# 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, 2013 and 2012*

Larson
certified public accountants

# PUBLIC EMPLOYEES HEALTH PROGRAM

## TABLE OF CONTENTS

# INDEPENDENT AUDITORS' REPORT

**Utah State Retirement Board**
**Public Employees Health Program**:

We have audited the accompanying financial statements of **Public Employees Health Program** (the Program) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, as listed in the foregoing 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 financial statements that are free from material misstatement, whether due to fraud or error..

***Auditors' Responsibility***

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. 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 the entity'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 the entity'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 opinion.

***Opinion***

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of **Public Employees Health Program** as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years 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 on pages 4-9 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.

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***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2013, on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. 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 & Company PC

Salt Lake City, Utah
October 1, 2013

**PUBLIC EMPLOYEES HEALTH PROGRAM**
Management's Discussion and Analysis
For the Year Ended June 30, 2013
(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, 2013. 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.

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 89.40% of PEHP's benefit expenses. Dental accounted for 4.35% leaving 6.25% 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 acts as a third party administrator and provides administrative services only and holds no significant 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.

## 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 $15.44 million as follows:

- The medical program contingency reserves increased by $18.39 million.
- Contingency reserves increased by $.85 million in the dental program.
- The long-term disability program realized a $2.25 million increase in contingency reserves.
- The term life and retiree life had contingency reserve decreases of $3.49 million and $1.76 million respectively. The death benefit programs had contingency reserve decrease of $.79 million.

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, 2013 and 2012, there were no risk pools with contingency deficits.

## 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, 2013
(Unaudited)

| ASSETS | 2011 | 2012 | 2013 | 2013 to 2012 Increase (Decrease) | Percent Increase (Decrease) |
|---|---|---|---|---|---|
| Cash, investments & receivables | $ 331,770,655 | $ 352,459,499 | **$ 356,049,675** | $ 3,590,176 | 1.02% |
| Capital assets | 219,898 | 156,130 | **366,253** | 210,123 | 134.58% |
| **Total assets** | $ 331,990,553 | $ 352,615,629 | **$ 356,415,928** | $ 3,800,299 | 1.08% |
| **LIABILITIES AND RESERVES** | | | | | |
| Claims and other | $ 93,099,258 | $ 102,213,057 | **$ 89,390,052** | $ (12,823,005) | -12.55% |
| Life and long-term disability | 56,661,016 | 70,720,472 | **71,898,786** | 1,178,314 | 1.67% |
| **Total liabilities** | 149,760,274 | 172,933,529 | **161,288,838** | (11,644,691) | -6.73% |
| Contingency reserves | 182,230,279 | 179,682,100 | **195,127,090** | 15,444,990 | 8.60% |
| **Total liabilities and reserves** | $ 331,990,553 | $ 352,615,629 | **$ 356,415,928** | $ 3,800,299 | 1.08% |

## Financial Analysis

- The total of cash and investments increased by $16.55 million due to an increase in contingency reserves. Premiums receivable decreased by $1.26 million due primarily to the loss of Canyons School District. Rebates and other receivables decreased by $.57 million due to an decrease in provider and pharmacy receivables.

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

- Total liabilities decreased by $11.65 million due primarily to a decrease in the liability for claims incurred but not reported.

- Long-term liabilities are life and long-term disability benefit reserve liabilities. 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 of 3.25% represents the expected long-term average rate of return on investments. The inflation rate of 2.5% is the expected "cost of living" increases to be given to long term disability benefit recipients. Long-term disability reserves decreased by $1.44 million and life insurance benefit reserves increased by $2.62 million.

- Premium and fee income decreased by $28.69 million, due mostly to the loss of Canyons School District and Salt Lake County.

