UTAH LOCAL GOVERNMENTS TRUST

Financial Statements
and
Independent Auditors' Report

December 31, 2006 and 2005

UTAH LOCAL GOVERNMENTS TRUST

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LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Utah Local Governments Trust:

We have audited the accompanying basic financial statements of **Utah Local Governments Trust** as of December 31, 2006 and 2005, and for the years then ended, listed in the foregoing table of contents. These basic financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these basic 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 misstatements. 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 our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of **Utah Local Governments Trust** as of December 31, 2006 and 2005, 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.

As described in Note 1 to the basic financial statements, the Trust adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statement and Management's Discussion and Analysis—for State and Local Governments: Omnibus,* and GASB Statement No 38, *Certain Financial Statement Note Disclosures,* in fiscal year 2002, effective January 1, 2001. Effective January 1, 2004, the Trust adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures.*

The Management's Discussion and Analysis is not a required part of the basic financial statements of the Trust, 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information as listed under the heading of Required Supplementary Information in the accompany table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Trust, but is supplementary information required by the Governmental Accounting Standards Board.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2007, on our consideration of the Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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

Sandy, Utah
February 15, 2007

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UTAH LOCAL GOVERNMENTS TRUST

Management's Discussion and Analysis
December 31, 2006

COMPANY BACKGROUND

Utah Local Governments Trust (Trust) is a Public Agency Insurance Mutual, writing business exclusively within the State of Utah to public entities including cities, towns, counties, special service districts and school districts. The Trust began initial operation in 1974 as a group purchase program solely for employee benefits. The Trust began a liability program in 1985 when liability insurance was either unavailable or the rates for commercial coverage had increased excessively. The Trust, therefore, began operation to fill the void left by the commercial carriers. The coverage's offered by the Trust are accidental dental, vision, general liability (including police professional and public officials' errors and omissions), auto liability and, effective January 1, 2004, began insuring workers' compensation. The Trust also provides group accident and health for its members through an administrative agreement with Public Employees Health Program (PEHP) where PEHP assumes the risk of the insurance and the Trust assists with the processing of claims, enrollment, customer service, billings, group servicing and marketing.

The management of the Trust does not expect to expand its operations into other states and no new coverages are anticipated at this time. As new opportunities present themselves, and as financial conditions permit, the Trust will review and consider those opportunities.

The following discussion of the current financial position and condition of the Trust by management is intended to supplement the financial exhibits.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Trust's finances, in a manner similar to private-sector business.

The statements of net assets present information on all of the Trust's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Trust is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets, which indicates an improved financial position.

The statements of revenues and expenses and changes in net assets present information showing how the Trust's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. The revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The following discussion of the current financial position and condition of the Trust by management is intended to supplement the basic financial statements and notes to basic financial statements.

FINANCIAL POSITION

Assets

Total assets at the end of 2006 were $49,974,268, an increase of $4,999,795 over 2005. Total assets at the end of 2005 were $44,974,473, an increase of $3,491,559 over 2004.

The Trust maintains a conservative investment policy. As a public entity, the Trust must adhere to the Utah Money Management Act; therefore, all investments are exclusively in bonds issued by the U.S. Government or U.S. Government secured agencies and the Utah Public Treasurer's Investment Fund, all of which have the lowest risk on any securities offered. Maturities of less than one year may be invested in corporate bonds, none of which can be held by a broker. All securities must be issued to the Trust and held in a safe keeping account. Securities may not be held in brokerage accounts for any public agency governed by the Utah Money Management Act. The Trust does not invest in common stocks or mortgages.

Short-term investments are on deposit with the Utah Public Treasurer's Investment Fund and are available on a daily basis to meet claims and expenses.

The investment in NLC-Mutual, a captive of government pools of various states, is carried on the financial statements in the amount of approximately $2.5 million. The invested amount represents the Trust's equity in NLC-Mutual. On December 6, 2005, A.M. Best downgraded the financial strength rating to C++ (Marginal) with a negative outlook.

Premium income has historically covered the Trust's needs for cash to pay claims and expenses. Management expects the positive cash flow to continue.

Liabilities

Total liabilities at the end of 2006 were $24,874,586, an increase of $2,466,559 over 2005. Total liabilities at the end of 2005 were $22,408,027, an increase of $1,925,707 over 2004.

Aggregate reserves for losses and loss adjustment expenses are $17,247,769, an increase over last year due to the risk of workers compensation being assumed in 2004 and more claims in the liability program. Administrative expenses overall increased to provide for resources needed to process claims and loss control for workers' compensation and liability business. As the claims associated with the increased business begin to materialize, some additional increase in administrative expense is anticipated.

Salaried employees rather than commissioned agents are used to sell products; therefore, there are no commissions due and payable. All employees are licensed to sell the appropriate products. All expenses payable are normal expenses incurred in the operation of the Trust.

Net Assets

Net assets at December 31, 2006 have increased to $25,099,682 as compared to $22,566,446 at the end of 2005. Net assets at December 31, 2005 have increased to $22,566,446 as compared to $21,000,594 at the end of 2004.

