



**LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)**

FINANCIAL STATEMENTS

and

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2010 AND 2009

WITH INDEPENDENT AUDITORS' REPORT

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

INDEX

	<u>Page(s)</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-13
Statements of Financial Position	14
Statements of Revenue, Expenses, and Changes in Net Assets	15
Statements of Cash Flows	16-17
Notes to Financial Statements	18-30
Combining Statement of Financial Position	31
Combining Statement of Revenue, Expenses, and Changes in Net Assets (Deficit)	32
Combining Statement of Cash Flows	33-34
Reconciliation of Claims Liabilities by Type of Contract	35-36
Ten-Year Claims Development Information	37-39
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Accounting Standards</i>	40-41

INDEPENDENT AUDITORS' REPORT

The Board of Directors of Local Government Center, Inc., as Sole Member of
Local Government Center Property-Liability Trust, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

We have audited the statements of financial position of Local Government Center Property-Liability Trust, LLC (Property-Liability Trust) (a wholly-owned subsidiary of Local Government Center, Inc.) as of December 31, 2010 and 2009 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Property-Liability Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Property-Liability Trust as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2011 on our consideration of Property-Liability Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 the 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 considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 13, reconciliation of claims liabilities by type of contract on pages 35 and 36, and ten-year claims development information on pages 37 through 39 be presented to supplement the basic financial statements. Such information, although not 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 U.S. generally accepted auditing standards, 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 statement. 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.

The information included in the accompanying combining statements of financial position, revenue, expenses, and changes in net assets (deficit), and cash flows is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual operations. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
June 15, 2011

**LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)**

Management's Discussion and Analysis

December 31, 2010

Overview:

The New Hampshire Municipal Association established a program in 1986 to provide property and liability coverage and risk management for local governmental units in New Hampshire that belonged to the Association. The program is now known as Local Government Center Property-Liability Trust, LLC (LGC Property-Liability Trust).

Many governmental units that elect to pool their property-liability risks under Chapter 5-B of the New Hampshire Revised Statutes Annotated (NH RSA 5-B) have chosen the LGC Property-Liability Trust. This statute and the Local Government Center's By-Laws permit all political subdivisions of the State of New Hampshire and their instrumentalities to participate in its programs. LGC Property-Liability Trust's objectives are to formulate, develop, and administer, on behalf of the member political subdivisions, a comprehensive risk management program, and to obtain lower costs for that coverage. LGC Property-Liability Trust operates as a non-profit corporation, with its income not subject to federal income taxation under Internal Revenue Code Section 115. LGC Property-Liability Trust believes that operating on a non-profit basis contributes to its ability to deliver services and coverage to political subdivisions at lower costs than might otherwise be obtained from the private sector. The Local Government Center, Inc., also formed Local Government Center HealthTrust, LLC (LGC HealthTrust) in 1984.

LGC Property-Liability Trust receives operational, management and administrative services from its parent organization, the Local Government Center (LGC). The Local Government Center furnishes full-time professional and support staff to LGC Property-Liability Trust. LGC Property-Liability Trust is wholly owned by LGC. LGC Property-Liability Trust's financial's are based on a calendar year.

The Local Government Center, Inc., LGC Property-Liability Trust, and LGC HealthTrust formed LGC Real Estate, Inc. in 1989 to build and maintain an office building to house the operations of these three entities. LGC Property-Liability Trust and LGC HealthTrust jointly began a Workers' Compensation program in 2000.

LGC Property-Liability Trust offers property and liability protection as set forth in its Member Agreement and Educators' Member Agreement coverage documents. The Educators' Member Agreement was introduced on July 1, 2005 to meet the unique needs of school members. Property and general liability protection is offered on an occurrence basis while professional liability protection is offered on a claims-made basis. It procures excess and reinsurance for liability claims in excess of \$1,000,000 per loss, property claims in excess of \$500,000 per loss and reinsurance for third-party claims in excess of \$1 million per accident or wrongful act. LGC Property-Liability Trust administers these claims with its own in-house claims staff. This term for protection runs from July 1 to June 30.

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Management's Discussion and Analysis

December 31, 2010

The LGC Property-Liability Trust also provides workers' compensation and unemployment compensation coverage to political subdivisions of the State of New Hampshire and their instrumentalities. For 2010, the self-insured retention for the workers' compensation program was \$750,000 for all class codes other than those related to schools (8868, 8869 and 9101) for which the self-insured retention is \$350,000. For 2009, LGC Property-Liability Trust purchased specific excess insurance above a \$750,000 self-insured retention for all workers' compensation job classifications. Unemployment claims are handled under a reimbursement program where members pay a contribution and the program reimburses the state for claims for covered members.

Discussion of the Basic Financial Statements:

Following the pronouncements of the Governmental Accounting Standards Board, Property-Liability Trust's financial information is presented in three basic financial statements.

Statement of Financial Position: This statement provides information about the LGC Property-Liability Trust's assets, liabilities, and net assets as of December 31, 2010. The majority of the LGC Property-Liability Trust assets are in the "current asset" category, meaning that they are either cash, can be converted to cash quickly, or are expected to become cash soon. The liabilities reflect amounts owed to outside companies for 2010 services that were paid in 2011, amounts calculated as reasonable estimates for claims incurred but not enough reported or not reported, and other accrued expenses. Net assets represents the difference between assets and liabilities. The Local Government Center's Board of Directors reviews the level of net assets with its consulting actuary to insure it is adequate to protect members for the risk if rates would be insufficient to meet claims.

Statement of Revenue, Expenses, and Changes in Net Assets: The results of the LGC Property-Liability Trust's operations are shown on this statement. The statement provides information about the level of contributions, reinsurance, claims and operating expenses for 2010 and changes in claims reserves for prior fiscal periods. Lastly, this statement sets forth the LGC Property-Liability Trust's change in net assets for the year (whether LGC Property-Liability Trust had a profit or loss).

Statement of Cash Flows: This statement reviews how LGC Property-Liability Trust's cash balance changed during 2010. It is divided into four different areas explaining where LGC Property-Liability Trust provided or used cash during the year. These areas relate to LGC Property-Liability Trust's operations, capital and related financing activities (sale and acquisition of capital assets), noncapital financing activities, and investing activities. It provides the "reasons" for the increase or decrease in LGC Property-Liability Trust's cash position.

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Management's Discussion and Analysis

December 31, 2010

Operating Results:

LGC Property-Liability Trust's results for the year ended December 31, 2010 resulted in an increase in net assets of \$556,088. LGC Property-Liability Trust had an operating loss of \$4,501,006 during the year ended December 31, 2010 compared to an operating loss of \$7,355,302 during the year ended December 31, 2009. The improvement in operating results during 2010 is due to a combination of factors: revenues increased due to membership and rate increases; favorable claims experience during 2010; and a reduction of claims administration expenses due to bringing the claims processing for the Workers' Compensation program in-house. The 2009 operating loss included an increase in the actuarially estimated reserve for Department of Labor (DOL) assessments for the workers' compensation program of approximately \$1.3 million. During 2010, the DOL reserve decreased by approximately \$130,000. The operating losses during 2010 and 2009 were mitigated by contributions received from Local Government Center (the Parent).

Excess and reinsurance costs were lower for the year ended December 31, 2010 than for the year ended December 31, 2009. This decrease was due to a combination of reduced rates and reduced underwriting factors.

Total assets increased during 2010 by \$3,652,915. The cash balance was lower at the end of 2010 primarily due to cash used by operating and investing activities of \$1,780,015 and \$3,838,932, respectively, which were offset by a contribution received from Local Government Center of \$3,360,780. Contributions receivable increased \$12,948. There was \$44,117 in claims recovery receivable at December 31, 2010 representing amounts due in excess of the self-insured retention. During 2010, LGC Property-Liability Trust's investment securities increased by \$4,108,791 primarily due to an increase in the amount of funds maintained in the investment accounts by the Workers' Compensation program by approximately \$3.7 million. The Workers' Compensation program held investment securities amounting to \$9,575,608 as of December 31, 2010. As of December 31, 2009, the Workers' Compensation program held investment securities amounting to \$5,926,990. During 2010, the market value of LGC Property-Liability Trust's portfolio increased \$513,132. Prepaid expenses increased \$504,551. There were additions to the equipment category during 2010 that amounted to \$212,064, which was offset by the recognition of depreciation expense on these assets. The amount due from Local Government Center was lower based on the timing of payments received from the Parent.

Total liabilities increased \$3,096,827 from 2009. The majority of this increase is due to higher claims reserves of \$1,700,745 and claims adjustment and administrative reserves of \$129,919 (based on actuarial evaluations) as well as higher unearned contributions of \$639,244 (combination of increased membership and higher rates). There was an increase in the amount due to the parent and accounts payable and accrued expenses. LGC Property-Liability Trust has no long-term liabilities.

Net assets for LGC Property-Liability Trust stand at \$10,401,808, and increased \$556,088 in 2010. The market value of the investments increased \$513,132 during 2010. The balance of the increase in net assets is due to operating results. The contributions from Parent decreased by \$672,401 during 2010 as compared to 2009. The contribution from Parent was to help fund the cash used by operations during 2010.

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Management's Discussion and Analysis

December 31, 2010

The Board has designated \$9,309,939 of net assets for the purpose of diminishing the risk that rates would be insufficient to meet claims.

LGC Property-Liability Trust's two main sources of revenue are contributions from members and investment income. The major LGC Property-Liability Trust expense is for recognition of claims obligations. Other expenses include reinsurance, loss prevention, and administrative expenses. The following breaks down the percentage of expenses by category.