# PUBLIC EMPLOYEES HEALTH PROGRAM

Management's Discussion and Analysis
For the Year Ended June 30, 2013
(Unaudited)

- Investment income decreased by $7.74 million. The market value of investments for the year decreased by $5.79 million compared to an increase of $1.4 million the prior year. The yield of instruments held in the Dodge & Cox (D&C) managed portfolio was 2.01% for fiscal year 2013. Total investment income (investment yield plus or minus adjustments to market value) for the fiscal year ended June 30, 2013 was $4.18 million for an overall return of 1.93%. 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 .28%, whereas the return net of fees for the D&C managed portfolio for the year was 1.81%.

- Insurance benefits decreased by $56.23 million. This was due to a decrease in paid claims of $13.91 million, a decrease of $17.10 million in policyholder experience dividends and other benefits, and a decrease of $25.22 million in the provision for unpaid claims. Both of these decreases were due primarily to the loss of Salt Lake County and Canyons School District.

| **REVENUES** | **2011** | **2012** | **2013** | **Increase (Decrease)** | **Percent Increase (Decrease)** |
|---|---|---|---|---|---|
| Premiums and fees | $ 571,795,861 | $ 553,068,201 | **$ 524,147,838** | $ (28,920,363) | -5.23% |
| Investment income | 9,922,047 | 11,920,266 | **4,180,186** | (7,740,080) | -64.93% |
| **Total revenues** | 581,717,908 | 564,988,467 | **528,328,024** | (36,660,443) | -6.49% |
| **EXPENSES** | | | | | |
| Insurance benefits | 521,610,439 | 538,823,030 | **482,590,580** | (56,232,450) | -10.44% |
| Administrative expenses | 24,239,151 | 28,713,616 | **30,292,454** | 1,578,838 | 5.50% |
| **Total benefits and expenses** | 545,849,590 | 567,536,646 | **512,883,034** | (54,653,612) | -9.63% |
| **Revenues over (under) benefits and expenses** | 35,868,318 | (2,548,179) | **15,444,990** | 17,993,169 | -706.12% |
| Beginning contingency reserves | 146,361,961 | 182,230,279 | **179,682,100** | (2,548,179) | -1.40% |
| **Ending contingency reserves** | $ 182,230,279 | $ 179,682,100 | **$ 195,127,090** | $ 15,444,990 | 8.60% |

# PUBLIC EMPLOYEES HEALTH PROGRAM

Management's Discussion and Analysis
For the Year Ended June 30, 2013
(Unaudited)

**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$™ |
|---|---|---|---|---|---|---|---|
| 2009 | 169,710 | 122,197 | 35,411 | 103,849 | 15,419 | 98,552 | 9,960 |
| 2010 | 169,310 | 126,513 | 37,097 | 103,060 | 16,433 | 98,002 | 10,072 |
| 2011 | 138,917 | 85,796 | 36,735 | 102,334 | 17,197 | 97,637 | 11,381 |
| 2012 | 132,205 | 84,958 | 36,339 | 101,172 | 19,919 | 89,165 | 9,157 |
| 2013 | 131,370 | 97,613 | 36,505 | 101,444 | 21,100 | - | 8,931 |

**SIGNIFICANT EVENTS**

COST REDUCTIONS: PEHP brought outside contracts in house and reduced staff to reduce costs. PEHP's administrative expenses were under budget by $1.12 million.

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 eight years in the future.

OTHER POST EMPLOYMENT BENEFIT (OPEB) LIABILITIES: During the 2012-2013 fiscal year, PEHP paid $116,558 to fund the OPEB liability. PEHP's portion of the total liability as of December 31, 2012 is $3.6 million with assets equal to $1.9 million leaving an unfunded liability of $1.7 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 total liability will correspondingly be adjusted annually based upon the actuarial valuation.

CHANGES TO THE DEATH BENEFIT PROGRAM: A resolution was passed in May 2013 that changed the death benefit from a nontaxable insurance benefit administered by PEHP to a taxable pension benefit administered by Utah Retirement Systems (URS).

