

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

**FINANCIAL STATEMENTS**

**AND**

**REQUIRED SUPPLEMENTARY INFORMATION**

**December 31, 2009 and 2008**

**With Independent Auditors' Report**

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

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## INDEPENDENT AUDITORS' REPORT

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 accompanying 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, 2009 and 2008 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, 2009 and 2008, 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 18, 2010 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.

The accompanying required supplementary information, including management's discussion and analysis on pages 3 through 13, reconciliation of claims liabilities by type of contract on pages 34 and 35, and ten-year claims development information on pages 36 through 38, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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*

Manchester, New Hampshire  
June 18, 2010

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

**Management's Discussion and Analysis**

**December 31, 2009**

**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 is also formed and operated under NH RSA 5-B and its income is exempt from taxation under Section 115 of the Internal Revenue Code. LGC Property-Liability Trust's financials 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.

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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 2009, 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 2008, 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, 2009. 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 2009 services that were paid in 2010, 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 2009 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 2009. 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.

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**Management's Discussion and Analysis**

**December 31, 2009**

**Operating Results:**

LGC Property-Liability Trust's results for the year ended December 31, 2009 resulted in a decrease in net assets of \$1,076,351. LGC Property-Liability Trust had an operating loss of \$7,335,302 during the year ended December 31, 2009. This operating loss was mitigated by contributions received from Local Government Center (the Parent).

Excess and reinsurance costs were higher for the year ended December 31, 2009 than for the year ended December 31, 2008. This increase was due primarily to the membership growth of covered workers' compensation payrolls.

Total assets increased during 2009 by \$3,640,775. The cash balance was lower at the end of 2009 primarily due to cash used by operating activities of \$2,854,109, which was offset by a contribution received from Local Government Center of \$3,834,506. Contributions receivable decreased \$34,459. There was \$46,458 in claims recovery receivable at December 31, 2009 representing amounts due under a settlement agreement and amounts due in excess of the self-insured retention. During 2009, LGC Property-Liability Trust's investment securities decreased by \$826,806. As of December 31, 2009, LGC Property-Liability Trust did not have an investment in a certificate of deposit. As of December 31, 2008, LGC Property-Liability Trust had an investment in a certificate of deposit for approximately \$2 million with an original maturity in excess of three months. In addition, the Workers' Compensation program held investment securities amounting to \$5,926,990 as of December 31, 2009. As of December 31, 2008, the Workers' Compensation program held investment securities amounting to \$5,998,803. During 2009, the market value of LGC Property-Liability Trust's portfolio increased \$1,303,288. Prepaid expenses increased \$362,038. There were additions to the equipment category during 2009 that amounted to \$225,430, which was offset by the recognition of depreciation expense on these assets. The amount due from Local Government Center was higher based on the timing of payments received from the Parent.

Total liabilities increased \$4,717,126 from 2008. The majority of this increase is due to higher claims reserves of \$3,090,864 and claims adjustment and administrative reserves of \$1,607,409 (based on actuarial evaluations) as well as higher unearned contributions of \$380,309 (combination of increased membership and higher rates). There was a decrease 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 \$9,845,720, and declined \$1,076,351 in 2009. The market value of the investments increased \$1,303,288 during 2009. The balance of the decrease in net assets is due to operating results. The contributions from Parent increased by \$1.2 million during 2009 as compared to 2008. The increase in the contribution from Parent was to help fund the cash used by operations during 2009.

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**Management's Discussion and Analysis**

**December 31, 2009**

The Board has designated \$9,339,725 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>2009</u>	<u>2008</u>	<u>Change</u>
Claims incurred	62.4 %	64.2 %	(1.8)%
Reinsurance	12.7 %	13.0 %	(0.3)%
Loss prevention	2.1 %	2.6 %	(0.5)%
Administrative and other expenses	22.8 %	20.2 %	2.6 %

**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.

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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.

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, 2009, the Board adopted a net asset designation equal to a 90% confidence level of \$5,139,000. In addition, the Board designated the remaining available net assets of approximately \$4,200,000 as of December 31, 2009 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 Financial Accounting Standards Board

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Accounting Standards Codification Topic 320 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.

**Membership Changes, Risk & Uncertainties and Outlook:**

Governor John Lynch signed HB 1393 into law on June 14, 2010. HB 1393 amends NH RSA 5-B by granting the Secretary of State the exclusive authority and jurisdiction over pooled risk management programs. Under HB 1393, the Secretary of State, in consultation with the insurance commissioner and by employing the services of an actuary who has experience with pooled risk management programs and is a qualified member of the American Academy of Actuaries, shall, no later than January 1, 2011, submit a report containing specific recommendations concerning the limitation of reserves in pooled risk management programs and the limitation of administrative expenses as a percentage of claims of pooled risk management programs. Until the report is submitted, the probability of the impact of HB 1393 on LGC Property-Liability Trust cannot be determined nor can the nature of any limitations, if any, on reserves or administrative expenses, be estimated.

Property-Liability Coverage:

Membership for property-liability coverage totals 361. During the year ending December 31, 2009, this membership grew by 11 Members (primarily new Members effective July 1, 2009). Annualized contributions came to approximately \$12.4 million.

LGC Property-Liability Trust purchases excess 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 2009 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. Renewing property and casualty reinsurance policies were purchased at flat or decreased rates.