The maximum risk taken by the Trust is $500,000 per claim on liability and $500,000 per claim on workers compensation. All life insurance is placed with a licensed carrier as well as medical and dental, property, bonds, auto physical damage, long-term care and accidental death.

UTAH LOCAL GOVERNMENTS TRUST

Management's Discussion and Analysis
December 31, 2006

Condensed Statement of Net Assets

	2006	2005	Net Change
Assets:			
Current and other assets	**$ 47,067,928**	$ 42,024,938	$ 5,042,990
Capital assets	**2,906,340**	2,949,535	(43,195)
Total assets	**$ 49,974,268**	$ 44,974,473	$ 4,999,795
Liabilities:			
Current and other liabilities	**$ 21,347,784**	$ 18,145,163	$ 3,202,621
Long-term liabilities	**3,526,802**	4,262,864	(736,062)
Total liabilities	**24,874,586**	22,408,027	2,466,559
Net assets:			
Invested in capital assets, net of related debt	**2,906,340**	2,948,150	(41,810)
Unrestricted	**22,193,342**	19,618,296	2,575,046
Total net assets	**25,099,682**	22,566,446	2,533,236
Total liabilities and net assets	**$ 49,974,268**	$ 44,974,473	$ 4,999,795

Condensed Statement of Net Assets

	2005	2004	Net Change
Assets:			
Current and other assets	**$ 42,024,938**	$ 38,444,893	$ 3,580,045
Capital assets	**2,949,535**	3,038,021	(88,486)
Total assets	**$ 44,974,473**	$ 41,482,914	$ 3,491,559
Liabilities:			
Current and other liabilities	**$ 18,145,163**	$ 16,135,138	$ 2,010,025
Long-term liabilities	**4,262,864**	4,347,182	(84,318)
Total liabilities	**22,408,027**	20,482,320	1,925,707
Net assets:			
Invested in capital assets, net of related debt	**2,948,150**	3,033,874	(85,724)
Unrestricted	**19,618,296**	17,966,720	1,651,576
Total net assets	**22,566,446**	21,000,594	1,565,852
Total liabilities and net assets	**$ 44,974,473**	$ 41,482,914	$ 3,491,559

UTAH LOCAL GOVERNMENTS TRUST

Management's Discussion and Analysis
December 31, 2006

RESULTS OF OPERATIONS

Revenues

Revenues increased by approximately 19% in 2006 and16% in 2005. Total revenue of over $16.9 million in 2006 and over $14.2 million in 2005 was up both years, due to areas of revenue having a modest increase.

Condensed Statement of Revenues

Revenues:	2006	2005	Net Change
Premiums and other considerations	**$ 11,145,473**	$ 9,169,402	$ 1,976,071
Investment income	**2,280,194**	1,517,181	763,013
Administrative fees	**3,568,633**	3,551,066	17,567
Total revenues	**$ 16,994,300**	$ 14,237,649	$ 2,756,651

Condensed Statement of Revenues

Revenues:	2005	2004	Net Change
Premiums and other considerations	**$ 9,169,402**	$ 7,297,938	$ 1,871,464
Investment income	**1,517,181**	1,753,174	(235,993)
Administrative fees	**3,551,066**	3,240,298	310,768
Total revenues	**$ 14,237,649**	$ 12,291,410	$ 1,946,239

Benefits and Expenses

Total benefits and expenses are up approximately 14% for the year 2006 and 5% for the year 2005. Total benefits and expenses of over $14.4 million in 2006 and over $12.6 million in 2005 were up in both years, due to modest increases in losses and loss adjustment expense and other operating expenses.

Condensed Statement of Expenses

Expenses:	2006	2005	Net Change
Losses and loss adjustment expenses	**$ 9,065,851**	$ 7,633,007	$ 1,432,844
Membership benefits	**1,554,608**	1,729,444	(174,836)
Other operating expenses	**3,840,605**	3,309,346	531,259
Total expenses	**$ 14,461,064**	$ 12,671,797	$ 1,789,267

Condensed Statement of Expenses

Expenses:	2005	2004	Net Change
Losses and loss adjustment expenses	$ 7,633,007	$ 6,784,824	$ 848,183
Membership benefits	1,729,444	1,640,230	89,214
Other operating expenses	3,309,346	3,643,230	(333,884)
Total expenses	$ 12,671,797	$ 12,068,284	$ 603,513

Investments

The Trust actively manages its investment portfolio. The management of investments and the Trust financials is handled in-house by the Associate Executive Director. The Trust auditors and an elected Board of Directors review the Trust activities. The total investment income for the year ended 2006 was $2,280,194 and for the year ended 2005 was $1,517,181.

Change in Net Assets

Change in net assets for 2006 was $2,533,236, an increase over change in net assets for 2005 of $967,384. Change in net assets for 2005 was $1,565,852, an increase over change in net assets for 2004 of $1,342,726.