# PUBLIC EMPLOYEES HEALTH PROGRAM
Management's Discussion and Analysis
For the Year Ended June 30, 2013
(Unaudited)

## SIGNIFICANT EVENTS (CONTINUED)

ENROLLMENT CHANGES: Canyons School District terminated their medical insurance with PEHP effective December 31, 2012. PEHP will continue to pay claims incurred prior to January 1, 2013 through December 31, 2013.

## 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, 2013 and June 30, 2012, the administrative expenses were $1,124,750 under budget and $817,638 over budget, respectively. PEHP was under budget in the salaries, wages and benefits and contractual services. This was due to continued cost cutting measures.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

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

# PUBLIC EMPLOYEES HEALTH PROGRAM

Balance Sheets

June 30, 2013 and 2012

| ASSETS | 2013 | 2012 |
|---|---|---|
| **Cash and cash equivalents** | **$ 46,515,030** | $ 43,377,028 |
| **Investments** | **266,585,932** | 253,183,319 |
| **Receivables:** | | |
| Premium and service fees | **31,799,307** | 33,059,920 |
| Investments | **1,957,762** | 13,082,970 |
| **Total receivables** | **33,757,069** | 46,142,890 |
| **Prepaid expenses and other current assets** | **9,191,644** | 9,756,262 |
| **Furniture and equipment,** net of accumulated depreciation of **$1,315,523** and $1,279,424 for 2013 and 2012, respectively | **366,253** | 156,130 |
| **Total assets** | **$ 356,415,928** | $ 352,615,629 |
| **LIABILITIES AND RESERVES FOR CLAIMS CONTINGENCY** | | |
| **Liabilities:** | | |
| Claims payable | **$ 19,118,723** | $ 19,425,995 |
| Liability for claims incurred but not reported | **32,297,307** | 42,731,676 |
| **Benefit reserves:** | | |
| Life insurance | **44,652,804** | 42,032,356 |
| Long-term disability claims reserves | **23,341,302** | 23,790,091 |
| Long-term disability medical premium reserves | **3,904,680** | 4,898,025 |
| Premiums payable | **393,795** | 148,883 |
| Unearned premiums | **390,620** | 3,009,744 |
| Accrued expenses | **3,105,335** | 5,871,464 |
| Due to other agencies and other liabilities | **5,228,137** | 2,405,921 |
| Securities lending liability | **28,856,135** | 28,619,374 |
| **Total liabilities** | **161,288,838** | 172,933,529 |
| **Reserves for claims contingency** | **195,127,090** | 179,682,100 |
| **Total liabilities and reserves for claims contingency** | **$ 356,415,928** | $ 352,615,629 |

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, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **Revenue:** | | |
| Premiums earned and service fees, net of refunds | **$ 519,205,623** | $ 547,894,037 |
| Federal subsidy | **4,913,671** | 5,088,743 |
| Net investment income | **4,180,186** | 11,920,266 |
| Miscellaneous income | **28,544** | 85,421 |
| **Total revenue** | **528,328,024** | 564,988,467 |
| **Insurance benefits:** | | |
| Claims | **489,161,083** | 503,070,526 |
| Change in unpaid claims and claims incurred but not reported | **(8,569,982)** | 16,644,732 |
| Provision for medical premium reserve | **(993,345)** | 2,002,008 |
| Network access fees | **-** | 675,555 |
| Policyholder experience dividends | **2,992,824** | 16,430,209 |
| **Total insurance benefits** | **482,590,580** | 538,823,030 |
| **Administrative expenses:** | | |
| Salaries, wages and benefits | **19,510,022** | 19,004,173 |
| Other administrative expenses | **10,782,432** | 9,709,443 |
| **Total administrative expenses** | **30,292,454** | 28,713,616 |
| **Total benefits and expenses** | **512,883,034** | 567,536,646 |
| **Revenue over (under) benefits and expenses** | **15,444,990** | (2,548,179) |
| Beginning reserves for claims contingency | **179,682,100** | 182,230,279 |
| **Ending reserves for claims contingency** | **$ 195,127,090** | $ 179,682,100 |