The numbers of property-liability claims filed with LGC Property-Liability Trust increased with the growth of the program. In the early years (between July 1, 1986 and June 30, 1995), LGC Property-Liability Trust handled approximately 200 to 550 claims per year. At that time, Members had a \$1,000 deductible for both property damage and third-party claims. Effective July 1, 1995, the third-party deductible was eliminated. As a result, claim volume increased as the LGC Property-Liability Trust assumed handling of smaller claims previously addressed directly by Members.

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Further, annually the Local Government Center's Board of Directors commissions and drafts the Member Agreement and Educator's Member Agreement, specifically tailoring protection to the specialized and changing needs of its Members and School Members respectively.

The composition of property-liability claims filed is always changing. LGC 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 Members, their employees, public officials and volunteers. LGC Property-Liability Trust continues to experience great success in bringing about timely and equitable resolutions. In the true spirit of cooperation, Members and School Members actively assist LGC Claims professionals and defense counsel in the investigation and defense of claims.

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 Members 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, with the assistance of its Members, to offer the most comprehensive, stable and experienced self-insurance property-liability program in the State of New Hampshire.

Recent LGC Property-Liability Trust *Property and Casualty* Claims Frequency as of 12/31/09:

- FY 2007 - 1,134
- FY 2008 - 1,625
- FY 2009 - 1,513

Workers' Compensation/Unemployment Compensation Coverage:

The workers' compensation membership grew slightly to 229 groups as of December 31, 2009.

In 2009, LGC Property-Liability Trust contracted with Cannon, Cochran Management Services, Inc. (CCMSI) for workers' compensation claims administration services. CCMSI managed workers' compensation claims within a managed care network assigning a nurse case manager to each claimant making a claim for lost time from work or having a serious injury to assist in understanding and navigating the provider network and services.

CCMSI's online claims reporting capabilities through their Internet Claims Edge (iCE) software is a state of the art claims analysis and reporting tool that provided round the clock access for Members to claim information.

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**Management's Discussion and Analysis**

**December 31, 2009**

In 2009, LGC staff and the Board of Directors researched and conducted the initial stages of implementing in-house workers' compensation claims administration by 2010; an effort to improve upon the service offered to employers and their employees facing work-related injury or illness.

Recent LGC Property-Liability Trust *Workers' Compensation* Claims Frequency as of 12/31/09:

- CY 2007 - 1,301
- CY 2008 - 1,679
- CY 2009 - 1,821

The Unemployment program saw growth in membership in 2009 and a corresponding increase in claims frequency due in part, to membership growth and in part, to the state of the economy.

Recent LGC Property-Liability Trust *Unemployment* Claims Frequency as of 12/31/09:

- CY 2007 - 75
- CY 2008 - 473
- CY 2009 - 752

The Member Relations staff at the Local Government Center conducts workers' compensation payroll audits internally. Workers' Compensation payroll audits assure that Members are paying the appropriate amount in contribution based on actual payroll per class codes. Having LGC staff trained to complete this important process provides more control, greater accuracy and faster problem solving than use of an outside vendor. It also provides staff the opportunity to build and maintain relationships with Members.

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 reduced employment claims. This is a toll-free number that connects Members to LGC's Property-Liability Trust's defense counsel, and Members are encouraged to call for advice on handling personnel matters before action relative to an employee is taken.

Risk management develops other specialized programs specifically targeted to provide pro-active training in areas of potential high claims. Risk and health management staff and claims staff work closely together to identify emerging claims characteristics for targeted loss prevention programming. During 2009, LGC continues to partner with Municipal Resources, Inc. to offer the LGC Academy which started 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. We saw overwhelming responses to the classes, and throughout the year we had to add additional sessions. As of December 1, 2009 the LGC

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Academy on-line program has 302 members that are enrolled and have completed classes, and the Hybrid classes (Financial Liability) has 311 with the same status. On-line programs that were new for 2009 are: Emergency Vehicle Liability – Police & Fire, Enhancing Your Resiliency by Managing Stress, Fundamentals of Ergonomics, Orientation for Municipal and School Treasurers, Preventing Workplace Harassment and Discrimination, Principles of Employment Law, Right to Know, 91-A, Zoning and Planning Basics, Bloodborne Pathogens, Building a Respectful School Community and Back Care and Injury Prevention. The Car Control program in collaboration with Stevens Advanced Defensive Driving School continued, and trained over 650 members. Risk & Health Management implemented the new Level 2 Interactive Use of Force. During 2009 we were able to train 32 Police Agencies resulting in 271 officers completing the program.

During 2009, Risk & Health Management continued with many school initiatives that dealt with a number of issues facing schools today. We were able to implement CPI Crisis Prevention Intervention training with many of our School Members, and programs dealing specifically with Special Education. We continue to focus efforts on Facility Management, as this is an area that many of the School claims come from.

During 2009, there were 544 classes conducted and 9,164 employees trained in reducing losses for property-liability and workers' compensation members. The Risk and Health Management team established best-practice training programs through the implementation of an integrated Risk and Health Management team approach process. Examples of this training strategy include ongoing programs such as simunitions, chainsaw safety, and joint loss management committee consultations, as well as special programs including emergency preparedness and "Who Put Health in My Safety Committee?" 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 Drill. The class has been developed for City, Town or School vehicle drivers who are full-time, part-time or volunteer employees of the LGC member 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.
- 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.

