-	-	-	-
Asset backed securities	2,465	2,465	-	-	-	-	-	-
Short-term investment funds	34,852	-	-	-	-	-	-	34,852
Securities lending cash collateral invested in the Northern Trust Co. short-term investment pool	25,283	-	-	-	-	-	-	25,283
Total investments	$ 269,593	$ 118,180	$ 13,458	$ 35,229	$ 31,784	$ 1,731	$ -	$ 69,210

		Quality Ratings (ooo's)						
	Fair Value	AAA	AA	A	BBB	BB	B	NR
Investment type as of June 30, 2010:								
U.S. Treasuries	$ 5,078	$ 5,078	$ -	$ -	$ -	$ -	$ -	$ -
U.S. Agencies	9,518	4,062	-	5,456	-	-	-	-
Corporate bonds	79,279	-	15,722	25,624	33,479	3,457	998	-
Gov't mortgage backed securities	80,244	79,553	-	690	-	-	-	-
Asset backed securities	3,663	3,663	-	-	-	-	-	-
Short-term investment funds	30,649	-	-	-	-	-	-	30,649
Securities lending cash collateral invested in the Northern Trust Co. short-term investment pool	12,787	-	-	-	-	-	-	12,787
Total investments	$ 221,218	$ 92,357	$ 15,722	$ 31,770	$ 33,479	$ 3,457	$ 998	$ 43,436

2. CASH AND INVESTMENTS (Continued)

Credit Risk of Debt Securities (Continued)

Fair values of investments measured on a recurring basis at June 30, 2011 and 2010 are as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2011:				
U.S. Treasuries	**$ 33,908**	**$ 33,908**	**$ -**	**$ -**
U.S. Agencies	**10,838**	**10,838**	**-**	**-**
Corporate bonds	**84,012**	**84,012**	**-**	**-**
Gov't mortgage backed securities	**78,236**	**78,236**	**-**	**-**
Asset backed securities	**2,465**	**2,465**	**-**	**-**
Short-term investment funds	**34,852**	**34,852**	**-**	**-**
Securities lending cash collateral invested in the Northern Trust Co. short-term investment pool (excludes $**0** value of non-cash collateral as of June 30, 2011)	**25,283**	**25,283**	**-**	**-**
Total	**$ 269,593**	**$ 269,593**	**$ -**	**$ -**

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2010:				
U.S. Treasuries	$ 5,078	$ 5,078	$ -	$ -
U.S. Agencies	9,518	9,518	-	-
Corporate bonds	79,279	79,279	-	-
Gov't mortgage backed securities	80,244	80,244	-	-
Asset backed securities	3,663	3,663	-	-
Short-term investment funds	30,649	30,649	-	-
Securities lending cash collateral invested in the Northern Trust Co. short-term investment pool (excludes $**0** value of non-cash collateral as of June 30, 2010)	12,787	12,787	-	-
Total	$ 221,218	$ 221,218	$ -	$ -

2. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Program limits the amount that can be invested in any one issuer. The following limits apply to an Investment Manager's portfolio:

- U.S Government and Agency Securities – no restriction
- AAA/Aaa Securities – no more than 5% of an Investment Manager's assets at market with a single issuer
- AA-/Aa3 Securities or higher – no more than 4% of an Investment Manager's assets at market with a single issuer
- A-/A3 Securities or higher – no more than 3% of an Investment Manager's assets at market with a single issuer
- BBB-/Baa3 Securities or higher – no more than 2% of an Investment Manager's assets at market with a single issuer

If a security is downgraded within the investment grade categories listed above, the manager has 30 days to sell enough of the security to comply with the single issuer guideline applicable to the new rating.

No individual holding shall constitute more than 10% of the market value of the issuer with the exception of the U.S. government or its agencies, or collateralized mortgage obligations.

At the time of purchase, all issues shall be rated investment grade by at least two of the nationally recognized rating agencies. If the rating by the agencies is split rated, the lower rating will apply in determining investment grade status.

If a security is downgraded to below investment grade, the Investment Manager shall place the securities in a "basket" of securities downgraded below investment grade. The downgraded securities shall remain in the "basket" until the Investment Manager decides to sell them or until the securities are upgraded to investment grade. At no time shall downgraded securities placed in the basket exceed 5% of total portfolio value unless the basket is full when a security is downgraded. If the basket is full when a security is downgraded, the Investment Manager has 30 days to sell securities from the basket in order to bring it back to the 5% threshold. At no time should more than 1% of an Investment Manager's assets at market be with a single below investment grade issuer.