Condensed Statement of Changes in Net Assets

Revenues and expenses:	2006	2005	Net Change
Revenues	$ 16,994,300	$ 14,237,649	$ 2,756,651
Expenses	14,461,064	12,671,797	1,789,267
Net income	2,533,236	1,565,852	967,384
Net assets, beginning of year	22,566,446	21,000,594	-
Net assets, end of year	$ 25,099,682	$ 22,566,446	$ 967,384

Condensed Statement of Changes in Net Assets

Revenues and expenses:	2005	2004	Net Change
Revenues	$ 14,237,649	$ 12,291,410	$ 1,946,239
Expenses	12,671,797	12,068,284	603,513
Net income	1,565,852	223,126	1,342,726
Net assets, beginning of year	21,000,594	20,777,468	-
Net assets, end of year	$ 22,566,446	$ 21,000,594	$ 1,342,726

Claims are expected to continue to grow in line with the risk associated with the liability and workers compensation business. Increased risk management efforts can offset increase in claims, but the occasional adverse year can and will occur.

ACTUAL RESULTS VERSUS BUDGET AMOUNTS

No changes were made to the 2006 budget after its adoption in December 2005. Revenues were above budgeted amounts and expenses in total were below budgeted amounts. The following table summarized the differences between the budget amounts and actual results.

	Budgeted Amounts	Actual Amounts	Variance
Income:			
Premiums and other considerations	$ 10,682,078	$ 11,145,473	$ 463,395
Investment income	1,968,528	2,280,194	311,666
Administrative fees	3,445,434	3,568,633	123,199
Total income	16,096,040	16,994,300	898,260
Benefits and expenses:			
Losses and loss adjustment expenses	10,388,020	9,065,851	1,322,169
Membership benefits	1,725,884	1,554,608	171,276
Other operating expenses	3,820,498	3,840,605	(20,107)
Total benefits and expenses	15,934,402	14,461,064	1,473,338
Change in net assets	161,638	2,533,236	2,371,598
Net assets, beginning of year	22,566,446	22,566,446	-
Net assets, end of year	$ 22,728,084	$ 25,099,682	$ 2,371,598

CASH FLOW AND LIQUIDITY

Liquidity

All of the Trust's assets are invested in U.S. Government securities and, as a political subdivision of the State of Utah, in the Utah Public Treasurer's Fund. All investments are reviewed semi-annually by the State Auditor's Office. All assets are readily available to meet our foreseeable business needs.

Currently the market value of our agency portfolio as of December 31, 2006 is $35,825,961 and the market value was $36,651,234 as of December 31, 2005 as reported in the accompanying basic financial statements.

Cash Flow

The Trust's primary sources of funds are premium income, investment income and administrative fee income. The primary uses of funds are claims, membership benefits and other operating expenses.

There are no known demands for cash that will likely cause material changes in the cash flow pattern.

Expected Trends

While premium growth is expected to increase modestly, the claim pattern continues to be volatile. Every effort is being made to control and reduce claim experience. The Trust expects continued growth in profits and surplus. The long-term outlook remains favorable.

Requests for Information

This financial report is designed to provide a general overview of the Trust's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Chief Financial Officer, Utah Local Governments Trust, 55 South Highway 89, North Salt Lake, UT 84054.

UTAH LOCAL GOVERNMENTS TRUST

Statement of Net Assets

As of December 31, 2006 and 2005

ASSETS

	2006	2005
Current assets:		
Cash and cash equivalents	**$ 9,163,452**	$ 3,260,185
Premiums receivable	**446,338**	621,275
Administrative fees receivable	**32,851**	39,850
Accrued interest receivable	**576,301**	577,212
Receivable from affiliate	**-**	11,188
Due from reinsurers	**445,109**	451,360
Prepaid expenses	**1,026**	2,053
Total current assets	**10,665,077**	4,963,123
Investments	**36,402,851**	37,061,815
Capital assets, net of accumulated depreciation of **$1,295,516** and $1,471,140, respectively	**2,906,340**	2,949,535
Total assets	**$ 49,974,268**	$ 44,974,473

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

LIABILITIES AND NET ASSETS

	2006	2005
Liabilities:		
Current liabilities:		
Reserves for loss and loss adjustment expenses	**$ 17,247,769**	$ 14,802,885
Unearned premiums	**3,495,163**	3,155,049
Accounts payable	**603,467**	185,304
Accrued expenses payable	**-**	540
Current portion of notes payable	**-**	1,385
Total current liabilities	**21,346,399**	18,145,163
Long-term liabilities:		
Compensated absences	**100,402**	105,263
Other liabilities	**3,427,785**	4,157,601
Total long-term liabilities	**3,528,187**	4,262,864
Total liabilities	**24,874,586**	22,408,027
Net assets:		
Contributed capital	**112,745**	112,745
Invested in capital assets, net of related debt	**2,906,340**	2,948,150
Unrestricted	**22,080,597**	19,505,551
Total net assets	**25,099,682**	22,566,446
Total liabilities and net assets	**$ 49,974,268**	$ 44,974,473