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- Playground Audit and Inspections are conducted by LGC's Certified Playground Safety Inspector. An audit of 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 members, we now have been able to create our 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 deals with 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 covering coaching the emergency vehicle operator for police, fire and EMS, coaching the maintenance vehicle operator for public works, defensive driving courses, professional truck driver defensive driving course, school bus driver in-service training and emergency vehicle liability for police, fire and EMS.
  - LGC Academy – Today's local governments-including schools, counties and municipalities-face increasingly complex laws, regulations and policies plus human resource, leadership and job skill challenges. The LGC Academy can help you effectively deal with them all through a variety of comprehensive trainings. It 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.
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- School risk management programs cover school safety programs, emergency management plans, addressing claims dealing with slips, trips, and falls, school facility management, playground inspection course, joint loss management committees at the district level and working with the Special Educators Association.

**Conclusion:**

LGC Property-Liability Trust continues to maintain strong financial and Member stability. LGC Property-Liability Trust continues to respond to Members' property-liability coverage needs through its Member Agreement. In addition, the Local Government Center continues to support the workers' compensation program. During 2004, Local Government Center's Board of Directors instituted a plan to grow workers' compensation beginning with the January 1, 2005 renewal. The plan included financial support for the workers' compensation program as well as other initiatives. The plan continues to be successful and workers' compensation membership continues to increase. While there is anticipated growth at the July 1, 2010 renewal, the magnitude of growth is expected to level off. The LGC Board made a long-term commitment to offer workers' compensation coverage, as it believes the program provides an important service to both Members and non-members.

During 2009, the Local Government Center's Board of Directors continued to support programs aimed at increasing school participation, providing rate stability, rewarding Member participation in all risk management programs offered by the Local Government Center, 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 should continue to retain and attract Members.

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**Statements of Financial Position**

**December 31, 2009 and 2008**

**ASSETS**

	<u><b>2009</b></u>	<u><b>2008</b></u>
Current assets		
Cash and cash equivalents	\$ <b>7,004,430</b>	\$ 9,080,292
Investment securities	<b>28,552,741</b>	29,379,547
Investment in external investment pool	<b>6,593,553</b>	584,285
Contributions receivable	<b>415,395</b>	449,854
Claims recovery receivable	<b>46,458</b>	102,278
Accrued interest receivable	<b>254,378</b>	255,430
Due from Parent	<b>216,434</b>	122,569
Prepaid expenses	<u><b>1,456,018</b></u>	<u>1,093,980</u>
Total current assets	<b>44,539,407</b>	41,068,235
Equipment, net	<b>257,651</b>	88,048
Restricted cash	<u><b>1,000,000</b></u>	<u>1,000,000</u>
Total assets	<u><b>\$45,797,058</b></u>	<u>\$42,156,283</u>

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

## LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
Current liabilities		
Claims reserves	<b>\$23,171,413</b>	\$20,080,549
Claims adjustment and administrative reserves	<b>3,284,409</b>	1,677,000
Accounts payable and accrued expenses	<b>1,310,753</b>	1,577,531
Due to Parent	<b>59,183</b>	153,861
Unearned contributions	<b><u>8,125,580</u></b>	<u>7,745,271</u>
Total current liabilities and total liabilities	<b><u>35,951,338</u></b>	<u>31,234,212</u>
Commitments and contingencies (Notes 9, 11, 13 and 14)		
Net assets		
Unrestricted net assets	-	6,319,129
Board designated net assets	<b>9,339,725</b>	5,569,839
Unrealized gain (loss) on investment securities	<b>248,344</b>	(1,054,945)
Invested in capital assets	<b><u>257,651</u></b>	<u>88,048</u>
Total net assets	<b><u>9,845,720</u></b>	<u>10,922,071</u>
Total liabilities and net assets	<b><u>\$45,797,058</u></b>	<u>\$42,156,283</u>

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**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, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Operating revenue		
Member contributions earned	\$19,064,924	\$16,825,188
Member contributions ceded	<u>(3,355,822)</u>	<u>(2,905,323)</u>
Net operating revenue	<u>15,709,102</u>	<u>13,919,865</u>
Operating expenses		
Claims incurred	16,482,999	14,315,429
Loss prevention	563,689	575,847
Administrative fees	569,238	553,587
Other expenses	<u>5,448,478</u>	<u>3,933,315</u>
Total operating expenses	<u>23,064,404</u>	<u>19,378,178</u>
Operating loss	<u>(7,355,302)</u>	<u>(5,458,313)</u>
Nonoperating income (expense)		
Investment income	1,279,284	1,420,220
Other income	14,065	8,562
Net increase (decrease) in fair value of investment securities	<u>1,303,288</u>	<u>(1,577,882)</u>
Decrease in net assets before contributions and distributions	<u>(4,758,665)</u>	<u>(5,607,413)</u>
Contributions from Parent	3,928,371	2,768,304
Distributions to Parent	<u>(246,057)</u>	<u>(811,919)</u>
Decrease in net assets	<u>(1,076,351)</u>	<u>(3,651,028)</u>
Net assets, beginning of year	<u>10,922,071</u>	<u>14,573,099</u>
Net assets, end of year	<u>\$ 9,845,720</u>	<u>\$10,922,071</u>