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Claims incurred	63.4 %	62.4 %	1.0 %
Reinsurance	13.3 %	12.7 %	0.6 %
Loss prevention	2.3 %	2.1 %	0.2 %
Administrative and other expenses	21.0 %	22.8 %	(1.8)%

Major Accounting Policies:

The Local Government Center's Board of Directors and management utilize management judgment in establishing reserves, setting rates, recognizing income, and providing an adequate level for net assets. In doing so, outside independent professional advice is obtained to provide guidance in these decisions. Among other requirements, RSA 5-B of the New Hampshire statutes specifically requires an organization like LGC Property-Liability Trust to obtain an annual independent audit of its financial statements and to obtain an annual independent actuarial valuation of the rates and reserves. LGC Property-Liability Trust retained Towers Watson as its actuarial consultant for the purposes of obtaining professional advice about rate setting, reserve levels, and net assets.

LGC Property-Liability Trust has one renewal period for property-liability coverage in July of each year. New property-liability members can join at any date with a subsequent renewal date of July 1. Workers' compensation coverage can be renewed in either January or July. New workers' compensation members can join at any date with a subsequent renewal date of January 1 or July 1. Rates are established based on information for prior actual results. In addition, the actuary utilizes assumptions about expense ratios and investment income in recommending rate levels.

In recommending reserves, the actuary provides advice concerning the incurred but not enough reported and not reported amounts for prior periods. The actuary reviews LGC Property-Liability Trust's actual results as well as performing several other actuarial analyses. After review of these results, the actuary recommends ultimate loss levels for each open fund year. In addition, the actuary recommends a level for unallocated loss adjustment expenses. Finally, the actuary provides funding level recommendations for various risk margins to diminish the possibility of an unfunded loss.

The established rates are applied to every member's underwriting criteria equally. That is to say that the rate for a police officer is the same for every member. Similarly, the payroll class rate is the same for every member's workers' compensation coverage.

**LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)**

Management's Discussion and Analysis

December 31, 2010

The consulting actuary reviews the property-liability reserves annually at the end of each calendar year. A rate review is conducted at the same time. The actuary reviews actual claims reserve patterns, payments on claims, and outstanding reserves by claim category. The actuary takes actual payment and reserve information into account in performing these reviews.

Several years ago, LGC Property-Liability Trust's Board of Directors established a standing policy of maintaining a 90% confidence level for a designated net assets account for the purpose of diminishing the risk that rates would be insufficient to meet claims. Annually, the consulting actuary provides information regarding the appropriate amount necessary to achieve various confidence levels. Effective December 31, 2010, the Board adopted a net asset designation equal to a 90% confidence level of \$6,223,000. In addition, the Board designated the remaining available net assets of \$3,086,939 as of December 31, 2010 for purposes of rate stabilization in future years.

In 1990, LGC Property-Liability Trust's Board of Directors adopted a written Investment Policy (the Policy). During 2004, an investment advisor (Wells Canning & Associates) was engaged to assist in re-writing the Policy to encompass all of the Local Government Center's entities, to provide assistance in monitoring investment performance and to provide guidance on other investment policy revisions. The Policy has four basic goals. They are:

- Preservation of aggregate principal within prudent investment standards
- Achievement of total returns (income and price appreciation) consistent with the quality and maturity risks specified
- Prudent diversification with respect to types of assets, issuers, credit quality, strategic styles and investment managers
- Adequate matching of investment cash inflow against anticipated liability outflow with provision for contingencies

The Policy requires the Directors to hire an investment manager to determine the best investments within the Policy's guidelines. LGC Property-Liability Trust's investments are managed by Wellington Management Company, a worldwide investment company located in Boston, Massachusetts. The Policy permits investments within specific guidelines. In general, the Policy permits investing in investment grade fixed income government, agency, and corporate investments with an average duration between three and five years.

LGC Property-Liability Trust initially records its investments at cost plus or minus any discount or premium paid at the time of purchase; discounts and premiums are amortized over the life of the investment. LGC Property-Liability Trust also follows Statement of Financial Accounting Standards No. 124 and values its investments at market value at the end of each month. Market value is a measure at the end of each period of what the LGC Property-Liability Trust would receive if it sold its investments at that time. This provides a reasonable measure of the value of the investments moving through time and improves the ability of Directors and management to monitor investment values.

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Management's Discussion and Analysis

December 31, 2010

Membership Changes, Risk & Uncertainties and Outlook:

On October 28, 2010, the Department of State (the Department) issued an interim report regarding an investigation of LGC and LGC's related insurance pools stemming from a complaint it received. The complaint alleged that member contributions to LGC HealthTrust were being used to fund expenses not related to the operation of LGC HealthTrust and that surplus funds were not being returned to political subdivisions. The October 2010 interim report raised questions regarding LGC's compliance in the areas of corporate organization and governance, as well as its level and use of reserves. The Board of Directors filed a response to the interim report which disputes the implication that LGC may have acted improperly. The Department is still conducting its investigation and has yet to issue its findings of the investigation. The Board of Directors maintains that the complaint under investigation is without merit, member contributions have been used appropriately and surplus funds have been returned to participating local governments through rate credits and other means. LGC is cooperating fully with the investigation and has been meeting with the Department on an ongoing basis to resolve the pending issues. At this time, LGC Property-Liability Trust believes there is no liability to recognize.

On December 30, 2010, as required by Chapter 149:6 of the NH Laws of 2010, the Department issued recommendations to the legislature and governor concerning the limitation of reserves and the limitation on administrative expenses as a percentage of claims of pooled risk management programs. The report recommended that the reserve limit for pooled risk management programs operating pursuant to RSA 5-B be set using the stochastic modeling method and that administrative expenses be limited to 10% of claims. The report did not put in place any limits as it only contained suggestions for consideration and adoption by the legislature and governor. No legislation has been introduced during the 2011 legislative session to enact the Department's recommendations. Thus, LGC Property-Liability Trust does not believe the December 30, 2010 report has any impact on its financial statements as of and for the years ended December 31, 2010 and 2009.

The LGC Property-Liability Trust currently provides property-liability, workers' compensation and unemployment coverage for 406 municipalities, schools and counties. This represents 399 entities electing property-liability coverage, 231 entities electing workers' compensation coverage and 122 entities electing unemployment compensation coverage during the year ended December 31, 2010, and represents annualized contributions of approximately \$20.7 million.

Property-Liability Coverage:

LGC Property-Liability Trust purchases excess insurance and reinsurance above specified self-insured retentions passing the risk above such thresholds to excess and reinsurance carriers. Generally, property-liability excess and reinsurance markets have fluctuated in their pricing and capacity. In 2010, the markets remained relatively stable although there were indications that markets were beginning to harden due to many factors including recent catastrophic property losses across the country and poor investment returns. Nevertheless, with the assistance of its brokers, LGC Property-Liability Trust saw the benefit of existing relationships with its reinsurance and excess partners coupled with its favorable historical claims experience result in relatively stable renewal pricing.

**LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)**

Management's Discussion and Analysis

December 31, 2010

Annually, the LGC Property-Liability Trust reviews the *Member Agreement* and *Educators' Member Agreement*, to be sure that the coverage provided adequately meets the ongoing needs of the covered entities and continues to offer tailored protection to meet the specialized needs of New Hampshire's public sector.

The composition of property-liability claims filed is always changing. LGC's claims professionals are licensed and experienced in their respective functional areas. They actively participate in the continuing professional education and training necessary to represent the best interests of our covered entities, their employees, public officials and volunteers. LGC Property-Liability Trust continues to experience great success in bringing about timely and equitable resolutions.

The Local Government Center's Board of Directors and staff work together with actuaries and consultants to continually evaluate the program and the ever changing needs of the membership. By being active in local government and schools, staff and Directors have a keen insight into the happenings and needs of the New Hampshire public sector and are able to make recommendations to keep the program evolving to meet those needs, today and in the future. LGC Property-Liability Trust continues to offer a comprehensive, stable and experienced self insurance property-liability program.

Historical LGC Property-Liability Trust *Property and Casualty* Claims Volume is as follows:

- CY 2008 - 1,625
- CY 2009 - 1,513
- CY 2010 - 1,427

Workers' Compensation and Unemployment Compensation Coverage:

January 1, 2010 was an exciting day at LGC as it marked the date that workers' compensation claims administration was officially brought in-house. This encompassed new claims that occurred in 2010 as well as all the historical files that had to be entered in the system from Cannon, Cochran Management Services, Inc. (CCMSI). This process was accomplished seamlessly, due to a great deal of staff teamwork and preparation prior to the transfer.

In preparation for this undertaking, a work flow process was established along with a best practices procedure manual. An in-house Nurse Case Manager was hired to give injured employees the necessary assistance to coordinate medical treatment and help them to return to work safely and in a timely manner. The procedure includes contact within twenty-four hours with all injured employees, the employer, and the treating physicians on all claims that involve medical treatment and/or lost time from work. LGC has contracted with CorVel Corporation for medical bill and prescription review services. Staff is seeing significant discounts on all services.

The open claims count was about 520 as of January 1, 2010. Staff has been able to efficiently close out many of the claims that were kept open by CCMSI. As a result, there has been a reduction in open claims to about 320. In addition, the Nurse Case Manager has seen a 95% return-to-work ratio. Claim costs have decreased since taking them in-house. Currently, staff is working with actuaries to determine the actual gains that are being made.

**LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)**

Management's Discussion and Analysis

December 31, 2010

The workers' compensation staff has developed a claims review process for covered entities that are having frequency and/or severity problems with claims. LGC's Senior Claim Representative meets with Property-Liability Trust group representatives and discusses each claim, covering the status and action plans for the particular claims. Staff has been working collaboratively with the Health and Safety, and Enrollee Services areas to provide ongoing preventative training to all of LGC's Risk Pool Groups. In addition, various seminars have been offered related to various claim topics, such as: *Workers' Compensation Orientation, Workers' Compensation In-House Claims, and Workers' Compensation: A Claims Management Guide.*

The Local Government Center's Member Relations staff conducts workers' compensation payroll audits for each enrolled entity. Workers' Compensation payroll audits assure that enrolled entities are paying the appropriate amount in contribution based on actual payroll by class code. Having LGC staff trained to complete this important process provides more control, greater accuracy, and faster problem solving than use of an outside vendor.

Historical LGC Property-Liability Trust *Workers' Compensation* Claims Volume is as follows:

- CY 2008 - 1,679
- CY 2009 - 1,821
- CY 2010 - 1,785

It has been an exciting year for the Workers' Compensation program. Moving forward into 2011, the same and additional programs, trainings, and claim review sessions will continue. Staff believes the program is on the path to reducing workers' compensation claims and costs.

The Unemployment Compensation program remained busy and maintained consistent enrollment during 2010. LGC staff continued to implement administrative efficiencies in the program and cross train staff to ensure prompt and comprehensive service at all times.

Historical LGC Property-Liability Trust *Unemployment Claims* Volume is as follows:

- CY 2009 - 473
- CY 2009 - 752
- CY 2010 - 734

Program Services:

LGC's risk management programs are yet another factor that differentiates LGC's Property-Liability Trust from the private sector and other non profit pools. One particular LGC Property-Liability Trust risk management program, the *Employment Law Hotline*, has contributed significantly to reducing employment claims.

**LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)**

Management's Discussion and Analysis

December 31, 2010

Risk management develops other specialized programs specifically targeted to provide pro-active training in areas of potential high claims. Health and Safety and Claim staff work closely together to identify emerging claims characteristics for targeted loss prevention programming. During 2010, LGC continued to partner with Municipal Resources, Inc. to offer the *LGC Academy* which commenced in September of 2008. The *LGC Academy* provides a unique combination of live instruction plus e-learning and self-guided projects supplemented with 24/7 access to online resources. The first three class offerings were: *Basic Government Accounting; Internal Controls and Fraud Prevention; and Financial Reporting and Accountability.*

As of December 1, 2010, the *LGC Academy's* online program had 590 new registrants in classes including our hybrid classes that have both online and classroom components. Online programs that were new for 2010 are: Asbestos Awareness for the Public Sector; Indoor Air Quality; Tips for Preventing Slips; Trips and Falls; Best Practices for Beaches and Pools; Roles, Responsibility and Requirements: The "3" R's for JLMC Success; and Giving Back. Looking forward some of the programs will be: Best Practices and Guidance for the Use of Public Sector Volunteers; Conflicts of Interest and Incompatibility of Office; Smart Hiring: Recruiting and Hiring for the 21st Century; Tools for Creating a Successful Grant RFP; How to Identify Bullying; and Strategies for Success. The Car Control program in collaboration with Stevens Advanced Defensive Driving School continued, and trained over 600 individuals. Health & Safety continues to provide Interactive Use of Force training. During 2010 we were able to train 43 police agencies resulting in 224 officers completing the program.

During 2010, Health & Safety programming continued to implement many school initiatives dealing with a number of critical issues facing schools today. Crisis Prevention Intervention (CPI) training and bullying training programs were implemented to assist school risk pool groups to understand the new law. Additionally, LGC continues to focus efforts on Facility Management, as this is an area that has a higher claims frequency.

During 2010, there were 436 classes conducted and 9,176 employees trained in reducing losses for property-liability and workers' compensation risk pool groups. The Health & Safety Team continues best-practice training programs through the implementation of an integrated Member Services team approach process. Examples of this training strategy include ongoing programs such as ` , chainsaw safety, and joint loss management committee consultations, as well as special programs including *Bullying and Harassment & Discrimination*. A sampling of some of the most popular programs is as follows:

- The Car Control program is a full-day, hands-on training program that is designed to provide drivers with the skills and information they need to keep their vehicle in control. The program agenda highlights are straight-line braking, steering, tailgating, back-up drill, emergency lane change and cornering drills. The class has been developed for city, town or school vehicle drivers who are full-time, part-time or volunteer employees of the LGC's risk pool groups.
- The Employment Law Hotline provides Property-Liability Trust members with direct access to attorneys that are able to provide sound legal advice regarding Title VII, FMLA, ADA, Fair Labor Standards Act, and other employment matters.

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Management's Discussion and Analysis

December 31, 2010

- Joint Loss Management Committee (JLMC) assistance provides an overview of JLMC requirements and responsibilities under New Hampshire RSA 281-A: 60 and New Hampshire Administrative Rule Lab 602.02(c)(8). Topics include workplace hazard identification, accident and/or incident investigation, and JLMC duties and responsibilities.
- Playground Audit and Inspections are conducted by LGC's Certified Playground Safety Inspector. New and existing playgrounds are audited for compliance with the Consumer Safety Product Commission and the American Society for Testing and Standards International Guidelines for Public Playground Safety.
- A chainsaw safety course offers guidelines to prevent chainsaw operators from being injured. Topics include demonstrations of the safest practices to avoid kickback, cutting techniques for limbing, bucking and felling small trees, and maintenance and transporting suggestions.
- The Flagger Certification Class provides flagging instruction through the American Traffic Safety Services Association (provided by a Certified LGC Risk Management Representative).
- Interactive Use of Force, also know as Simunitions Training, is an intense, interactive training program for law enforcement personnel and is designed to provide officers with instruction on how to escalate and de-escalate through the use of force continuum. With feedback from participants, LGC created a new level 2 program. This program includes multi-officer situations, key communications aspects, and moves the officers into a higher level of threat. All course scenarios represent real life situations facing communities.
- Recreation Liability workshops provide participants with information on how to operate a safe and effective recreation program. Topics covered are special events policies, use of volunteers, lifeguard training, policy and procedures, aquatic safety, development and maintenance of skateboard parks, accommodations for individuals with disabilities and responsibilities to summer camp participants.
- Employment/supervisors training programs include employee performance appraisals, essentials of risk management for supervisors, preventing workplace harassment and discrimination, preventing workplace violence and understanding and improving workplace communication.
- Driver training programs cover coaching the emergency vehicle operator for police, fire and EMS, coaching the maintenance vehicle operator for public works, defensive driving courses, a truck driver defensive driving course, school bus driver in-service training and emergency vehicle liability for police, fire and EMS.

**LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)**

Management's Discussion and Analysis

December 31, 2010

- E-Learning tools are offered, such as the *LGC Academy* and webinars to address today's challenges facing local governments (schools, counties and municipalities) around complex laws, regulations and policies plus human resource management, leadership and job skills. The *LGC Academy* offers a convenient learning structure for today's busy employees and elected officials by combining online learning tools and face to face classroom experiences with highly qualified instructors.
- School risk management programs cover school safety programs, emergency management plans, claims dealing with slips, trips, and falls, school facility management, playground inspection courses, bullying, joint loss management committees at the district level and working with the Special Educators Association.

Subsequent Events

On June 2, 2011, the Local Government Center Board of Directors adopted a resolution that established a non-interest bearing promissory note between risk pools to LGC HealthTrust from the workers' compensation program of the Property-Liability Trust in the amount of \$17,111,804. The purpose of the promissory note between the risk pools is to formally acknowledge the Board of Director's intent to repay the portion of the 1% of employer contributions funded by LGC HealthTrust that was used to support the development of the workers' compensation program between 2004 and 2010. Repayment to LGC HealthTrust will be made annually from any excess funds in the workers' compensation program after accounting for other liabilities, operating expenses and needed reserves.

The Local Government Center Board of Directors voted to merge LGC HealthTrust and Property-Liability Trust into one single entity. The expectation is this merger will be accomplished with an effective date of January 1, 2012.

Conclusion:

LGC Property-Liability Trust continues to maintain strong financial stability and comprehensive service by responding quickly and effectively to the coverage needs of enrolled entities through its property-liability, workers' compensation, and unemployment compensation coverage programs.

During 2010, the Local Government Center's Board of Directors continued to support programs aimed at increasing school participation, providing rate stability, and providing integrated risk management services. The close relationship between the Claims and Risk and Health Management staff provides for quick action in addressing potential high-risk areas. By continuing to provide excellent service and ever-improving coverage, the LGC Property-Liability Trust continues to retain and attract entities within the New Hampshire public sector.