UTAH LOCAL GOVERNMENTS TRUST

Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2006 and 2005

	2006	2005
Income:		
Premiums and other considerations	**$ 11,145,473**	$ 9,169,402
Investment income	**2,280,194**	1,517,181
Administrative fees	**3,568,633**	3,551,066
Total income	**16,994,300**	14,237,649
Benefits and expenses:		
Losses and loss adjustment expenses	**9,065,851**	7,633,007
Membership benefits	**1,554,608**	1,729,444
Other operating expenses	**3,840,605**	3,309,346
Total benefits and expenses	**14,461,064**	12,671,797
Change in net assets	**2,533,236**	1,565,852
Net assets, beginning of year	**22,566,446**	21,000,594
Net assets, end of year	**$ 25,099,682**	$ 22,566,446

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

UTAH LOCAL GOVERNMENTS TRUST

Statements of Cash Flows

For the Years Ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Premiums received, net of reinsurance	**$ 11,677,963**	$ 9,114,526
Administrative fees collected	**3,575,632**	3,537,898
Losses and loss adjustment expenses paid	**(6,620,967)**	(5,573,783)
Operating expenses and benefits paid	**(5,554,790)**	(5,217,848)
Net cash provided by operating activities	**3,077,838**	1,860,793
Cash flows from capital and related financing activities:		
Acquisition of capital assets	**(113,254)**	(88,547)
Sale of capital assets	**-**	2,725
Principal paid on notes payable	**(1,385)**	(2,762)
Net cash used by capital and related financing activities	**(114,639)**	(88,584)
Cash flows from investing activities:		
Purchase of bonds	**(499,880)**	(13,303,167)
Proceeds from sale of bonds	**1,300,000**	7,500,000
Interest on investments	**2,139,948**	1,366,921
Net cash provided (used) by investing activities	**2,940,068**	(4,436,246)
Net increase (decrease) in cash	**5,903,267**	(2,664,037)
Cash and cash equivalents at beginning of year	**3,260,185**	5,924,222
Cash and cash equivalents at end of year	**$ 9,163,452**	$ 3,260,185

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

	2006	2005
Reconciliation of net income to net cash used in operating activities:		
Change in net assets	**$ 2,533,236**	$ 1,565,852
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**156,449**	158,486
Amortization of investments	**(141,156)**	(54,308)
Interest received on investments	**(2,139,948)**	(1,366,921)
Gain on disposal of assets	**-**	15,822
Change in assets and liabilities:		
(Increase) decrease in premiums receivable	**174,937**	(29,378)
(Increase) decrease in administrative fees receivable	**6,999**	(13,168)
(Increase) decrease in accrued interest receivable	**911**	(95,951)
(Increase) decrease in receivables from affiliates	**11,188**	(11,188)
(Increase) decrease in other receivables	**6,251**	(236,051)
(Increase) decrease in prepaid expenses	**1,027**	(870)
Increase in reserves for loss and loss adjustment expenses	**2,444,884**	2,059,224
Increase in unearned premiums	**340,114**	221,741
Increase (decrease) in accounts payable	**418,163**	(268,548)
Decrease in accrued expenses	**(540)**	(1,015)
Decrease in compensated absences	**(4,861)**	(5,565)
Decrease in other liabilities	**(729,816)**	(77,369)
Net cash provided by operating activities	**$ 3,077,838**	$ 1,860,793

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Utah Local Governments Trust (the Trust) was organized under the Interlocal Cooperation Act in Chapter 13 of Title XI of the Utah Code. Under Section 31A-5-215 of the Utah Insurance Code, effective July 1, 1986, the Trust was classified as a Public Agency Insurance Mutual. The Trust provides accidental dental, vision, general liability (including police professional and public officials' errors and omissions), auto liability and workers compensation insurance for units of local governments in the State of Utah. The Trust also provides group accident and health through an administrative agreement with Public Employees Health Program (PEHP), where PEHP assumes the risk of the insurance and the Trust assists with the processing of claims, enrollment, customer service, billings, group servicing, and marketing.

Accounting Principles

These financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP) and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The Trust adopted Governmental Accounting Standards Board Statement No 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments* (GASB Statement 34), GASB Statement No. 37, *Basic Financial statement and Management's Discussion and Analysis – For State and Local Governments: Omnibus,* and GASB Statement No. 38, *Certain Financial Statement Disclosures,* in fiscal year 2002, effective January 1, 2001. Effective January 1, 2004, the Trust adopted GASB Statement No 40, *Deposit and Investment Risk Disclosures.* With the implementation of these statements, the Trust has prepared required supplementary information titled 'Managements' Discussion and Analysis,' which precedes the basic financial statements, has prepared a balance sheet classified between current and noncurrent assets and liabilities, has categorized net assets as invested in capital assets and unrestricted, has prepared the statements of cash flows on the direct method, and provided additional schedules to better communicate the financial status of the governmental entity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Principles (Continued)

The accounting policies of the Trust 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 Trust has opted to apply all pronouncements issued by the Financial Accounting Standards Board ("FASB") after November 1989, unless the FASB pronouncements conflict with or contradict GASB pronouncements. The following is a summary of the more significant of such policies.