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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, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Member contributions collected	\$ <b>19,479,692</b>	\$ 18,212,476
Member contributions ceded to reinsurer	<b>(3,846,633)</b>	(2,733,222)
Claims paid	<b>(13,336,315)</b>	(11,374,474)
Salaries, payroll taxes, and benefits paid	<b>(2,258,375)</b>	(1,805,744)
Loss prevention and other expenses paid	<b><u>(2,892,478)</u></b>	<b><u>(1,911,242)</u></b>
Net cash (used) provided by operating activities	<b><u>(2,854,109)</u></b>	<b><u>387,794</u></b>
Cash flows from investing activities		
Proceeds received from the sale of investment securities	<b>7,477,007</b>	8,206,517
Cash payments for the purchase of investment securities	<b>(7,456,210)</b>	(13,588,077)
Interest and dividends on investment securities	<b>1,367,078</b>	1,372,701
Purchase of external investment pool	<b><u>(3,986,712)</u></b>	<b><u>(2,037,845)</u></b>
Net cash used by investing activities	<b><u>(2,598,837)</u></b>	<b><u>(6,046,704)</u></b>
Cash flows from capital and related financing activities		
Acquisition of capital assets	<b>(225,430)</b>	(60,063)
Distribution to Parent for acquisition of property	<b><u>-</u></b>	<b><u>(615,128)</u></b>
Net cash used by capital and related financing activities	<b><u>(225,430)</u></b>	<b><u>(675,191)</u></b>
Cash flows from noncapital financing activities		
Cash received from other income	<b>14,065</b>	8,562
Contributions from Parent	<b>3,834,506</b>	3,053,386
Distributions to Parent	<b><u>(246,057)</u></b>	<b><u>(196,791)</u></b>
Net cash provided by noncapital financing activities	<b><u>3,602,514</u></b>	<b><u>2,865,157</u></b>
Net decrease in cash and cash equivalents	<b>(2,075,862)</b>	(3,468,944)
Cash and cash equivalents at beginning of year	<b><u>9,080,292</u></b>	<b><u>12,549,236</u></b>
Cash and cash equivalents at end of year	<b><u>\$ 7,004,430</u></b>	<b><u>\$ 9,080,292</u></b>

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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, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Reconciliation of operating loss to net cash (used) provided by operating activities		
Operating loss	\$ (7,355,302)	\$ (5,458,313)
Adjustments to reconcile operating loss to net cash (used) provided by operating activities		
Depreciation	55,827	46,335
(Increase) decrease in		
Contributions receivable	34,459	(109,148)
Claims recovery receivable	55,820	170,008
Prepaid expenses	(362,038)	(21,455)
Increase (decrease) in		
Claims reserves	3,090,864	2,770,947
Claims adjustment and administrative reserves	1,607,409	339,000
Accounts payable and accrued expenses	(266,779)	1,066,613
Due to Parent	(94,678)	87,371
Unearned contributions	<u>380,309</u>	<u>1,496,436</u>
Net cash (used) provided by operating activities	<u>\$ (2,854,109)</u>	<u>\$ 387,794</u>
Supplemental disclosure of non-cash noncapital financing activities		
Contributions from Parent per the statements of revenue, expenses, and changes in net assets	\$ 3,928,371	\$ 2,768,304
(Increase) decrease in due from Parent	<u>(93,865)</u>	<u>285,082</u>
Cash received from Parent	<u>\$ 3,834,506</u>	<u>\$ 3,053,386</u>

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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, 2009 and 2008**

**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, 2009 and 2008, membership in the property and liability risk management component of Property-Liability Trust amounted to 361 and 350, respectively. As of December 31, 2009 and 2008, membership in the workers' compensation component amounted to 229 and 215, 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 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, 2009 and 2008**

**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 and Cash Equivalents**

Cash and 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.

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

**Notes to Financial Statements**

**December 31, 2009 and 2008**

**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.

**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 reserve for the 2005 - 2006 policy year is 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.

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

**Notes to Financial Statements**

**December 31, 2009 and 2008**

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.

**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, 2009 and 2008. As of December 31, 2009 and 2008, the carrying amount of cash held, in total, in excess of the FDIC limit was approximately \$6,726,000 and \$8,800,000, respectively. The balance in excess of the FDIC limit is collateralized with securities held in joint custody with the bank.

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

**Notes to Financial Statements**

**December 31, 2009 and 2008**

**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:

	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>
	2008			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government Sponsored				
Enterprise Securities	\$ 8,242,651	\$ 348,558	\$ -	\$ 8,591,209
U.S. Treasury Notes	6,672,162	297,297	-	6,969,459
Corporate Notes	10,891,492	46,113	(1,167,180)	9,770,425
Municipal Obligations	334,931	6,241	-	341,172
Mutual Fund	2,270,700	-	(585,974)	1,684,726
Certificate of Deposit	<u>2,022,556</u>	<u>-</u>	<u>-</u>	<u>2,022,556</u>
Total	<u>\$30,434,492</u>	<u>\$ 698,209</u>	<u>\$ (1,753,154)</u>	<u>\$29,379,547</u>

During 2009 and 2008, Property-Liability Trust realized a net gain of \$50,985 and \$55,880, 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.