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, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash received from premiums | **$ 527,203,984** | $ 555,140,570 |
| Cash paid for benefits | **(491,125,997)** | (507,626,543) |
| Cash paid to suppliers and employees | **(31,840,480)** | (23,691,536) |
| Policyholder experience dividends paid | **(2,992,824)** | (16,430,209) |
| **Net cash provided by operating activities** | **1,244,683** | 7,392,282 |
| **Cash flows from investing activities:** | | |
| Interest received | **10,305,572** | 10,484,005 |
| Proceeds from maturities of sales of fixed income securities | **84,702,692** | 79,928,979 |
| Purchases of fixed income securities | **(103,456,671)** | (104,594,586) |
| Redemptions (purchases) of money market funds - net | **10,587,948** | 9,508,505 |
| **Net cash provided (used) by investing activities** | **2,139,541** | (4,673,097) |
| **Cash flows from capital and related financing activities:** | | |
| Purchases of equipment | **(246,222)** | (17,471) |
| **Net cash used by financing activities** | **(246,222)** | (17,471) |
| **Net increase in cash and cash equivalents** | **3,138,002** | 2,701,714 |
| Cash and cash equivalents at beginning of year | **43,377,028** | 40,675,314 |
| **Cash and cash equivalents at end of year** | **$ 46,515,030** | $ 43,377,028 |

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

| | 2013 | 2012 |
|---|---|---|
| **Reconciliation of revenue over benefits and expenses to net cash provided by operating activities:** | | |
| Revenue over (under) benefits and expenses | **$ 15,444,990** | $ (2,548,179) |
| **Adjustments to reconcile revenue over benefits and expenses to net cash provided by operating activities:** | | |
| Depreciation | **36,099** | 63,768 |
| Net investment income | **(4,180,186)** | (12,231,141) |
| **Change in assets and liabilities:** | | |
| Premiums and service fees receivable | **1,260,613** | 4,751,258 |
| Prepaid expenses and other current assets | **564,618** | (2,480,066) |
| Claims payable | **(307,272)** | 1,354,147 |
| Liability for claims incurred but not reported | **(10,434,369)** | 11,085,900 |
| Benefit reserves | **1,178,314** | 6,206,693 |
| Due to other agencies | **2,822,217** | (1,025,588) |
| Premiums payable | **244,912** | 76,305 |
| Unearned premiums | **(2,619,124)** | (170,403) |
| Accrued expenses | **(2,766,129)** | 2,309,588 |
| **Net cash provided by operating activities** | **$ 1,244,683** | $ 7,392,282 |

## 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 amounts between $75,000 and $275,000 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 $1,250,000 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 $1,250,000. 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, 2013 and 2012, the Program paid **$831,108** and $808,257 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.

## 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

Furniture and equipment are defined by the Program as assets with an initial cost of more than $5,000. Furniture and equipment are stated at cost less accumulated depreciation. 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.

## 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 3.00% and 7.75% to calculate the present value of estimated future cash payments as of June 30, 2013 and 2012. 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 to be uncollectible.

### Recently Issued Accounting Standards

In December of 2010, GASB issued GASB No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This Statement codifies all sources of generally accepted accounting principles for state and local governments so that accounting standards are derived from a single source. This will lead to a more consistent application of accounting standards for governmental entities. The requirements of this Statement are effective for financial statement periods beginning after December 15, 2011.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Recently Issued Accounting Standards (Continued)

In June of 2011, GASB issued GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* The objective of this Statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The requirements of this Statement are effective for financial statement periods beginning after December 15, 2011.

In March of 2012, GASB issued GASB No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities in conjunction with GASB No 63. The requirements of this Statement are effective for financial statement periods beginning after December 15, 2012 although earlier application is encouraged.