Basis of Accounting

The Trust reports as a single enterprise fund and uses the accrual method of accounting and the economic resources measurement focus. Under this method, revenues are recognized when they are earned and expenses are recognized when they are incurred.

Use of Estimates

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 statement, and the reported amounts of revenues and expenses during the reporting period. The estimates which are particularly susceptible to change related to the actuarial valuation of the claims incurred but not reported and loss reserves. Actual results could differ from those estimates.

The Trust 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 such changes could materially affect the amounts reported in the balance sheets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Trust considers all highly liquid debt instruments with maturities of three months or less to be cash equivalents. Therefore, the investment in Utah Public Treasurer's Fund, overnight repurchase agreements, and cash on deposit are considered to be cash equivalents.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are comprised of U.S. Government securities and investment in NLC Mutual.

Investments in U.S. Government securities for December 31, 2006 and 2005 consist of held-to-maturity securities. Held-to-maturity securities are reported at cost, adjusted for amortization of premiums and accretion of discounts that are recognized in interest income using the interest method over the period to maturity.

The investment in NLC Mutual is valued using the equity method of accounting. Under the equity method, the Trust recognizes its share in the net earnings or losses of the company as they occur rather than as dividends are received.

Capital Assets

Capital assets are defined by the Trust as assets with an initial individual cost of more than $2,000. Capital assets are stated at cost less accumulated depreciation. Depreciation on furniture, equipment, and electronic data processing equipment is provided over the estimated useful lives of the assets on the straight-line method. Useful lives vary from 3 to 10 years. Depreciation on the building is provided over the estimated useful life of 39½ years on the straight-line method. Depreciation expense for the years ended December 31, 2006 and 2005 amounted to **$156,449** and $158,486 respectively.

Maintenance and repairs which do not materially extend the useful lives of the related assets and minor replacements are expensed as incurred.

Compensation Absences

Accumulated unpaid vacation and sick pay amounts are accrued when benefits vest to employees and the unpaid liability is reflected as compensated absences payable.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reserves for Losses and Loss Adjustment Expenses

The reserves for losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount based on past experience for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates, and while management believes that amounts are adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are regularly reviewed by an independent certified actuary and any adjustments are reflected in the period determined.

Premiums

Premiums are earned over the terms of the related insurance policies and reinsurance contracts. Unearned premium reserves are established to cover the unexpired portion of premiums written. Such reserves are computed by pro rata methods for direct business and are based on reports received from ceding companies for reinsurance.

Income Taxes

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

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Listed below is a summary of the cash and investment portfolios as of December 31, 2006 and 2005. Investing is governed by the prudent man rule in accordance with statues of the State of Utah. All investments of the Trust are considered to have been made in accordance with these governing statues.

Cash and cash equivalents

Cash and cash equivalents of the Trust are carried at cost. The carrying amount of the cash on deposit, net of outstanding checks, is **($234,796)** and $51,128 on December 2006 and 2005, respectively.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

As of December 31, 2006 and 2005, the Trust's cash and cash equivalents and investments included the following:

	2006	2005
Cash on deposit	$ **(234,796)**	$ 51,128
Overnight repurchase agreements	**633,675**	466,924
Utah Public Treasurer's Investment Fund - held by the Trust	**8,764,573**	2,742,133
Total cash and cash equivalents	**9,163,452**	3,260,185
Deposit - U.S. government securities held jointly with the State of Utah	**2,000,000**	2,000,000
Investments - U.S. government securities	**31,909,217**	32,694,433
Equity investments	**2,492,634**	2,367,382
Total cash and cash equivalents and investments	**$ 45,565,303**	$ 40,322,000

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 December 31, 2006 and 2005, the overnight repurchase agreements of **$633,675** and $466,924, respectively are uninsured and are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Trust's name.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments

The Trust records its investments in U.S. Treasuries and U.S Agencies at amortized cost. The differences between book value and fair value as of December 31, 2006 and 2005 are as follows:

	2006				
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Statement Value
Held-to-maturity securities	$ 33,909,217	$ 243,546	$ 820,436	$ 33,332,327	$ 33,909,217
Equity investments	526,295	3,300,119	1,332,780	2,493,634	2,493,634
Total investments	$ 34,435,512	$ 3,543,665	$ 2,153,216	$ 35,825,961	$ 36,402,851

	2005				
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Statement Value
Held-to-maturity securities	$ 34,694,433	$ 287,794	$ 698,375	$ 34,283,852	$ 34,694,433
Equity investments	526,295	3,170,870	1,329,783	2,367,382	2,367,382
Total investments	$ 35,220,728	$ 3,458,664	$ 2,028,158	$ 36,651,234	$ 37,061,815

The schedule below provides information about the credit risk, interest rate risk, credit rate risk, and concentration of credit risk associated with the Trust's investments as of December 31, 2006 and 2005.