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

**Notes to Financial Statements**

**December 31, 2009 and 2008**

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

	<u>2009</u>	<u>2008</u>
Vanguard 500 Index Fund	\$ <b>2,081,729</b>	\$ 1,684,726
3.125% US Treasury Note, due September 30, 2013	<b>1,844,758</b>	1,617,900
2.9% Certificate of Deposit, due February 10, 2009	N/A	2,022,556

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.

The cost and fair value of investment securities at December 31, 2009 and 2008, 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>2009</u>		<u>2008</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Not Applicable	\$ 2,270,700	\$ 2,081,729	\$ 2,270,700	\$ 1,684,726
Within 1 Year	1,649,876	1,683,050	3,127,312	3,114,528
1 - 5 Years	12,785,103	13,061,252	13,237,814	13,116,117
5 - 10 Years	5,676,706	5,887,500	3,793,465	3,852,159
10 + Years	<u>5,922,012</u>	<u>5,839,210</u>	<u>8,005,201</u>	<u>7,612,017</u>
Total	<u>\$ 28,304,397</u>	<u>\$ 28,552,741</u>	<u>\$ 30,434,492</u>	<u>\$ 29,379,547</u>

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

**Notes to Financial Statements**

**December 31, 2009 and 2008**

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, 2009, 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	\$ 1,250,516
Corporate Notes	A2	Moody's	1,813,730
Corporate Notes	A3	Moody's	2,133,354
Corporate Notes	Aa1	Moody's	55,112
Corporate Notes	Aa2	Moody's	226,599
Corporate Notes	Aa3	Moody's	575,520
Corporate Notes	Aaa	Moody's	2,485,726
Corporate Notes	B1	Moody's	86,111
Corporate Notes	Ba2	Moody's	139,241
Corporate Notes	Baa1	Moody's	861,125
Corporate Notes	Baa2	Moody's	850,080
Corporate Notes	Baa3	Moody's	351,902
Corporate Notes	Caa2	Moody's	183,054
Municipal Obligations	A1	Moody's	285,908
Municipal Obligations	A2	Moody's	41,720
Municipal Obligations	Aa3	Moody's	135,811
Municipal Obligations	Aaa	Moody's	96,120
Vanguard 500 Index Fund	3 stars	Morningstar	2,081,729
U.S. Treasury Notes	Aaa	Moody's	5,849,635
U.S. Government Sponsored Enterprises:			
Federal National Mortgage Association	Aaa	Moody's	3,893,949
Government National Mortgage Association	Aaa	Moody's	1,454,957
Federal Home Loan Mortgage Corporation	Aaa	Moody's	2,363,437
Other	Aaa	Moody's	<u>1,337,405</u>
Total			<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, 2009 and 2008**

Custodial Credit Risk

Custodial credit risk for the certificate of deposit is the amount maintained in certificates of deposit that are in excess of the FDIC limit of \$250,000. As of December 31, 2008, the amount of certificate of deposit held subject to custodial credit risk was approximately \$2,000,000. This amount was collateralized with securities held in joint custody with the bank.

For other investments, 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, 2009, Property-Liability Trust did not have any other 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:

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

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

**Notes to Financial Statements**

**December 31, 2009 and 2008**

	Year Ended December 31, 2008			
	Beginning Balance	Additions	Disposals	Ending Balance
Office Equipment	\$ 26,481	\$ 507	\$ (2,885)	\$ 24,103
Computer Equipment	588,507	59,556	(434,852)	213,211
Vehicles	<u>62,630</u>	<u>-</u>	<u>-</u>	<u>62,630</u>
	677,618	60,063	(437,737)	299,944
Less accumulated depreciation	<u>603,298</u>	<u>46,335</u>	<u>(437,737)</u>	<u>211,896</u>
	<u>\$ 74,320</u>	<u>\$ 13,728</u>	<u>\$ -</u>	<u>\$ 88,048</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>2009</u>	<u>2008</u>
Claims reserves at beginning of year	\$ <u>20,080,549</u>	\$ <u>17,309,602</u>
Incurred claims and claim adjustment expenses		
Provision for covered events of current year	<b>16,862,000</b>	16,568,159
Adjustments to provision for covered events of prior years	<u>(379,001)</u>	<u>(2,252,730)</u>
Total incurred claims and claim adjustment expenses	<u>16,482,999</u>	<u>14,315,429</u>
Payments of claims and claim adjustment expenses		
Payments attributable to covered events of current year	<b>(6,281,806)</b>	(6,445,609)
Payments attributable to covered events of prior years	<u>(7,110,329)</u>	<u>(5,098,873)</u>
Total payments	<u>(13,392,135)</u>	<u>(11,544,482)</u>
Total claims reserves at end of year	<u>\$ 23,171,413</u>	<u>\$ 20,080,549</u>

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

**Notes to Financial Statements**

**December 31, 2009 and 2008**

**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, 2009 and 2008, 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 \$64,471 and \$64,493 for the years ended December 31, 2009 and 2008, respectively.

Local Government Center is a participating member in Property-Liability Trust. During the years ended December 31, 2009 and 2008, Local Government Center paid \$98,639 and \$91,293, 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 \$3,769,123 and \$2,864,299 during the years ended December 31, 2009 and 2008, 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, 2009 and 2008, the Board of Local Government Center authorized contributions to Property-Liability Trust of \$3,928,371 and \$2,768,304, 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.