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Statements of Financial Position

December 31, 2010 and 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Current assets		
Cash and cash equivalents	\$ 4,326,319	\$ 7,004,430
Investment securities	32,661,532	28,552,741
Investment in external investment pool	8,359,622	6,593,553
Contributions receivable	428,343	415,395
Claims recovery receivable	44,117	46,458
Accrued interest receivable	227,454	254,378
Due from Parent	111,624	216,434
Prepaid expenses	<u>1,960,569</u>	<u>1,456,018</u>
Total current assets	48,119,580	44,539,407
Equipment, net	330,393	257,651
Restricted cash	<u>1,000,000</u>	<u>1,000,000</u>
Total assets	<u>\$49,449,973</u>	<u>\$45,797,058</u>

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

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current liabilities		
Claims reserves	\$24,872,158	\$23,171,413
Claims adjustment and administrative reserves	3,414,328	3,284,409
Accounts payable and accrued expenses	1,891,043	1,310,753
Due to Parent	105,812	59,183
Unearned contributions	<u>8,764,824</u>	<u>8,125,580</u>
Total current liabilities and total liabilities	<u>39,048,165</u>	<u>35,951,338</u>
Commitments and contingencies (Notes 9, 11, 13 and 14)		
Net assets		
Board designated net assets	9,309,939	9,339,725
Unrealized gain on investment securities	761,476	248,344
Invested in capital assets	<u>330,393</u>	<u>257,651</u>
Total net assets	<u>10,401,808</u>	<u>9,845,720</u>
Total liabilities and net assets	<u>\$49,449,973</u>	<u>\$45,797,058</u>

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Statements of Revenue, Expenses, and Changes in Net Assets

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenue		
Member contributions earned	\$20,047,160	\$19,064,924
Member contributions ceded	<u>(3,275,807)</u>	<u>(3,355,822)</u>
Net operating revenue	<u>16,771,353</u>	<u>15,709,102</u>
Operating expenses		
Claims incurred	15,556,703	16,482,999
Loss prevention	564,399	563,689
Administrative fees	23,451	569,238
Other expenses	<u>5,127,806</u>	<u>5,448,478</u>
Total operating expenses	<u>21,272,359</u>	<u>23,064,404</u>
Operating loss	<u>(4,501,006)</u>	<u>(7,355,302)</u>
Nonoperating income		
Investment income	1,495,871	1,279,284
Net increase in fair value of investment securities	513,132	1,303,288
Other income	<u>14,116</u>	<u>14,065</u>
Decrease in net assets before contributions and distributions	<u>(2,477,887)</u>	<u>(4,758,665)</u>
Contributions from Parent	3,255,970	3,928,371
Distributions to Parent	<u>(221,995)</u>	<u>(246,057)</u>
Increase (decrease) in net assets	556,088	(1,076,351)
Net assets, beginning of year	<u>9,845,720</u>	<u>10,922,071</u>
Net assets, end of year	<u>\$10,401,808</u>	<u>\$ 9,845,720</u>

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

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Statements of Cash Flows

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Member contributions collected	\$ 20,673,456	\$ 19,479,692
Member contributions ceded to reinsurer	(4,066,405)	(3,846,633)
Claims paid	(13,855,958)	(13,336,315)
Salaries, payroll taxes, and benefits paid	(2,767,662)	(2,258,375)
Loss prevention and other expenses paid	<u>(1,763,446)</u>	<u>(2,892,478)</u>
Net cash used by operating activities	<u>(1,780,015)</u>	<u>(2,854,109)</u>
Cash flows from investing activities		
Proceeds received from the sale of investment securities	18,574,553	7,477,007
Cash payments for the purchase of investment securities	(21,904,440)	(7,456,210)
Interest and dividends on investment securities	1,257,024	1,367,078
Purchase of external investment pool	<u>(1,766,069)</u>	<u>(3,986,712)</u>
Net cash used by investing activities	<u>(3,838,932)</u>	<u>(2,598,837)</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	<u>(212,064)</u>	<u>(225,430)</u>
Cash flows from noncapital financing activities		
Cash received from other income	14,115	14,065
Contributions from Parent	3,360,780	3,834,506
Distributions to Parent	<u>(221,995)</u>	<u>(246,057)</u>
Net cash provided by noncapital financing activities	<u>3,152,900</u>	<u>3,602,514</u>
Net decrease in cash and cash equivalents	(2,678,111)	(2,075,862)
Cash and cash equivalents, beginning of year	<u>7,004,430</u>	<u>9,080,292</u>
Cash and cash equivalents, end of year	<u>\$ 4,326,319</u>	<u>\$ 7,004,430</u>

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

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Statements of Cash Flows (Concluded)

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (4,501,006)	\$ (7,355,302)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	139,322	55,827
(Increase) decrease in		
Contributions receivable	(12,948)	34,459
Claims recovery receivable	2,341	55,820
Prepaid expenses	(504,551)	(362,038)
Increase (decrease) in		
Claims reserves	1,700,745	3,090,864
Claims adjustment and administrative reserves	129,919	1,607,409
Accounts payable and accrued expenses	580,290	(266,779)
Due to Parent	46,629	(94,678)
Unearned contributions	<u>639,244</u>	<u>380,309</u>
Net cash used by operating activities	<u>\$ (1,780,015)</u>	<u>\$ (2,854,109)</u>
Supplemental disclosure of non-cash noncapital financing activities		
Contributions from Parent per the statements of revenue, expenses, and changes in net assets	\$ 3,255,970	\$ 3,928,371
Decrease (increase) in due from Parent	<u>104,810</u>	<u>(93,865)</u>
Cash received from Parent	<u>\$ 3,360,780</u>	<u>\$ 3,834,506</u>

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

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Notes to Financial Statements

December 31, 2010 and 2009

Nature of Operations

Local Government Center Property-Liability Trust, LLC (Property-Liability Trust), formerly New Hampshire Municipal Association Property-Liability Trust, Inc., is a wholly-owned subsidiary of Local Government Center, Inc. (Local Government Center).

Property-Liability Trust provides a program of property and liability risk management for its member organizations and operates pursuant to RSA 5-B, New Hampshire Statutes. Property-Liability Trust, by law, is exempt from most statutory requirements that commercial insurance companies follow. In accordance with its by-laws, all political subdivisions of the State of New Hampshire are eligible to participate.

As of December 31, 2010 and 2009, membership in the property and liability risk management component of Property-Liability Trust amounted to 360 and 361, respectively. As of December 31, 2010 and 2009, membership in the workers' compensation component amounted to 226 and 229, respectively.

Property-Liability Trust's objectives are to formulate, develop, and administer, on behalf of the member political subdivisions, a program of risk management, to obtain lower costs for member coverage, and to develop a comprehensive loss control program. Trust underwriting and rate setting policies have been established after consultation with actuaries and consultants.

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles as applied to proprietary funds of governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. Property-Liability Trust's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

Accounting Standards

Pursuant to GASB Statements No. 20, "Accounting and Financial Reporting for Proprietary Funds," and No. 29, "Other Governmental Entities That Use Proprietary Fund Accounting," Property-Liability Trust has elected to apply the provision of all relevant pronouncements of the Financial Accounting Standards Board, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Notes to Financial Statements

December 31, 2010 and 2009

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents consist of all highly liquid investments with an original maturity of three months or less.

Investment Securities

Investment securities consist of U.S. Government Sponsored Enterprise Securities, U.S. Treasury notes, corporate notes, municipal obligation securities, certificates of deposit, and a mutual fund. The securities are carried in the financial statements at fair value. Fair value is determined based upon quoted market prices.

Investment in External Investment Pool

Property-Liability Trust maintains an equity position in external investment pools sponsored by government entities, which is carried at fair value. Fair value is determined by Property-Liability Trust's proportionate share of the quoted market prices of the underlying investment pools' portfolio.

Member Contributions

Contributions are generally recognized as revenue on a monthly basis over the participation contract term. The portion of the contributions received in cash that will be earned in the future is deferred and reported as unearned contributions. Contributions receivable is stated at the amount management expects to collect from outstanding balances. Management considers all contributions receivable to be collectible; accordingly, an allowance for doubtful accounts has not been provided.

Reinsurance

Property-Liability Trust uses reinsurance agreements to reduce its exposure to large losses on all types of covered claims. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge Property-Liability Trust's primary liability for the risks reinsured. Property-Liability Trust does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Notes to Financial Statements

December 31, 2010 and 2009

Equipment

Equipment with an estimated useful life greater than one year is recorded at cost. The cost of maintenance and repairs is charged to expense as incurred, while renewals and betterments are capitalized. Upon sale or other disposition of assets, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income.

Equipment is depreciated using primarily the straight-line method over the following useful lives:

	<u>Estimated Useful Lives (Years)</u>
Office Equipment	3-5
Computer Equipment	3-5
Vehicles	3

Claims Reserves

For policy years ended before July 1, 2005, Property-Liability Trust provided property and liability coverage to its members on a claims-made basis; therefore, the claims reserves are based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported, but not settled. Effective July 1, 2005, Property-Liability Trust provides property and liability coverage to its members on an occurrence basis. In connection with the transition to an occurrence based policy, Property-Liability Trust offered a nose policy to its members to provide property and liability coverage for claims that occurred prior to July 1, 2005 that were not reported until after July 1, 2005. The claims reserves for the policy years beginning after July 1, 2005 are based on an estimate of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported.

Claims reserves for the workers' compensation program are based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported, but not settled, and of claims that have been incurred, but not reported.

The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims reserves does not necessarily result in an exact amount. Claims reserves are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims reserves are charged or credited to expense in the periods in which they are made.

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Notes to Financial Statements

December 31, 2010 and 2009

Income Taxes

The income of Property-Liability Trust is exempt from federal and state income taxes under provisions of the Internal Revenue Code and State Statutes.

Operating Revenues and Expenses

Principal operating revenues are charges to participating members for contributions to cover estimated benefit obligations and administrative costs. Principal operating expenses include claims incurred, reinsurance premiums, underwriting and claims payment services, administrative expenses and depreciation of capital assets. Other income and expenses are classified as nonoperating in the financial statements.

2. Cash and Cash Equivalents

Property-Liability Trust maintains its cash in bank deposits and cash management accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 as of December 31, 2010 and 2009. As of December 31, 2010 and 2009, the bank balance of cash held, in total, in excess of the FDIC limit was approximately \$3,970,000 and \$6,726,000, respectively. The balance in excess of the FDIC limit is collateralized with securities held in joint custody with the bank.

3. Restricted Cash

Restricted cash represents funds set aside under agreement with the State of New Hampshire for purposes of funding the surety bond requirement as mandated by the State with respect to the workers' compensation program.