	2006					
		Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	10-20	More Than 20
Investment type:						
as of December 31, 2006:						
U.S. Treasuries	$ 830,154	$ -	$ -	$ -	$ 830,154	$ -
U.S. Agencies	32,502,173	3,815,788	3,985,330	-	24,701,055	-
Equity investment in NLC Mutual	2,493,634	-	-	-	-	2,493,634
Total investments	$ 35,825,961	$ 3,815,788	$ 3,985,330	$ -	$ 25,531,209	$ 2,493,634

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

	2005					
		Investment Maturities (in Years) (in thousands)				
	Fair Value	Less Than 1	1-5	6-10	10-20	More Than 20
Investment type:						
as of December 31, 2005:						
U.S. Treasuries	$ 1,167,132	$ 302,004	$ -	$ -	$ 865,128	$ -
U.S. Agencies	33,116,720	995,940	7,263,398	-	24,857,382	-
Equity investment in NLC Mutual	2,367,382	-	-	-	-	2,367,382
Total investments	$ 36,651,234	$ 1,297,944	$ 7,263,398	$ -	$ 25,722,510	$ 2,367,382

Interest Rate Risk

In accordance with the Trust investment policy, the Trust manages its exposure to declines in fair value by laddering the maturities of its securities.

Credit Rate Risk

It is the Trust'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 Trust's investments in bonds were rated "AAA" by Standard & Poor's and Fitch Ratings, and "Aaa" by Moody's Investors Service.

Concentration of Credit Risk

The Trust limits the amount that can be invested in any one security to $1,000,000 unless approved by the executive committee. The Trust's investment policy is that no more than 5% of its investment portfolio may be invested in securities of any single issuer, with the exception of the U.S. government and Federal Agency obligations, where no limit is imposed; no more than 50% of its investment portfolio may be invested in securities of any one agency issuer; and no more than 50% of its investment portfolio may be invested in short-term bank obligations, commercial paper, corporate debt securities, or tax-exempt securities.

3. CAPITAL ASSETS

The capital assets and related accumulated depreciation of the Trust are:

	2006			
	Beginning Balance	Capital Acquisitions	Dispositions	Ending Balance
Capital assets:				
Land	$ 701,867	$ -	$ -	$ 701,867
Building	2,728,325	-	-	2,728,325
Furniture and equipment	425,453	23,097	(117,132)	331,418
Computers	438,057	16,674	(214,941)	239,790
Vehicles	126,973	73,483	-	200,456
Total	$ 4,420,675	$ 113,254	$ (332,073)	$ 4,201,856

	2006			
	Beginning Balance	Depreciation Expense	Dispositions	Ending Balance
Accumulated depreciation:				
Land	$ -	$ -	$ -	$ -
Building	530,962	70,546	-	601,508
Furniture and equipment	418,555	25,591	(117,132)	327,014
Computers	429,713	24,562	(214,941)	239,334
Vehicles	91,910	35,750	-	127,660
Total	$ 1,471,140	$ 156,449	$ (332,073)	$ 1,295,516

3. CAPITAL ASSETS (Continued)

	2005			
	Beginning Balance	Capital Acquisitions	Dispositions	Ending Balance
Capital assets:				
Land	$ 701,867	$ -	$ -	$ 701,867
Building	2,746,872	-	(18,547)	2,728,325
Furniture and equipment	414,409	11,044	-	425,453
Computers	463,672	20,922	(46,537)	438,057
Vehicles	99,930	56,581	(29,538)	126,973
Total	$ 4,426,750	$ 88,547	$ (94,622)	$ 4,420,675

	2005			
	Beginning Balance	Depreciation Expense	Dispositions	Ending Balance
Accumulated depreciation:				
Land	$ -	$ -	$ -	$ -
Building	460,416	70,546	-	530,962
Furniture and equipment	391,203	27,352	-	418,555
Computers	444,566	31,684	(46,537)	429,713
Vehicles	92,544	28,904	(29,538)	91,910
Total	$ 1,388,729	$ 158,486	$ (76,075)	$ 1,471,140

4. RELATED PARTY TRANSACTIONS

ULGIT Marketing, Inc. (Marketing) is a wholly-owned subsidiary of the Trust. Marketing serves as an employee leasing company for the Trust and as an agent for insurance lines not written by the Trust. For the years ended December 31, 2006 and 2005, total salaries and related payroll tax expenses paid to Marketing amounted to **$2,180,815** and $2,048,054 respectively. As of December 31, 2006 and 2005 the Trust had a receivable from Marketing for premiums of **$0** and $11,188, respectively.

5. REINSURANCE

The Trust has entered into reinsurance treaties for excess of loss per occurrence coverage as follows:

Workers compensation insurance was covered under reinsurance agreements for amounts over $50,000 for claims incurred from January 1, 1989 through December 31, 1999. Subsequently the risk was transferred to Workers Compensation Fund of Utah (WCF).