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

**Notes to Financial Statements**

**December 31, 2009 and 2008**

**10. Board Designated Net Assets**

Board designated net assets includes the following at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Confidence level at 90%	\$ 5,139,000	\$ 4,321,000
Rate stabilization	<u>4,200,725</u>	<u>1,248,839</u>
	<u>\$ 9,339,725</u>	<u>\$ 5,569,839</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, 2009, 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. Prior 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, 2009 and 2008**

**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, 2009, 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. Contingency**

Property-Liability Trust assesses potential liabilities in connection with lawsuits and threatened lawsuits under Financial Accounting Standards Board *Accounting Standards Codification* Topic 450, *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, 2009, 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.

Governor John Lynch signed HB 1393 into law on June 14, 2010. HB 1393 amends NH RSA 5-B by granting the Secretary of State the exclusive authority and jurisdiction over pooled risk management programs. Under HB 1393, the Secretary of State, in consultation with the insurance commissioner and by employing the services of an actuary who has experience with pooled risk management programs and is a qualified member of the American Academy of Actuaries, shall, no later than January 1, 2011, submit a report containing specific recommendations concerning the limitation of reserves in pooled risk management programs and the limitation of administrative expenses as a percentage of claims of pooled risk management programs. Until the report is submitted, the probability of the impact of HB 1393 on LGC Property-Liability Trust cannot be determined nor can the nature of any limitations, if any, on reserves or administrative expenses, be estimated.

## **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, 2009**

	<b><u>Property - Liability Program</u></b>	<b><u>Workers' Compensation Program</u></b>	<b><u>Total</u></b>
<b>Current assets</b>			
Cash and cash equivalents	\$ 1,796,698	\$ 5,207,732	\$ 7,004,430
Investment securities	22,625,751	5,926,990	28,552,741
Investment in external investment pool	4,375,349	2,218,204	6,593,553
Contributions receivable	193,168	222,227	415,395
Claims recovery receivable	-	46,458	46,458
Accrued interest receivable	194,613	59,765	254,378
Due from Parent	-	216,434	216,434
Prepaid expenses	<u>1,452,405</u>	<u>3,613</u>	<u>1,456,018</u>
Total current assets	30,637,984	13,901,423	44,539,407
Equipment, net	76,539	181,112	257,651
Due from/to related party	29,264	(29,264)	-
Restricted cash	<u>-</u>	<u>1,000,000</u>	<u>1,000,000</u>
Total assets	<u>\$ 30,743,787</u>	<u>\$ 15,053,271</u>	<u>\$ 45,797,058</u>
<b>Current liabilities</b>			
Claims reserves	\$ 12,055,000	\$ 11,116,413	\$ 23,171,413
Claims adjustment and administrative reserves	606,000	2,678,409	3,284,409
Account payables and accrued expenses	966,780	343,973	1,310,753
Due to Parent	59,183	-	59,183
Unearned contributions	<u>6,219,226</u>	<u>1,906,354</u>	<u>8,125,580</u>
Total current liabilities and total liabilities	<u>19,906,189</u>	<u>16,045,149</u>	<u>35,951,338</u>
<b>Net assets (deficit)</b>			
Unrestricted net assets (deficit)	1,277,032	(1,277,032)	-
Board designated net assets	9,339,725	-	9,339,725
Unrealized gain on investment securities	144,302	104,042	248,344
Invested in capital assets	<u>76,539</u>	<u>181,112</u>	<u>257,651</u>
Total net assets (deficit)	<u>10,837,598</u>	<u>(991,878)</u>	<u>9,845,720</u>
Total liabilities and net assets (deficit)	<u>\$ 30,743,787</u>	<u>\$ 15,053,271</u>	<u>\$ 45,797,058</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, 2009**

	<u>Property - Liability Program</u>	<u>Workers' Compensation Program</u>	<u>Total</u>
Operating revenue			
Member contributions earned	\$ 12,374,517	\$ 6,690,407	\$ 19,064,924
Member contributions ceded	<u>(2,468,909)</u>	<u>(886,913)</u>	<u>(3,355,822)</u>
Net operating revenue	<u>9,905,608</u>	<u>5,803,494</u>	<u>15,709,102</u>
Operating expenses			
Claims incurred	7,965,698	8,517,301	16,482,999
Loss prevention	478,621	85,068	563,689
Administrative fees	-	569,238	569,238
Other expenses	<u>2,978,888</u>	<u>2,469,590</u>	<u>5,448,478</u>
Total operating expenses	<u>11,423,207</u>	<u>11,641,197</u>	<u>23,064,404</u>
Operating loss	(1,517,599)	(5,837,703)	(7,355,302)
Nonoperating income (expense)			
Investment income	1,061,853	217,431	1,279,284
Other income	10,394	3,671	14,065
Net increase (decrease) in fair value of investment securities	<u>1,369,503</u>	<u>(66,215)</u>	<u>1,303,288</u>
Increase (decrease) in net assets before contributions and distributions	924,151	(5,682,816)	(4,758,665)
Contributions from Parent	-	3,928,371	3,928,371
Distributions to Parent	<u>(178,840)</u>	<u>(67,217)</u>	<u>(246,057)</u>
Increase (decrease) in net assets	745,311	(1,821,662)	(1,076,351)
Net assets, beginning of year	<u>10,092,287</u>	<u>829,784</u>	<u>10,922,071</u>
Net assets (deficit), end of year	<u>\$ 10,837,598</u>	<u>\$ (991,878)</u>	<u>\$ 9,845,720</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, 2009**