In March of 2012, GASB issued GASB No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 but earlier application is encouraged. This does not have a material impact on the Program.

### Reclassification

Certain items in the 2012 financial statements have been reclassified to agree with the 2013 presentation.

## 2. CASH AND INVESTMENTS

Listed below is a summary of the deposit and investment portfolios as of June 30, 2013 and 2012. 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.

### 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 **$(6,358,658)** and $(3,446,839) as of June 30, 2013 and 2012, respectively. The corresponding bank balance of the deposits was **$245,965** and $2,265,298 as of June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, 100% of these deposits were insured by the FDIC, respectively. Cash and cash equivalents consisted of the following as of June 30, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Overnight repurchase agreements | **$ 10,115,124** | $ 20,457,134 |
| Cash on deposit with Zions Bank | **(6,358,658)** | (3,446,839) |
| Cash on deposit with Northern Trust | **40,170,578** | 26,690,127 |
| Cash on deposit with (owed to) URS | **2,587,686** | (323,694) |
| Petty cash | **300** | 300 |
| **Total** | **$ 46,515,030** | $ 43,377,028 |

## 2. CASH AND INVESTMENTS (Continued)

### 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, 2013 and 2012, the overnight repurchase agreements of **$10,115,122** and $20,457,134, 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 deposits with Northern Trust and Dodge & Cox as of June 30, 2013 and 2012 of **$40,170,578** and $26,690,127, respectively, are uninsured and uncollateralized.

The carrying values of deposits and investments are reconciled to the amounts recorded in the balance sheets as of June 30, 2013 and 2012 as follows:

| | 2013 | 2012 |
|---|---|---|
| Cash and equivalents | **$ 46,515,030** | $ 43,377,028 |
| Investments | **266,585,932** | 253,183,319 |
| **Total** | **$ 313,100,962** | $ 296,560,347 |

### 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, 2013 and 2012, 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, 2013:** | | | | | | |
| U.S. Treasuries | $ 17,107 | $ 3,107 | $ 14,001 | $ - | $ - | $ - |
| U.S. Agencies | 19,137 | 195 | 7,960 | 9,684 | 1,298 | - |
| Corporate bonds | 104,071 | 6,759 | 43,750 | 51,876 | 1,686 | - |
| Gov't mortgage backed securities | 84,496 | 2,999 | 1,739 | 3,641 | 25,317 | 50,799 |
| Asset backed securities | 12,918 | - | 5,833 | 7,085 | - | - |
| 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, 2013) | 28,856 | 28,856 | - | - | - | - |
| **Total investments** | $ 266,586 | $ 41,916 | $ 73,283 | $ 72,286 | $ 28,301 | $ 50,799 |

## 2. CASH AND INVESTMENTS (Continued)

| | | 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, 2012:** | | | | | | |
| U.S. Treasuries | $ 23,852 | $ - | $ 23,852 | $ - | $ - | $ - |
| U.S. Agencies | 16,509 | - | 2,704 | 11,402 | 2,404 | - |
| Corporate bonds | 106,161 | 1,692 | 16,985 | 71,960 | 13,839 | 1,684 |
| Gov't mortgage backed securities | 74,052 | 132 | 469 | 2,904 | 5,053 | 65,494 |
| Asset backed securities | 3,437 | - | 562 | 866 | 2,009 | - |
| Short-term investment funds | 553 | 553 | - | - | - | - |
| 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, 2012) | 28,619 | 28,619 | - | - | - | - |
| **Total investments** | $ 253,183 | $ 30,996 | $ 44,572 | $ 87,132 | $ 23,305 | $ 67,178 |

### Interest Rate Risk

The Program manages its exposure to fair value loss arising from increasing interest rates by complying with the following policy:

For the PEHP fixed income portfolio, the investment manager’s portfolio will have an effective duration between 75 – 125% of the effective duration of the appropriate index.