American Re-Insurance Company (American Re): Coverage up to $5,000,000 with a retention of $500,000 for general liability insurance.

Clarendon National Insurance Company: Workers compensation insurance coverage up to statutory limits with a retention of $500,000.

Estimated claims loss liabilities are stated net of estimated losses applicable to reinsurance ceded to other insurance companies. However, the Trust is contingently liable for those amounts in the event such companies are unable to pay their portion of the claims.

Reinsurance Recoverable in Dispute

The Company does not have any disputed balances or uncollectible funds.

6. CONTINGENCIES

The Trust is not aware of any assessments or lawsuits that could have a material effect on the Trust's operations or financial statements. The Trust is subject to various lawsuits related to losses in the normal course of business which are taken into consideration in the computation of the estimated incurred losses and loss adjustment expenses.

7. AGREEMENT WITH PEHP

Effective January 1, 2001 for groups with a January 1, 2001 renewal date and effective July 1, 2001 for groups with a July 1, 2001 renewal date, PEHP again assumed the risk for medical and dental insurance. The Trust provides enrollment, customer service, claims processing, billing and remittances, group servicing and marketing. PEHP and the Trust agreed to an administrative fee 6% of premium which is adjusted by the percentage change in warm body counts in the medical and dental risks pools and the percentage change in the Urban Consumer Price Index each year. Due to changes in the warm body counts and Urban Consumer Price Indexes, the average effective rate for 2006 was **4.5%** of premium. The average effective rate for 2005 was 4.7% of premium. For these services the Trust received **$2,573,927** and $2,662,873 for the years ended December 31, 2006 and 2005, respectively.

8. RETIREMENT PLAN

The employees of the Trust are covered under a 401(k) defined contribution plan. All employees of the Trust with service of over one year are eligible to participate in the plan. The Trust contributes 7% of the employee's salary. The Trust will match employee contributions up to an additional 4% of the employee's salary. Amounts contributed to the Plan for the years ended December 31, 2006 and 2005 were **$135,323** and $145,763, respectively.

9. NOTES PAYABLE

Notes payable consisted of the following as of December 31, 2006 and 2005:

	2006	2005
Utah energy office loan calling for semi-annual payments of $1,385, maturing March 2006, secured by building	$ -	$ 1,385
Total notes payable	-	1,385
Less current portion	-	1,385
Notes payable - long-term	$ -	$ -

There was no interest expense for the years ended December 31, 2006 and 2005, respectively.

10. UNPAID CLAIMS, LOSSES AND LOSS ADJUSTMENT EXPENSES

Reserves for incurred losses and loss adjustment expenses attributable to insured events of prior years has decreased by approximately **$840,371** and $1,480,442 in 2006 and 2005, respectively, as a result of re-estimation of unpaid losses and loss adjustment expenses. This change is generally the result of ongoing analysis of recent loss development trends. Original estimates change as additional information becomes known regarding individual claims

	2006	2005
Balance at January 1 (in thousands)	**$ 14,802**	$ 12,743
Incurred, related to:		
Current year	**9,519**	8,343
Prior year	**(839)**	(1,057)
Total incurred	**8,680**	7,286
Paid, related to:		
Current year	**2,201**	1,880
Prior year	**4,033**	3,347
Total paid	**6,234**	5,227
Balance at December 31	**$ 17,248**	$ 14,802

UTAH LOCAL GOVERNMENTS TRUST

Statements of Revenues, Expenses and Changes in Net Assets
By Line of Business
For the Years Ended December 31, 2006 and 2005

	2004	2005	
	Total	Liability	Workers Compensation
Income:			
Premiums and other considerations	$ 7,297,938	$ 4,161,086	$ 4,652,030
Administrative fees	3,240,298	-	-
Total operating revenue	10,538,236	4,161,086	4,652,030
Benefits and expenses:			
Losses and loss adjustment expenses	6,784,824	3,763,735	3,728,558
Membership benefits	1,640,230	-	-
Other operating expenses	3,643,230	872,774	785,207
Total operating benefits and expenses	12,068,284	4,636,509	4,513,765
Net income (loss) from operations	(1,530,048)	(475,423)	138,265
Investment income	1,753,174	1,356,729	121,326
Change in net assets	223,126	881,306	259,591
Allocation of servicing income	-	-	-
Net assets, beginning of year	20,777,468	18,779,640	1,679,376
Net assets, end of year	$ 21,000,594	$ 19,660,946	$ 1,938,967