	<b><u>Property - Liability Program</u></b>	<b><u>Workers' Compensation Program</u></b>	<b><u>Total</u></b>
Cash flows from operating activities			
Member contributions collected	\$ 12,371,697	\$ 7,107,995	\$ 19,479,692
Member contributions ceded to reinsurer	(2,834,250)	(1,012,383)	(3,846,633)
Claims paid	(7,030,589)	(6,305,726)	(13,336,315)
Salaries, payroll taxes, and benefits paid	(2,018,514)	(239,861)	(2,258,375)
Loss prevention and other expenses paid	<u>(1,314,237)</u>	<u>(1,578,241)</u>	<u>(2,892,478)</u>
Net cash used by operating activities	<u>(825,893)</u>	<u>(2,028,216)</u>	<u>(2,854,109)</u>
Cash flows from investing activities			
Proceeds received from the sale of investments	6,134,177	1,342,830	7,477,007
Cash payments for the purchase of investments	(6,048,367)	(1,407,843)	(7,456,210)
Interest and dividends on investment securities	1,078,888	288,190	1,367,078
Purchase of external investment pool	<u>(1,983,849)</u>	<u>(2,002,863)</u>	<u>(3,986,712)</u>
Net cash used by investing activities	<u>(819,151)</u>	<u>(1,779,686)</u>	<u>(2,598,837)</u>
Cash flow from capital and related financing activities			
Acquisition of capital assets	<u>(45,686)</u>	<u>(179,744)</u>	<u>(225,430)</u>
Net cash used by financing activities	<u>(45,686)</u>	<u>(179,744)</u>	<u>(225,430)</u>
Cash flows from noncapital financing activities			
Cash received from other income	10,394	3,671	14,065
Contributions from Parent	-	3,834,506	3,834,506
Distributions to Parent	<u>(178,840)</u>	<u>(67,217)</u>	<u>(246,057)</u>
Net cash (used) provided by noncapital financing activities	<u>(168,446)</u>	<u>3,770,960</u>	<u>3,602,514</u>
Net decrease in cash and cash equivalents	(1,859,176)	(216,686)	(2,075,862)
Cash and cash equivalents at beginning of year	<u>3,655,874</u>	<u>5,424,418</u>	<u>9,080,292</u>
Cash and cash equivalents at end of year	<u>\$ 1,796,698</u>	<u>\$ 5,207,732</u>	<u>\$ 7,004,430</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, 2009**

	<b><u>Property - Liability Program</u></b>	<b><u>Workers' Compensation Program</u></b>	<b><u>Total</u></b>
Reconciliation of operating loss to net cash used by operating activities			
Operating loss	\$ (1,517,599)	\$ (5,837,703)	\$ (7,355,302)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation	52,057	3,770	55,827
(Increase) decrease in			
Contributions receivable	(30,257)	64,716	34,459
Claims recovery receivable	85,111	(29,291)	55,820
Due from/to affiliates	(5,175)	5,175	-
Prepaid expenses	(361,918)	(120)	(362,038)
Increase (decrease) in			
Claims reserves	849,998	2,240,866	3,090,864
Claims adjustment & administrative reserves	13,000	1,594,409	1,607,409
Accounts payable and accrued expenses	156,131	(422,910)	(266,779)
Due to Parent	(94,678)	-	(94,678)
Unearned contributions	<u>27,437</u>	<u>352,872</u>	<u>380,309</u>
Net cash used by operating activities	\$ <u>(825,893)</u>	\$ <u>(2,028,216)</u>	\$ <u>(2,854,109)</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 Enforce- ment Liability</u>	<u>Public Officials/ School Board Liability</u>	<u>Workers' Comp.</u>	<u>Unemploy- ment</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.)**  
**Reconciliation of Claims Liabilities by Type of Contract**  
**Year Ended December 31, 2008**

The schedule below presents the changes in claims liabilities for the year ended December 31, 2008:

	<u>Auto Liability</u>	<u>Auto Physical Damage</u>	<u>General Liability</u>	<u>Property and Other</u>	<u>Law Enforce- ment Liability</u>	<u>Public Officials/ School Board Liability</u>	<u>Workers' Comp.</u>	<u>Unemploy- ment</u>	<u>Total</u>
Claims reserves at beginning of year	\$ <u>1,594,000</u>	\$ <u>176,000</u>	\$ <u>3,169,000</u>	\$ <u>1,044,000</u>	\$ <u>661,000</u>	\$ <u>2,957,000</u>	\$ <u>7,577,000</u>	\$ <u>131,602</u>	\$ <u>17,309,602</u>
Incurred claims and claim adjustment expenses									
Provision for covered events of current fiscal year	1,170,000	852,000	1,319,000	2,515,000	971,000	1,776,000	7,596,000	369,159	16,568,159
(Decreases) increases in provision for covered events of prior fiscal years	<u>10,000</u>	<u>(42,000)</u>	<u>(507,000)</u>	<u>335,528</u>	<u>108,000</u>	<u>546,000</u>	<u>(2,615,553)</u>	<u>(87,705)</u>	<u>(2,252,730)</u>
Total incurred claims and claim adjustment expenses	<u>1,180,000</u>	<u>810,000</u>	<u>812,000</u>	<u>2,850,528</u>	<u>1,079,000</u>	<u>2,322,000</u>	<u>4,980,447</u>	<u>281,454</u>	<u>14,315,429</u>
Payments									
Claims and claim adjustment expenses attributable to covered events of current fiscal year	(500,000)	(947,000)	(263,000)	(1,831,000)	(116,000)	(432,000)	(2,192,000)	(164,609)	(6,445,609)
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	<u>(698,000)</u>	<u>37,000</u>	<u>(816,000)</u>	<u>(575,528)</u>	<u>(244,000)</u>	<u>1,064,000</u>	<u>(1,694,447)</u>	<u>(43,898)</u>	<u>(5,098,873)</u>
Total payments	<u>(1,198,000)</u>	<u>(910,000)</u>	<u>(1,079,000)</u>	<u>(2,406,528)</u>	<u>(360,000)</u>	<u>1,496,000</u>	<u>(3,886,447)</u>	<u>(208,507)</u>	<u>(11,544,482)</u>
Total claims reserves at end 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>