Duration is a measure of a debt investment’s exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investments full price.

The Program compares an investment’s effective duration against the Barclays U.S. Intermediate Government Credit Index.

The index range as of June 30, 2013 was 2.92 to 4.36. As of June 30, 2013, no individual debt security was outside of the policy guidelines.

## 2. CASH AND INVESTMENTS (Continued)

### 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, 2013 and 2012 were rated by S&P and/or an equivalent NRSRO and the ratings are presented below:

| | | Quality Ratings (000's) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair Value | AAA | AA | A | BBB | BB | B | NR |
| **Investment type as of June 30,2013:** | | | | | | | | |
| U.S. Treasuries | $ 17,107 | $ 17,107 | $ - | $ - | $ - | $ - | $ - | $ - |
| U.S. Agencies | 19,137 | 1,902 | 1,336 | 10,603 | 4,629 | - | - | 667 |
| Corporate bonds | 104,071 | - | 4,745 | 28,144 | 51,878 | 6,017 | 765 | 12,522 |
| Gov't mortgage backed securities | 84,496 | 83,963 | - | | - | - | - | 533 |
| Asset backed securities | 12,918 | 11,089 | | - | - | - | - | 1,829 |
| Short-term investment funds | - | - | - | - | - | - | - | - |
| Securities lending cash collateral invested in the Northern Trust Co. short-term investment pool | 28,856 | - | - | - | - | - | - | 28,856 |
| **Total investments** | $ 266,586 | $ 114,062 | $ 6,081 | $ 38,747 | $ 56,507 | $ 6,017 | $ 765 | $ 44,407 |

| | | Quality Ratings (000's) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair Value | AAA | AA | A | BBB | BB | B | NR |
| **Investment type as of June 30,2012:** | | | | | | | | |
| U.S. Treasuries | $ 23,852 | $ - | $ 23,852 | $ - | $ - | $ - | $ - | $ - |
| U.S. Agencies | 16,509 | - | 3,189 | 12,162 | 1,158 | - | - | - |
| Corporate bonds | 106,161 | - | 11,806 | 41,188 | 43,978 | 9,189 | - | - |
| Gov't mortgage backed securities | 74,052 | - | 73,477 | 575 | - | - | - | - |
| Asset backed securities | 3,437 | 2,009 | 1,428 | - | - | - | - | - |
| Short-term investment funds | 553 | - | - | - | - | - | - | 553 |
| Securities lending cash collateral invested in the Northern Trust Co. short-term investment pool | 28,619 | - | - | - | - | - | - | 28,619 |
| **Total investments** | $ 253,183 | $ 2,009 | $ 113,752 | $ 53,925 | $ 45,136 | $ 9,189 | $ - | $ 29,172 |

## 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, 2013 and 2012 the Program did not have non-cash collateral.

As of June 30, 2013 and 2012, the Program had no credit risk exposure to borrowers because the collateral exceeded the amount borrowed. The securities on loan as of June 30, 2013 and 2012 were **$28,277,122** and $28,235,387 respectively, and the cash and non-cash collateral received for those securities on loan was **$28,856,135** and $28,619,374, 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, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Total claims liabilities at beginning of year | **$ 132,878,143** | $ 114,231,403 |
| Claims incurred (including change in benefit reserve) | **481,562,670** | 526,273,283 |
| Claims paid | **(491,125,997)** | (507,626,543) |
| **Total claim liabilities at end of year** | **$ 123,314,816** | $ 132,878,143 |