2005		2006			
Other	Total	Liability	Workers Compensation	Other	Total
$ 356,286	$ 9,169,402	$ 5,311,112	$ 5,426,776	$ 407,585	$ 11,145,473
3,551,066	3,551,066	-	-	3,568,633	3,568,633
3,907,352	12,720,468	5,311,112	5,426,776	3,976,218	14,714,106
140,714	7,633,007	4,917,278	4,020,993	127,580	9,065,851
1,729,444	1,729,444	-	-	1,554,608	1,554,608
1,651,365	3,309,346	1,070,565	1,457,306	1,312,734	3,840,605
3,521,523	12,671,797	5,987,843	5,478,299	2,994,922	14,461,064
385,829	48,671	(676,731)	(51,523)	981,296	253,042
39,126	1,517,181	1,954,496	233,444	92,254	2,280,194
424,955	1,565,852	1,277,765	181,921	1,073,550	2,533,236
-	-	240,642	481,286	(721,928)	-
541,578	21,000,594	19,660,946	1,938,967	966,533	22,566,446
$ 966,533	$ 22,566,446	$ 21,179,353	$ 2,602,174	$ 1,318,155	$ 25,099,682

REQUIRED SUPPLEMENTARY INFORMATION

UTAH LOCAL GOVERNMENTS TRUST

Premiums and Loss Development Information

The following table compares the Trust's earned revenues net of reinsurance and investment income to related costs of losses and loss adjustment expenses, net of reinsurance, assumed by the Trust. The table is defined as follows: (1) show each year's net earned premiums, other operating revenues and interest income, (2) shows each year's other operating expenses including overhead and loss adjustment expenses not allocable to specific claims, (3) show incurred losses and allocated loss adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred, (4) shows the cumulative amounts paid as of the end of successive years for each accident year, (5) shows how each coverage year's incurred losses increased or decreased as of the end of the successive years: this annual re-estimation results form new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims, (6) compares the latest re-estimated incurred loss amounts to the amounts originally established. Trust information is only available in the format shown below for the years presented.

(In thousands)	1998	1999	2000	2001	2002	2003	2004	2005	2006
(1) Earned premiums, other operating operating revenues and investment revenues, net of reinsurance	18,126	28,622	32,566	18,304	8,052	8,689	12,291	14,274	16,994
(2) Unallocated expenses	972	494	390	297	304	361	374	144	148
(3) Estimated incurred claims, both paid and accrued, end of accident year	12,700	25,955	28,541	13,575	4,311	3,951	9,146	8,187	9,372
(4) Paid (cumulative) as of:									
End of accident year	7,453	19,022	22,185	10,230	846	725	2,249	1,879	2,201
One year later	10,199	22,787	26,144	11,603	1,520	1,455	3,795	3,390	-
Two years later	11,039	23,502	27,300	12,364	2,305	2,051	5,059	-	-
Three years later	11,897	24,407	27,472	12,679	3,132	2,508	-	-	-
Four years later	12,439	24,647	27,601	13,304	3,612	-	-	-	-
Five years later	12,554	24,599	27,628	13,583	-	-	-	-	-
Six years later	12,689	24,611	27,635	-	-	-	-	-	-
Seven years later	12,780	24,624	-	-	-	-	-	-	-
Eight years later	12,842	-	-	-	-	-	-	-	-
(5) Reestimated incurred losses and expenses:									
End of accident year	12,700	25,955	28,541	13,575	4,311	3,951	8,009	8,187	9,372
One year later	12,688	25,550	28,208	13,345	4,202	3,214	7,231	7,065	-
Two years later	12,385	25,225	27,571	13,339	4,690	3,185	7,073	-	-
Three years later	12,805	24,646	27,057	13,688	5,270	3,501	-	-	-
Four years later	13,567	24,746	27,958	13,634	4,853	-	-	-	-
Five years later	12,958	24,924	27,715	13,813	-	-	-	-	-
Six years later	13,913	24,883	27,697	-	-	-	-	-	-
Seven years later	13,345	25,002	-	-	-	-	-	-	-
Eight years later	13,536	-	-	-	-	-	-	-	-
(6) Increase (decrease) in estimated incurred losses and expenses from end of accident year	836	(953)	(844)	238	542	(450)	(2,073)	(1,122)	-

OTHER INDEPENDENT AUDITORS' REPORTS

LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based Upon the Audit Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Utah Local Governments Trust

We have audited the financial statements of **Utah Local Governments Trust** as of and for the year ended December 31, 2006, and have issued our report thereon dated February 15, 2007.

We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether **Utah Local Governments Trust's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Utah Local Governments Trust's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be

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detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reported and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors and management of **Utah Local Governments Trust** and the State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Larson & Company

Sandy, Utah
February 15, 2007

LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on State Legal Compliance

The Board of Directors
Utah Local Governments Trust

We have audited the financial statements of **Utah Local Governments Trust** as of and for the year ended December 31, 2006, and have issued our report thereon dated February 15, 2007. As part of our audit, we have audited **Utah Local Governments Trust's** compliance with the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2006. The Trust received no funding from major State assistance programs from the State of Utah.

Our audit also included testing on the Trust's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- Cash management
- Purchasing requirements
- Special districts
- Other general issues

The management of **Utah Local Governments Trust** is responsible for the Trust's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Trust's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

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The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, **Utah Local Governments Trust** complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended December 31, 2006.

Larson & Company

Sandy, Utah
February 15, 2007