4. Investment Securities

Investment securities insured or registered consist of:

	2010			
<u>Cost</u>	<u>Unrealized</u> <u>Gains</u>	<u>Unrealized</u> <u>Losses</u>	<u>Fair</u> <u>Value</u>	
U.S. Government Sponsored				
Enterprise Securities	\$12,888,223	\$ 231,454	\$ (143,270)	\$12,976,407
U.S. Treasury Notes	6,482,603	93,383	(8,926)	6,567,060
Corporate Notes	8,741,431	497,683	(11,782)	9,227,332
Municipal Obligations	1,517,099	31,345	(6,271)	1,542,173
Mutual Fund	<u>2,270,700</u>	<u>77,860</u>	<u>-</u>	<u>2,348,560</u>
Total	<u>\$31,900,056</u>	<u>\$ 931,725</u>	<u>\$ (170,249)</u>	<u>\$32,661,532</u>

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Notes to Financial Statements

December 31, 2010 and 2009

	2009			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government Sponsored				
Enterprise Securities	\$ 8,739,071	\$ 335,633	\$ (24,956)	\$ 9,049,748
U.S. Treasury Notes	5,827,328	54,674	(32,367)	5,849,635
Corporate Notes	10,916,726	349,317	(253,973)	11,012,070
Municipal Obligations	550,572	11,057	(2,070)	559,559
Mutual Fund	<u>2,270,700</u>	<u>-</u>	<u>(188,971)</u>	<u>2,081,729</u>
Total	<u>\$28,304,397</u>	<u>\$ 750,681</u>	<u>\$ (502,337)</u>	<u>\$28,552,741</u>

During 2010 and 2009, Property-Liability Trust realized a net gain of \$406,390 and \$50,985, respectively, from the sale of investment securities. The calculation of the realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

The following table presents the fair value of investments held that represent 5% or more of Property-Liability Trust's total investments.

	<u>2010</u>	<u>2009</u>
Vanguard 500 Index Fund	\$ 2,348,560	\$ 2,081,729
3.125% US Treasury Note, due September 30, 2013	1,883,026	1,844,758
4.375% Federal National Mortgage Association, due October 15, 2015	1,981,332	N/A

N/A - Not applicable for the year in question

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Property-Liability Trust mitigates the risk that the market value of securities will fall due to changes in general interest rates by structuring the portfolio so securities mature to meet the expected cash requirements for ongoing operations, thus avoiding the need to sell securities on the open market prior to maturity.

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Notes to Financial Statements

December 31, 2010 and 2009

The cost and fair value of investment securities at December 31, 2010 and 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<u>Maturity Dates</u>	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Not Applicable	\$ 2,270,700	\$ 2,348,560	\$ 2,270,700	\$ 2,081,729
Within 1 Year	1,038,689	1,053,726	1,649,876	1,683,050
1 - 5 Years	14,289,924	14,591,245	12,785,103	13,061,252
5 - 10 Years	4,170,154	4,402,679	5,676,706	5,887,500
10 + Years	<u>10,130,589</u>	<u>10,265,322</u>	<u>5,922,012</u>	<u>5,839,210</u>
Total	<u>\$ 31,900,056</u>	<u>\$ 32,661,532</u>	<u>\$ 28,304,397</u>	<u>\$ 28,552,741</u>

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Notes to Financial Statements

December 31, 2010 and 2009

Credit Risk

Property-Liability Trust's investment policy mitigates credit risk by limiting investments to investment grade securities and diversifying the portfolio. As of December 31, 2010, Property-Liability Trust's investments were rated as follows:

<u>Investments</u>	<u>Rating</u>	<u>Rating Organization</u>	<u>Fair Value</u>
Corporate Notes	A1	Moody's	\$ 669,951
Corporate Notes	A3	Moody's	1,325,478
Corporate Notes	Aa1	Moody's	1,631,658
Corporate Notes	Aa2	Moody's	45,481
Corporate Notes	Aa3	Moody's	776,710
Corporate Notes	Aaa	Moody's	2,753,269
Corporate Notes	Ba2	Moody's	149,204
Corporate Notes	Baa1	Moody's	576,731
Corporate Notes	Baa2	Moody's	756,958
Corporate Notes	Baa3	Moody's	541,892
Municipal Obligations	A1	Moody's	392,883
Municipal Obligations	A2	Moody's	67,896
Municipal Obligations	A3	Moody's	41,396
Municipal Obligations	Aa1	Moody's	51,356
Municipal Obligations	Aa2	Moody's	228,627
Municipal Obligations	Aa3	Moody's	348,199
Municipal Obligations	Aaa	Moody's	204,778
Municipal Obligations	Baa2	Moody's	207,038
Vanguard 500 Index Fund	3 stars	Morningstar	2,348,560
U.S. Treasury Notes	Aaa	Moody's	6,567,060
U.S. Government Sponsored Enterprises:			
Federal National Mortgage Association	Aaa	Moody's	9,204,287
Government National Mortgage Association	Aaa	Moody's	1,146,120
Federal Home Loan Mortgage Corporation	Aaa	Moody's	1,601,135
Other Agencies	Aaa	Moody's	<u>1,024,865</u>
Total			<u>\$ 32,661,532</u>

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Notes to Financial Statements

December 31, 2010 and 2009

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the counterparty, Property-Liability Trust will not be able to recover the value of its investments that are in the possession of the outside party. At December 31, 2010, Property-Liability Trust did not have any investments subject to custodial credit risk.

5. Investment in External Investment Pool

The investment in external investment pool represents Property-Liability Trust's share of the New Hampshire Public Deposit Investment Pool (NHPDIP), which is reported at fair value. NHPDIP was established under State of New Hampshire Statute, RSA 383:24. The Bank Commissioner, in conjunction with its Advisory Committee, provides regulatory oversight of the investment pool's operations.

6. Equipment

Equipment consists of the following:

	Year Ended December 31, 2010			
	Beginning Balance	Additions	Disposals	Ending Balance
Office equipment	\$ 26,938	\$ 11,347	\$ -	\$ 38,285
Computer equipment	435,806	200,717	-	636,523
Vehicles	<u>42,355</u>	<u>-</u>	<u>(16,665)</u>	<u>25,690</u>
	505,099	212,064	(16,665)	700,498
Less accumulated depreciation	<u>247,448</u>	<u>139,322</u>	<u>(16,665)</u>	<u>370,105</u>
	<u>\$ 257,651</u>	<u>\$ 72,742</u>	<u>\$ -</u>	<u>\$ 330,393</u>

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Notes to Financial Statements

December 31, 2010 and 2009

	Year Ended December 31, 2009			
	Beginning <u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	Ending <u>Balance</u>
Office equipment	\$ 24,103	\$ 2,835	\$ -	\$ 26,938
Computer equipment	213,211	222,595	-	435,806
Vehicles	<u>62,630</u>	<u>-</u>	<u>(20,275)</u>	<u>42,355</u>
	299,944	225,430	(20,275)	505,099
Less accumulated depreciation	<u>211,896</u>	<u>55,827</u>	<u>(20,275)</u>	<u>247,448</u>
	<u>\$ 88,048</u>	<u>\$ 169,603</u>	<u>\$ -</u>	<u>\$ 257,651</u>

7. Claims Reserves

As discussed in Note 1, Property-Liability Trust establishes a liability for both reported and unreported covered events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate undiscounted liabilities for Property-Liability Trust for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Claims reserves at beginning of year	<u>\$ 23,171,413</u>	<u>\$ 20,080,549</u>
Incurred claims and claim adjustment expenses		
Provision for covered events of current year	16,364,000	16,862,000
Adjustments to provision for covered events of prior years	<u>(807,297)</u>	<u>(379,001)</u>
Total incurred claims and claim adjustment expenses	<u>15,556,703</u>	<u>16,482,999</u>
Payments of claims and claim adjustment expenses		
Payments attributable to covered events of current year	(5,332,248)	(6,281,806)
Payments attributable to covered events of prior years	<u>(8,523,710)</u>	<u>(7,110,329)</u>
Total payments	<u>(13,855,958)</u>	<u>(13,392,135)</u>
Total claims reserves at end of year	<u>\$ 24,872,158</u>	<u>\$ 23,171,413</u>

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Notes to Financial Statements

December 31, 2010 and 2009

8. Premium Deficiency

In accordance with GASB Statement No. 30, "Risk Financing Omnibus," premium deficiencies are required to be calculated and reported by public entity risk pools. Investment income was included as part of the calculation in determining if a premium deficiency existed. Property-Liability Trust determined that there were no premium deficiencies for the property and liability, workers' compensation and unemployment programs as of December 31, 2010 and 2009, respectively.

The Parent's Board of Directors regularly evaluates net asset balances. Member rates are either increased to help protect members from periods of unanticipated claims volume or decreased in order to return undesignated net assets to members.

9. Related Party Transactions

Property-Liability Trust leases office space from Local Government Center Real Estate, Inc., an affiliated entity through common ownership, under an operating lease. There is no expiration date on the lease. Rent expense under this lease was \$113,262 and \$64,471 for the years ended December 31, 2010 and 2009, respectively.

Local Government Center is a participating member in Property-Liability Trust. During the years ended December 31, 2010 and 2009, Local Government Center paid \$95,414 and \$98,639, respectively to Property-Liability Trust.

Local Government Center provides substantially all the administrative and operational services to Property-Liability Trust. Total administrative expenses incurred by Local Government Center and charged to Property-Liability Trust amounted to \$4,316,620 and \$3,769,123 during the years ended December 31, 2010 and 2009, respectively.