All investments are within Program limits.

2. CASH AND INVESTMENTS (Continued)

Securities Lending

The Program participates in a securities lending program as authorized by Board policy, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and irrevocable bank letters of credit equal to 102% of the market value of the domestic securities on loan with a simultaneous agreement to return the collateral for the same securities in the future.

The Program's custodial agent is the agent for its securities lending program. Securities under loan are maintained in the Program's financial records and are classified in the preceding summary of investments. A corresponding liability is recorded for the market value of the collateral received. Under provision of GASB statement No. 28, collateral which cannot be pledged or sold is not recorded as investments nor is the related liability recorded in the financial statements. At June, 2011 and 2010 the Program did not have non-cash collateral.

As of June 30, 2011 and 2010, the Program had no credit risk exposure to borrowers because the collateral exceeded the amount borrowed. The securities on loan as of June 30, 2011 and 2010 were **$24,767,068** and $12,483,479 respectively, and the cash and non-cash collateral received for those securities on loan was **$25,282,761** and $12,786,939, respectively. Under the terms of the lending agreement, the Program is indemnified against loss should the lending agent be unable to recover borrowed securities and distributions due to borrower insolvency or failure of the lending agent to properly evaluate the creditworthiness of the borrower. In addition, the Program is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

All securities loaned can be terminated on demand by either the Program or the borrower. Cash collateral is invested in the lending agent's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20% of the invested cash collateral to be available each business day and the dollar weighted average maturity of holding should not exceed 60 days. The relationship between the maturities of the short-term investment pool and the Program's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Program cannot determine. Since the securities lending collateral is in a pool maintained by the custodial bank, it was not necessary to report the total income and expenses of the security lending.

3. CLAIMS PAYABLE AND BENEFIT RESERVES

Claims payable represent claims which have been reported to the Program as of the valuation date. A liability for the estimate of claims incurred but not reported to the Program as of the valuation date has also been recorded.

3. CLAIMS PAYABLE AND BENEFIT RESERVES (Continued)

The following schedule reflects changes in the total claims payable and benefit reserves for the years ended June 30, 2011 and 2010:

	2011	2010
Total claims liabilities at beginning of year	**$ 122,388,354**	$ 119,319,148
Claims incurred (including change in benefit reserve)	**515,850,884**	549,337,453
Claims paid	**(524,007,835)**	(546,268,247)
Total claim liabilities at end of year	**$ 114,231,403**	$ 122,388,354

4. POLICYHOLDER EXPERIENCE DIVIDENDS

During the year ended June 30, 2011 and 2010 the Board authorized experience dividends to participating agencies and members of **$5,751,930** and $2,992,584 from reserves for claims contingency accumulated by the Program through the end of the prior fiscal year. For medical and dental plans, the board considers claims contingency reserves of more than two months of premiums to be available for experience dividends. For life and long-term disability plans, the Board considers claims contingency reserves of more than twelve months premiums to be available for experience dividends. Such dividends are granted at the discretion of the Board and are made in accordance with Title 49 of the Utah Code.

5. RETIREMENT PLANS

Defined Benefit Plan

Plan Description – The Program participates in the State and School Noncontributory Retirement System, a cost-sharing multiple-employer defined benefit pension plan (the Plan) administered by Utah Retirement Systems (the Systems). The Systems are also governed by the Board. The Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Systems and Plan under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State and School Contributory Retirement System and the State and School Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

5. RETIREMENT PLANS (Continued)

Funding Policy – In the State and School Noncontributory Retirement System, the Program was required to contribute **16.32%** and 14.22% of their annual covered salary for the years ended June 30, 2011 and 2010, respectively. The contribution rates are actuarially determined. The contribution requirement of the Systems are authorized by statute and specified by the Board.

The Program's contributions to the Noncontributory Retirement System for the years ended June 30, 2011 and 2010 and were **$1,881,894** and $1,497,849, respectively. The contributions were equal to the required contributions for each year.