## 4. POLICYHOLDER EXPERIENCE DIVIDENDS

During the year ended June 30, 2013 and 2012 the Board authorized experience dividends to participating agencies and members of **$2,992,824** and $16,430,209 from reserves for claims contingency accumulated by the Program through the end of the prior fiscal year. For medical and dental plans, the board relies on actuarially determined ranges to determine the amount of claims contingency reserves 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, and effective July 1, 2011, the State and School Contributory System. Senate Bill 63 created the Tier 2 Public Employees Contributory Retirement System for all new hires beginning employment in the retirement systems on or after July 1, 2011. These are cost-sharing multiple-employer defined benefit pension plans (the Plans) 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 Plans 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 **18.76%** and 16.86% of their annual covered salary for the years ended June 30, 2013 and 2012, respectively. In the Tier 2 Public Employee Contributory Retirement System, the Program was required to contribute **15.06%** and 12.74% of their annual covered salary for the years ended June 30, 2013 and 2012, respectively. The contribution rates are actuarially determined. The contribution requirements 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, 2013 and 2012 and were **$1,947,998** and $1,761,316, respectively. The Program's contributions to the Tier 2 Public Employee Contributory Retirement System for the years ended June 30, 2013 and 2012 and were **$105,839** and $35,033, 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 **$389,718** and $367,375 for the years ended June 30, 2013 and 2012, 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 **$4,174,398** and $3,761,377 during the years ended June 30, 2013 and 2012, respectively.

At June 30, 2013 and 2012, the amount receivable (payable) from the Systems, net of the cash held by the Systems for the Program in the amount of **$2,587,686** and $(323,694), is **$0** and $158,166, 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:

**2013**

**Equipment**

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| Furniture and equipment | **$ 1,215,958** | **$ -** | **$ -** | **$ 1,215,958** |
| Computer equipment | **46,013** | **-** | **-** | **46,013** |
| Vehicles | **173,583** | **95,152** | **-** | **268,735** |
| Leasehold improvements | **-** | **151,070** | **-** | **151,070** |
| **Total** | **$ 1,435,554** | **$ 246,222** | **$ -** | **$ 1,681,776** |

**Accumulated Depreciation**

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| Furniture and equipment | **$ 1,069,997** | **$ 24,857** | **$ -** | **$ 1,094,854** |
| Computer equipment | **42,178** | **3,835** | **-** | **46,013** |
| Vehicles | **167,249** | **6,334** | **-** | **173,583** |
| Leasehold improvements | | **1,073** | **-** | **1,073** |
| **Total** | **$ 1,279,424** | **$ 36,099** | **$ -** | **$ 1,315,523** |

**2012**

**Equipment**

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| Furniture and equipment | $ 1,245,114 | $ 17,472 | $ 46,628 | $ 1,215,958 |
| Computer equipment | 46,013 | - | - | 46,013 |
| Vehicles | 173,583 | - | - | 173,583 |
| **Total** | $ 1,464,710 | $ 17,472 | $ 46,628 | $ 1,435,554 |

**Accumulated Depreciation**

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| Furniture and equipment | $ 1,067,253 | $ 49,372 | $ 46,628 | $ 1,069,997 |
| Computer equipment | 32,976 | 9,202 | - | 42,178 |
| Vehicles | 144,583 | 22,666 | - | 167,249 |
| **Total** | $ 1,244,812 | $ 81,240 | $ 46,628 | $ 1,279,424 |

Depreciation expense for the years ended June 30, 2013 and 2012 amounted to **$36,099** and $63,768, 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 No 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, 2013 and 2012 was **$1,680,668** and $1,597,333, respectively.

## 10. NET INVESTMENT INCOME

Net investment income consisted of the following items for the years ended June 30, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Interest income | **$ 10,167,217** | $ 10,798,956 |
| Realized gains (losses), net | **134,821** | (820,496) |
| Unrealized gains (losses), net | **(5,791,745)** | 2,252,681 |
| **Investment income** | **4,510,293** | 12,231,141 |
| Less: investment expenses | **330,107** | 310,875 |
| **Net investment income** | **$ 4,180,186** | $ 11,920,266 |

## 11. REVIEW OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 1, 2013, which is the date the financial statements were available to be issued. No events have occurred subsequent to June 30, 2013 requiring recording or disclosure in these financial statements.