The operating losses for the workers' compensation and unemployment programs are mitigated by the continued support of Local Government Center's Board of Directors. During the years ended December 31, 2010 and 2009, the Board of Local Government Center authorized contributions to Property-Liability Trust of \$3,255,970 and \$3,928,371, respectively, to support the operations of the programs.

Management of risks related to Property-Liability Trust's activities is addressed via Property-Liability Trust's relationship with Local Government Center. Local Government Center purchases risk management coverage from its subsidiaries, Property-Liability Trust and Local Government Center HealthTrust, LLC (LGC HealthTrust).

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Notes to Financial Statements

December 31, 2010 and 2009

10. Board Designated Net Assets

Board designated net assets includes the following at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Confidence level at 90%	\$ 6,223,000	\$ 5,139,000
Rate stabilization	<u>3,086,939</u>	<u>4,200,725</u>
	<u>\$ 9,309,939</u>	<u>\$ 9,339,725</u>

11. Reinsurance

Property-Liability Trust limits the maximum net loss that can arise from large risks by reinsuring (ceding) certain levels of risks with other insurers or reinsurers, through the purchase of excess loss reinsurance contracts. Ceded reinsurance is treated as the risk and liability of the assuming companies, though these reinsurance contracts do not relieve Property-Liability Trust from its obligations to participating members. Failure of reinsurers to honor their obligations could result in losses to Property-Liability Trust; consequently, allowances are estimated for amounts deemed uncollectible. Property-Liability Trust evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to mitigate its exposure to significant losses from reinsurers' insolvencies.

Effective July 1, 2010, Property-Liability Trust reinsurance coverage has been obtained for any single claim (specific insurance) to cover liability losses in excess of \$1,000,000 and property losses in excess of \$500,000 for policy years ended after June 30, 2004; and \$500,000 for 1996 to June 30, 2003.

For the workers' compensation coverage, Property-Liability Trust purchases specific excess insurance above a \$750,000 self-insured retention for all job classifications except for school classes for which it retains a \$350,000 retention. From 2006 to 2009, reinsurance for any single claim was obtained to cover losses in excess of \$750,000. Prior to 2006, reinsurance for any single claim was obtained to cover losses in excess of \$300,000 (\$500,000 for police and fire for the claim years after January 1, 2000).

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Notes to Financial Statements

December 31, 2010 and 2009

12. Exemption from Statutory Accounting Practices

Property-Liability Trust and its pooled risk management program were established for the benefit of the political subdivisions of the State of New Hampshire under Title 1, Chapter 5-B of the New Hampshire statutes. As such, Property-Liability Trust is not considered an insurer under the laws of the State, and administration of the activities of Property-Liability Trust shall not constitute conducting an insurance business for purposes of regulation or taxation. At December 31, 2010, Statements of Statutory Accounting Practices as promulgated by the National Association of Insurance Commissioners are not applicable to Property-Liability Trust.

13. Risks and Uncertainties

Property-Liability Trust invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least 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 financial statements.

14. Contingencies

Property-Liability Trust assesses potential liabilities in connection with lawsuits and threatened lawsuits under Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*. Property-Liability Trust accrues an estimated loss for these loss contingencies if both of the following conditions are met: information available prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. As of December 31, 2010, Property-Liability Trust has not accrued any liability for any lawsuits or threatened lawsuits as the conditions for accrual have not been met. Property-Liability Trust expenses legal costs as they are incurred.

On October 28, 2010, the Department of State (the Department) issued an interim report regarding an investigation of Local Government Center and Local Government Center's related insurance pools stemming from a complaint it received. The complaint alleged that member contributions to LGC HealthTrust were being used to fund expenses not related to the operation of LGC HealthTrust and that surplus funds were not being returned to political subdivisions. The October 2010 interim report raised questions regarding Local Government Center's compliance in the areas of corporate organization and governance, as well as its level and use of reserves. The Board of Directors filed a response to the interim report which disputes the implication that Local Government Center may have acted improperly.

The Department is still conducting its investigation and has yet to issue its findings of the investigation. The Board of Directors maintains that the complaint under investigation is without merit, member contributions have been used appropriately and surplus funds have been returned to participating local governments through rate credits and other means. Local Government Center is cooperating fully with the investigation and has been meeting with the Department on an ongoing basis to resolve the pending issues. At this time, Property-Liability Trust believes there is no liability to recognize.

**LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)**

Notes to Financial Statements

December 31, 2010 and 2009

On December 30, 2010, as required by Chapter 149:6 of the NH Laws of 2010, the Department issued recommendations to the legislature and governor concerning the limitation of reserves and the limitation on administrative expenses as a percentage of claims of pooled risk management programs. The report recommended that the reserve limit for pooled risk management programs operating pursuant to RSA 5-B be set using the stochastic modeling method and that administrative expenses be limited to 10% of claims. The report did not put in place any limits as it only contained suggestions for consideration and adoption by the legislature and governor. No legislation has been introduced during the 2011 legislative session to enact the Department's recommendations. Thus, Property-Liability Trust does not believe the December 30, 2010 report has any impact on its financial statements as of and for the years ended December 31, 2010 and 2009.

15. Subsequent Events

On June 2, 2011, the Local Government Center Board of Directors adopted a resolution that established a non-interest bearing promissory note between risk pools to LGC HealthTrust from the workers' compensation program of the Property-Liability Trust in the amount of \$17,111,804. The purpose of the promissory note between the risk pools is to formally acknowledge the Board of Director's intent to repay the portion of the 1% of employer contributions funded by LGC HealthTrust that was used to support the development of the workers' compensation program between 2004 and 2010. Repayment to LGC HealthTrust will be made annually from any excess funds in the workers' compensation program after accounting for other liabilities, operating expenses and needed reserves.

The Local Government Center Board of Directors voted to merge LGC HealthTrust and Property-Liability Trust into one single entity. The expectation is this merger will be accomplished with an effective date of January 1, 2012.

SUPPLEMENTARY INFORMATION

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Combining Statement of Financial Position

December 31, 2010

	Property - Liability Program	Workers' Compensation Program	Total
Current assets			
Cash and cash equivalents	\$ 2,584,900	\$ 1,741,419	\$ 4,326,319
Investment securities	23,085,924	9,575,608	32,661,532
Investment in external investment pool	5,132,695	3,226,927	8,359,622
Contributions receivable	215,186	213,157	428,343
Claims recovery receivable	-	44,117	44,117
Accrued interest receivable	151,298	76,156	227,454
Due from Parent	-	111,624	111,624
Prepaid expenses	<u>1,318,101</u>	<u>642,468</u>	<u>1,960,569</u>
Total current assets	32,488,104	15,631,476	48,119,580
Equipment, net	97,006	233,387	330,393
Due from/to related party	16,469	(16,469)	-
Restricted cash	<u>-</u>	<u>1,000,000</u>	<u>1,000,000</u>
Total assets	<u>\$ 32,601,579</u>	<u>\$ 16,848,394</u>	<u>\$ 49,449,973</u>
Current liabilities			
Claims reserves	\$ 14,171,000	\$ 10,701,158	\$ 24,872,158
Claims adjustment and administrative reserves	762,000	2,652,328	3,414,328
Account payables and accrued expenses	774,918	1,116,125	1,891,043
Due to Parent	105,812	-	105,812
Unearned contributions	<u>6,563,169</u>	<u>2,201,655</u>	<u>8,764,824</u>
Total current liabilities and total liabilities	<u>22,376,899</u>	<u>16,671,266</u>	<u>39,048,165</u>
Net assets (deficit)			
Unrestricted net assets (deficit)	116,889	(116,889)	-
Board designated net assets	9,309,939	-	9,309,939
Unrealized gain on investment securities	700,846	60,630	761,476
Invested in capital assets	<u>97,006</u>	<u>233,387</u>	<u>330,393</u>
Total net assets	<u>10,224,680</u>	<u>177,128</u>	<u>10,401,808</u>
Total liabilities and net assets	<u>\$ 32,601,579</u>	<u>\$ 16,848,394</u>	<u>\$ 49,449,973</u>

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Combining Statement of Revenue, Expenses, and Changes in Net Assets (Deficit)

Year Ended December 31, 2010

	Property - Liability Program	Workers' Compensation Program	Total
Operating revenue			
Member contributions earned	\$ 12,714,206	\$ 7,332,954	\$ 20,047,160
Member contributions ceded	<u>(2,459,712)</u>	<u>(816,095)</u>	<u>(3,275,807)</u>
Net operating revenue	<u>10,254,494</u>	<u>6,516,859</u>	<u>16,771,353</u>
Operating expenses			
Claims incurred	8,845,497	6,711,206	15,556,703
Loss prevention	480,839	83,560	564,399
Administrative fees	-	23,451	23,451
Other expenses	<u>3,199,665</u>	<u>1,928,141</u>	<u>5,127,806</u>
Total operating expenses	<u>12,526,001</u>	<u>8,746,358</u>	<u>21,272,359</u>
Operating loss	(2,271,507)	(2,229,499)	(4,501,006)
Nonoperating income (expense)			
Investment income	1,238,363	257,508	1,495,871
Net increase (decrease) in fair value of investment securities	556,544	(43,412)	513,132
Other income	<u>13,672</u>	<u>444</u>	<u>14,116</u>
Decrease in net assets before contributions and distributions	(462,928)	(2,014,959)	(2,477,887)
Contributions from Parent	-	3,255,970	3,255,970
Distributions to Parent	<u>(149,990)</u>	<u>(72,005)</u>	<u>(221,995)</u>
(Decrease) increase in net assets	(612,918)	1,169,006	556,088
Net assets (deficit), beginning of year	<u>10,837,598</u>	<u>(991,878)</u>	<u>9,845,720</u>
Net assets, end of year	<u>\$ 10,224,680</u>	<u>\$ 177,128</u>	<u>\$ 10,401,808</u>