Defined Contribution Plans

Most of the Program's employees are also eligible to participate in a 401(k) defined contribution plan and a 457(b) deferred compensation plan. Both plans are administered by the Board. Employees may generally contribute as much as 100% of their before tax pay on an annual basis, subject to Federal limits. The Program is required to contribute 1.5% of all eligible employees' gross earnings to the 401(k) plan. The Program is also required to contribute an additional dollar-for-dollar match of employee's contributions up to 2% of their eligible gross earnings. The Program's contributions to the defined contribution plans totaled **$340,361** and $586,368 for the years ended June 30, 2011 and 2010, respectively.

6. RELATED PARTY TRANSACTIONS

In addition to the retirement benefits provided by the Systems, as described in Note 5, the Program also makes payments to the Systems for certain rent and administrative expenses. Such expenses totaled **$3,651,161** and $4,019,475 during the years ended June 30, 2011 and 2010, respectively.

At June 30, 2011 and 2010, the amount receivable from the Systems, net of the cash held by the Systems for the Program in the amount of **$(221,671)** and $1,555,087, is **$286,272** and $2,038,502, respectively.

7. COMMITMENTS AND CONTINGENCIES

The Program has been or may be named as a defendant in certain lawsuits. While the Program cannot predict the results of such actions, management believes that the liability, if any, resulting from such claims will not have a material effect on the Program's operations of financial position. Losses from the actual settlement of such unknown claims are taken into consideration in the computation of the estimated claims liabilities.

8. CAPITAL ASSETS

The capital assets of the Program are:

2011 — Equipment

	Beginning Balance	Additions	Deletions	Ending Balance
Furniture and equipment	**$ 1,331,819**	**$ 40,490**	**$ 127,195**	**$ 1,245,114**
Computer equipment	**143,133**	**-**	**97,120**	**46,013**
Vehicles	**172,526**	**65,548**	**64,491**	**173,583**
Total	**$ 1,647,478**	**$ 106,038**	**$ 288,806**	**$ 1,464,710**

2011 — Accumulated Depreciation

	Beginning Balance	Additions	Deletions	Ending Balance
Furniture and equipment	**$ 1,104,580**	**$ 84,460**	**$ 121,787**	**$ 1,067,253**
Computer equipment	**119,426**	**9,987**	**96,437**	**32,976**
Vehicles	**130,071**	**37,276**	**22,764**	**144,583**
Total	**$ 1,354,077**	**$ 131,723**	**$ 240,988**	**$ 1,244,812**

2010 — Equipment

	Beginning Balance	Additions	Deletions	Ending Balance
Furniture and equipment	$ 1,461,580	$ 133,187	$ 262,948	$ 1,331,819
Computer equipment	158,879	-	15,746	143,133
Vehicles	172,526	-	-	172,526
Total	$ 1,792,985	$ 133,187	$ 278,694	$ 1,647,478

2010 — Accumulated Depreciation

	Beginning Balance	Additions	Deletions	Ending Balance
Furniture and equipment	$ 1,305,548	$ 61,205	$ 262,173	$ 1,104,580
Computer equipment	114,869	12,692	8,135	119,426
Vehicles	105,685	24,386	-	130,071
Total	$ 1,526,102	$ 98,283	$ 270,308	$ 1,354,077

Depreciation expense for the years ended June 30, 2011 and 2010 amounted to **$78,639** and $89,812, respectively.

9. COMPENSATED ABSENCES

The compensated absences liability represents the amount of unused leave to be paid to employees upon termination.

Program employees are granted leave in varying amounts, based on length of service. Some earned benefits may be forfeited if not taken within varying time periods.

Consistent with GASB Statement 16, Accounting for Compensated Absences, the liability has been calculated using the vesting/termination method and an accrual for that liability is included in the accompanying financial statements. The compensated absences liability is calculated based on the pay rates in effect at year end.

The compensated absences liability as of June 30, 2011 and 2010 was **$1,424,961** and $1,171,962, respectively.

10. NET INVESTMENT INCOME

Net investment income consisted of the following items for the years ended June 30, 2011 and 2010:

	2011	2010
Interest income	**$ 9,769,650**	$ 9,085,867
Realized gains (losses), net	**(351,040)**	124,821
Unrealized gains (losses), net	**503,437**	8,567,865
Net investment income	**$ 9,922,047**	$ 17,778,553

11. REVIEW OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 12, 2011, which is the date the financial statements were available to be issued. No events have occurred subsequent to June 30, 2011 requiring recording or disclosure in these financial statements.