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Combining Statement of Cash Flows

Year Ended December 31, 2010

	Property - Liability Program	Workers' Compensation Program	Total
Cash flows from operating activities			
Member contributions collected	\$ 13,036,131	\$ 7,637,325	\$ 20,673,456
Member contributions ceded to reinsurer	(2,440,126)	(1,626,279)	(4,066,405)
Claims paid	(6,729,497)	(7,126,461)	(13,855,958)
Salaries, payroll taxes, and benefits paid	(1,852,564)	(915,098)	(2,767,662)
Loss prevention and other expenses paid	<u>(1,635,719)</u>	<u>(127,727)</u>	<u>(1,763,446)</u>
Net cash provided (used) by operating activities	<u>378,225</u>	<u>(2,158,240)</u>	<u>(1,780,015)</u>
Cash flows from investing activities			
Proceeds received from the sale of investments	16,772,140	1,802,413	18,574,553
Cash payments for the purchase of investments	(16,385,657)	(5,518,783)	(21,904,440)
Interest and dividends on investment securities	991,566	265,458	1,257,024
Purchase of external investment pool	<u>(757,346)</u>	<u>(1,008,723)</u>	<u>(1,766,069)</u>
Net cash provided (used) by investing activities	<u>620,703</u>	<u>(4,459,635)</u>	<u>(3,838,932)</u>
Cash flow from capital and related financing activities			
Acquisition of capital assets	<u>(74,408)</u>	<u>(137,656)</u>	<u>(212,064)</u>
Cash flows from noncapital financing activities			
Cash received from other income	13,672	443	14,115
Contributions from Parent	-	3,360,780	3,360,780
Distributions to Parent	<u>(149,990)</u>	<u>(72,005)</u>	<u>(221,995)</u>
Net cash (used) provided by noncapital financing activities	<u>(136,318)</u>	<u>3,289,218</u>	<u>3,152,900</u>
Net increase (decrease) in cash and cash equivalents	788,202	(3,466,313)	(2,678,111)
Cash and cash equivalents, beginning of year	<u>1,796,698</u>	<u>5,207,732</u>	<u>7,004,430</u>
Cash and cash equivalents, end of year	<u>\$ 2,584,900</u>	<u>\$ 1,741,419</u>	<u>\$ 4,326,319</u>

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Combining Statement of Cash Flows (Concluded)

Year Ended December 31, 2010

	<u>Property - Liability Program</u>	<u>Workers' Compensation Program</u>	<u>Total</u>
Reconciliation of operating loss to net cash provided (used) by operating activities			
Operating loss	\$ (2,271,507)	\$ (2,229,499)	\$ (4,501,006)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities			
Depreciation	53,941	85,381	139,322
(Increase) decrease in			
Contributions receivable	(22,018)	9,070	(12,948)
Claims recovery receivable	-	2,341	2,341
Due from/to affiliates	12,795	(12,795)	-
Prepaid expenses	134,304	(638,855)	(504,551)
Increase (decrease) in			
Claims reserves	2,116,000	(415,255)	1,700,745
Claims adjustment and administrative reserves	156,000	(26,081)	129,919
Accounts payable and accrued expenses	(191,862)	772,152	580,290
Due to Parent	46,629	-	46,629
Unearned contributions	<u>343,943</u>	<u>295,301</u>	<u>639,244</u>
Net cash provided (used) by operating activities	<u>\$ 378,225</u>	<u>\$ (2,158,240)</u>	<u>\$ (1,780,015)</u>

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Reconciliation of Claims Liabilities by Type of Contract

Year Ended December 31, 2010

The schedule below presents the changes in claims liabilities for the year ended December 31, 2010:

	<u>Auto Liability</u>	<u>Auto Physical Damage</u>	<u>General Liability</u>	<u>Property and Other</u>	<u>Law Enforcement Liability</u>	<u>Public Officials/School Board Liability</u>	<u>Workers' Comp.</u>	<u>Unemployment</u>	<u>Total</u>
Claims reserves at beginning of year	\$ <u>1,462,000</u>	\$ <u>138,000</u>	\$ <u>3,201,000</u>	\$ <u>1,387,000</u>	\$ <u>1,640,000</u>	\$ <u>4,227,000</u>	\$ <u>10,492,413</u>	\$ <u>624,000</u>	\$ <u>23,171,413</u>
Incurred claims and claim adjustment expenses									
Provision for covered events of current fiscal year	1,011,000	695,000	1,749,000	1,575,000	585,000	2,955,000	6,884,000	910,000	16,364,000
(Decreases) increases in provision for covered events of prior fiscal years	<u>(9,000)</u>	<u>(17,000)</u>	<u>(640,000)</u>	<u>(391,000)</u>	<u>109,000</u>	<u>1,223,497</u>	<u>(998,794)</u>	<u>(84,000)</u>	<u>(807,297)</u>
Total incurred claims and claim adjustment expenses	<u>1,002,000</u>	<u>678,000</u>	<u>1,109,000</u>	<u>1,184,000</u>	<u>694,000</u>	<u>4,178,497</u>	<u>5,885,206</u>	<u>826,000</u>	<u>15,556,703</u>
Payments									
Claims and claim adjustment expenses attributable to covered events of current fiscal year	(348,000)	(654,000)	(322,000)	(1,168,000)	(109,000)	(390,000)	(1,844,000)	(497,248)	(5,332,248)
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	<u>(456,000)</u>	<u>15,000</u>	<u>(543,000)</u>	<u>(69,000)</u>	<u>(811,000)</u>	<u>(1,874,497)</u>	<u>(4,302,100)</u>	<u>(483,113)</u>	<u>(8,523,710)</u>
Total payments	<u>(804,000)</u>	<u>(639,000)</u>	<u>(865,000)</u>	<u>(1,237,000)</u>	<u>(920,000)</u>	<u>(2,264,497)</u>	<u>(6,146,100)</u>	<u>(980,361)</u>	<u>(13,855,958)</u>
Total claims reserves at end of year	\$ <u>1,660,000</u>	\$ <u>177,000</u>	\$ <u>3,445,000</u>	\$ <u>1,334,000</u>	\$ <u>1,414,000</u>	\$ <u>6,141,000</u>	\$ <u>10,231,519</u>	\$ <u>469,639</u>	\$ <u>24,872,158</u>

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Reconciliation of Claims Liabilities by Type of Contract

Year Ended December 31, 2009

The schedule below presents the changes in claims liabilities for the year ended December 31, 2009:

	<u>Auto Liability</u>	<u>Auto Physical Damage</u>	<u>General Liability</u>	<u>Property and Other</u>	<u>Law Enforcement Liability</u>	<u>Public Officials/School Board Liability</u>	<u>Workers' Comp.</u>	<u>Unemployment</u>	<u>Total</u>
Claims reserves at beginning of year	\$ <u>1,576,000</u>	\$ <u>76,000</u>	\$ <u>2,902,000</u>	\$ <u>1,488,000</u>	\$ <u>1,380,000</u>	\$ <u>3,783,000</u>	\$ <u>8,671,000</u>	\$ <u>204,549</u>	\$ <u>20,080,549</u>
Incurred claims and claim adjustment expenses									
Provision for covered events of current fiscal year	1,119,000	775,000	1,579,000	1,689,000	579,000	1,883,000	8,138,000	1,100,000	16,862,000
(Decreases) increases in provision for covered events of prior fiscal years	<u>(251,000)</u>	<u>(73,000)</u>	<u>202,698</u>	<u>(193,000)</u>	<u>181,000</u>	<u>475,000</u>	<u>(726,758)</u>	<u>6,059</u>	<u>(379,001)</u>
Total incurred claims and claim adjustment expenses	<u>868,000</u>	<u>702,000</u>	<u>1,781,698</u>	<u>1,496,000</u>	<u>760,000</u>	<u>2,358,000</u>	<u>7,411,242</u>	<u>1,106,059</u>	<u>16,482,999</u>
Payments									
Claims and claim adjustment expenses attributable to covered events of current fiscal year	(452,000)	(692,000)	(258,000)	(1,407,000)	(93,000)	(466,000)	(2,393,000)	(520,806)	(6,281,806)
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	<u>(530,000)</u>	<u>52,000</u>	<u>(1,224,698)</u>	<u>(190,000)</u>	<u>(407,000)</u>	<u>1,448,000</u>	<u>(3,196,829)</u>	<u>(165,802)</u>	<u>(7,110,329)</u>
Total payments	<u>(982,000)</u>	<u>(640,000)</u>	<u>(1,482,698)</u>	<u>(1,597,000)</u>	<u>(500,000)</u>	<u>1,914,000</u>	<u>(5,589,829)</u>	<u>(686,608)</u>	<u>(13,392,135)</u>
Total claims reserves at end of year	\$ <u>1,462,000</u>	\$ <u>138,000</u>	\$ <u>3,201,000</u>	\$ <u>1,387,000</u>	\$ <u>1,640,000</u>	\$ <u>4,227,000</u>	\$ <u>10,492,413</u>	\$ <u>624,000</u>	\$ <u>23,171,413</u>

**LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)**

Ten-Year Claims Development Information

December 31, 2010

The following ten-year claims development information for the property-liability program includes auto liability, auto physical damage, general liability, property and other, law enforcement liability, and public officials/school board liability contracts.

The following ten-year claims development information for the workers' compensation program includes the workers' compensation and unemployment contracts that were included in Local Government Center Workers' Compensation Trust, LLC (LGC Workers' Compensation) in prior years. During the year ended December 31, 2007, LGC Workers' Compensation was merged into Property-Liability Trust.

The following tables illustrate how Property-Liability Trust's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by Property-Liability Trust as of the end of each of the past ten years. The rows of the table are defined as follows. (1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue. (2) This line shows each fiscal year's other operating costs of Property-Liability Trust including overhead and claims expense not allocable to individual claims. (3) This line shows Property-Liability Trust's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated 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 (called *policy year*). (4) This section of rows shows the cumulative net amounts paid as of the end of successive years for each policy year. (5) This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each accident year. (6) This section of rows shows how each policy year's net incurred claims increased or decreased as of the end of each successive year. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known. (7) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Ten-Year Claims Development Information - Property-Liability Program

December 31, 2010

	<u>Fiscal and Policy Year Ended</u>										
	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>July 2010 to Dec 2010</u>
1. Required contribution and investment revenue											
Earned	\$ 9,495,684	\$ 9,851,880	\$ 10,257,717	\$ 8,074,295	\$ 8,783,090	\$ 9,448,485	\$ 10,796,890	\$ 11,032,002	\$ 13,003,261	\$ 14,897,490	\$ 7,300,908
Ceded	<u>1,063,973</u>	<u>1,530,041</u>	<u>2,197,861</u>	<u>1,887,045</u>	<u>1,680,376</u>	<u>1,735,793</u>	<u>1,881,524</u>	<u>2,044,917</u>	<u>2,205,331</u>	<u>2,694,713</u>	<u>1,131,242</u>
Net earned	8,431,711	8,321,839	8,059,856	6,187,250	7,102,714	7,712,692	8,915,366	8,987,085	10,797,930	12,202,777	6,169,666
2. Unallocated expenses	2,012,860	2,253,434	2,450,913	2,374,662	2,789,662	1,400,333	2,236,334	2,909,878	3,762,676	3,378,471	2,138,569
3. Estimated claims and expenses, end of policy year											
Incurred	7,479,265	5,859,761	6,035,075	5,885,383	6,919,019	7,951,000	6,529,000	7,862,000	8,228,401	8,311,558	4,262,041
Ceded	-	-	-	-	-	-	-	-	-	-	-
Net incurred	<u>7,479,265</u>	<u>5,859,761</u>	<u>6,035,075</u>	<u>5,885,383</u>	<u>6,919,019</u>	<u>7,951,000</u>	<u>6,529,000</u>	<u>7,862,000</u>	<u>8,228,401</u>	<u>8,311,558</u>	<u>4,262,041</u>
4. Net paid (cumulative) as of											
End of policy year	2,309,438	1,900,526	1,805,764	2,770,323	3,494,838	3,551,000	3,029,907	4,094,000	3,819,401	3,222,558	394,041
One year later	4,515,425	3,581,433	3,643,378	3,959,286	4,762,000	4,702,156	5,029,212	5,619,341	4,997,493	-	-
Two years later	5,401,907	4,686,544	4,294,143	4,908,000	5,481,512	5,487,633	6,259,203	7,430,467	-	-	-
Three years later	6,065,629	5,517,619	4,330,000	5,321,198	5,716,118	6,270,837	6,616,904	-	-	-	-
Four years later	6,122,648	5,572,000	4,332,448	5,656,497	5,905,419	6,643,786	-	-	-	-	-
Five years later	6,121,000	5,572,351	4,336,261	5,672,355	5,917,828	-	-	-	-	-	-
Six years later	6,125,178	5,572,351	4,340,812	5,678,884	-	-	-	-	-	-	-
Seven years later	6,126,869	5,570,779	4,339,844	-	-	-	-	-	-	-	-
Eight years later	6,126,869	5,570,779	-	-	-	-	-	-	-	-	-
Nine years later	6,121,236	-	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	-	-	-	-	-	-	-	-	-	-	-
6. Reestimated net incurred claims and expenses											
End of policy year	7,479,265	5,859,761	6,035,075	5,885,383	6,919,019	7,951,000	6,529,000	7,862,000	8,228,401	8,311,558	4,262,041
One year later	7,380,831	5,887,958	8,028,024	6,109,636	6,439,000	6,766,000	7,263,000	8,064,341	7,535,493	-	-
Two years later	7,052,021	5,636,048	4,742,328	5,752,000	6,226,000	6,672,889	7,273,203	8,962,467	-	-	-
Three years later	6,257,336	5,724,289	4,399,000	5,728,000	6,056,000	6,969,837	7,445,904	-	-	-	-
Four years later	6,138,861	5,613,000	4,419,000	5,729,000	5,977,419	6,943,786	-	-	-	-	-
Five years later	6,130,000	5,577,000	4,401,000	5,690,355	5,929,828	-	-	-	-	-	-
Six years later	6,136,000	5,572,000	4,356,812	5,678,884	-	-	-	-	-	-	-
Seven years later	6,133,000	5,570,779	4,339,844	-	-	-	-	-	-	-	-
Eight years later	6,127,869	5,570,779	-	-	-	-	-	-	-	-	-
Nine years later	6,122,236	-	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	\$ (1,357,029)	\$ (288,982)	\$ (1,695,231)	\$ (206,499)	\$ (989,191)	\$ (1,007,214)	\$ 916,904	\$ 1,100,467	\$ (692,908)	\$ -	\$ -

LOCAL GOVERNMENT CENTER PROPERTY-LIABILITY TRUST, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Ten-Year Claims Development Information - Workers' Compensation Program

December 31, 2010

	<u>Fiscal and Policy Year Ended</u>									
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
1. Required contribution and investment revenue										
Earned	\$ 805,973	\$ 759,437	\$ 857,716	\$ 911,394	\$ 2,067,857	\$ 3,239,993	\$ 4,052,196	\$ 5,805,466	\$ 6,841,623	\$ 7,547,050
Ceded	<u>132,177</u>	<u>247,543</u>	<u>139,982</u>	<u>179,144</u>	<u>383,330</u>	<u>707,758</u>	<u>650,451</u>	<u>780,199</u>	<u>886,913</u>	<u>816,095</u>
Net earned	673,796	511,894	717,734	732,250	1,684,527	2,532,235	3,401,745	5,025,267	5,954,710	6,730,955
2. Unallocated expenses	103,619	118,269	103,778	344,970	516,813	895,435	928,625	1,458,437	3,123,896	2,035,152
3. Estimated claims and expenses, end of policy year										
Incurred	530,000	735,000	840,000	880,465	3,884,590	6,138,257	5,520,887	7,965,159	9,238,000	7,794,000
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	<u>530,000</u>	<u>735,000</u>	<u>840,000</u>	<u>880,465</u>	<u>3,884,590</u>	<u>6,138,257</u>	<u>5,520,887</u>	<u>7,965,159</u>	<u>9,238,000</u>	<u>7,794,000</u>
4. Net paid (cumulative) as of										
End of policy year	128,739	206,576	198,327	224,574	870,856	1,169,369	1,101,434	2,356,609	2,913,806	2,341,248
One year later	211,476	386,389	401,499	417,506	1,694,030	2,623,859	2,013,746	4,982,830	5,975,078	-
Two years later	290,255	540,850	491,702	623,224	2,097,467	3,228,138	2,429,229	6,465,864	-	-
Three years later	318,096	661,122	542,367	597,217	2,312,093	3,541,999	2,539,540	-	-	-
Four years later	367,905	630,141	495,168	597,543	2,313,259	3,610,075	-	-	-	-
Five years later	402,157	626,829	497,271	597,543	2,344,521	-	-	-	-	-
Six years later	401,002	629,390	497,271	597,760	-	-	-	-	-	-
Seven years later	401,002	634,000	497,271	-	-	-	-	-	-	-
Eight years later	401,002	647,292	-	-	-	-	-	-	-	-
Nine years later	401,002	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	-	-	-	-	92,000	-	-	-	-	-
6. Reestimated net incurred claims and expenses										
End of policy year	530,000	735,000	840,000	880,465	3,884,590	6,138,257	5,520,887	7,965,159	9,238,000	7,794,000
One year later	465,000	788,737	795,000	837,999	3,421,684	5,219,284	3,880,474	8,335,830	8,669,762	-
Two years later	420,000	900,000	773,000	768,566	2,815,000	4,281,284	3,254,229	8,177,586	-	-
Three years later	420,000	725,911	778,003	597,000	2,622,092	3,980,999	2,891,540	-	-	-
Four years later	462,471	644,586	561,000	597,543	2,447,476	3,905,075	-	-	-	-
Five years later	402,155	627,000	497,271	597,543	2,486,521	-	-	-	-	-
Six years later	401,000	667,000	497,271	597,760	-	-	-	-	-	-
Seven years later	401,002	660,000	497,271	-	-	-	-	-	-	-
Eight years later	401,002	700,292	-	-	-	-	-	-	-	-
Nine years later	401,002	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	\$ (128,998)	\$ (34,708)	\$ (342,729)	\$ (282,705)	\$ (1,398,069)	\$ (2,233,182)	\$ (2,629,347)	\$ 212,427	\$ (568,238)	\$ -

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors of Local Government Center, Inc., as Sole Member of
Local Government Center Property-Liability Trust, LLC
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

We have audited the financial statements of Local Government Center Property-Liability Trust, LLC (Property-Liability Trust) (a wholly-owned subsidiary of Local Government Center, Inc.) as of and for the year ended December 31, 2010 and have issued our report thereon dated June 15, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Property-Liability Trust's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Property-Liability Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Property-Liability Trust's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Property-Liability Trust's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Property-Liability Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors of Local Government Center, Inc. as sole member of Property-Liability Trust and management, and is not intended to be and should not be used by anyone other than these specified parties.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
June 15, 2011