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

**Ten-Year Claims Development Information**

**December 31, 2009**

The following ten-year claims development information 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 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, 2009

### Fiscal and Policy Year Ended

	<u>1999-2000</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>	July 2009 to <u>Dec 2009</u>
1. Required contribution and investment revenue											
Earned	\$ 7,914,935	\$ 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	\$ 7,689,285
Ceded	<u>939,924</u>	<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>1,366,243</u>
Net earned	6,975,011	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	6,323,042
2. Unallocated expenses	1,815,961	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	1,836,536
3. Estimated claims and expenses, end of policy year											
Incurred	5,905,980	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	4,003,599
Ceded	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net incurred	5,905,980	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	4,003,599
4. Net paid (cumulative) as of											
End of policy year	1,532,250	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	625,599
One year later	2,850,467	4,515,425	3,581,433	3,643,378	3,959,286	4,762,000	4,702,156	5,029,212	5,619,341	-	-
Two years later	3,472,941	5,401,907	4,686,544	4,294,143	4,908,000	5,481,512	5,487,633	6,259,203	-	-	-
Three years later	3,723,898	6,065,629	5,517,619	4,330,000	5,321,198	5,716,118	6,270,837	-	-	-	-
Four years later	3,874,604	6,122,648	5,572,000	4,332,448	5,656,497	5,905,419	-	-	-	-	-
Five years later	3,871,779	6,121,000	5,572,351	4,336,261	5,672,355	-	-	-	-	-	-
Six years later	3,872,000	6,125,178	5,572,351	4,340,812	-	-	-	-	-	-	-
Seven years later	3,871,664	6,126,869	5,570,779	-	-	-	-	-	-	-	-
Eight years later	3,871,664	6,126,869	-	-	-	-	-	-	-	-	-
Nine years later	3,872,688	-	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	-	-	-	-	-	-	-	-	-	-	-
6. Reestimated net incurred claims and expenses:											
End of policy year	5,905,980	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	4,003,599
One year later	5,329,906	7,380,831	5,887,958	8,028,024	6,109,636	6,439,000	6,766,000	7,263,000	8,064,341	-	-
Two years later	4,520,376	7,052,021	5,636,048	4,742,328	5,752,000	6,226,000	6,672,889	7,273,203	-	-	-
Three years later	4,107,778	6,257,336	5,724,289	4,399,000	5,728,000	6,056,000	6,969,837	-	-	-	-
Four years later	3,885,719	6,138,861	5,613,000	4,419,000	5,729,000	5,977,419	-	-	-	-	-
Five years later	3,886,503	6,130,000	5,577,000	4,401,000	5,690,355	-	-	-	-	-	-
Six years later	3,872,000	6,136,000	5,572,000	4,356,812	-	-	-	-	-	-	-
Seven years later	3,872,000	6,133,000	5,570,779	-	-	-	-	-	-	-	-
Eight years later	3,875,000	6,127,869	-	-	-	-	-	-	-	-	-
Nine years later	3,875,688	-	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	\$ (2,030,292)	\$ (1,351,396)	\$ (288,982)	\$ (1,678,263)	\$ (195,028)	\$ (941,600)	\$ (981,163)	\$ 744,203	\$ 202,341	\$ -	\$ -

# 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, 2009

		<u>Fiscal and Policy Year Ended</u>									
		<u>2000</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>
1.	Required contribution and investment revenue										
	Earned	\$ 304,685	\$ 805,973	\$ 759,437	\$ 857,716	\$ 911,394	\$ 2,067,857	\$ 3,239,993	\$ 4,052,196	\$ 5,805,466	\$ 6,841,623
	Ceded	68,064	132,177	247,543	166,441	200,917	613,698	429,158	650,451	780,199	886,913
	Net earned	236,621	673,796	511,894	691,275	710,477	1,454,159	2,810,835	3,401,745	5,025,267	5,954,710
2.	Unallocated expenses	22,450	103,619	118,269	103,778	344,970	516,813	895,435	928,625	1,458,437	3,123,896
3.	Estimated claims and expenses, end of policy year										
	Incurred	270,000	530,000	735,000	840,000	900,000	3,884,590	6,138,257	5,520,887	7,965,159	9,238,000
	Ceded	-	-	-	-	-	-	-	-	-	-
	Net incurred	270,000	530,000	735,000	840,000	900,000	3,884,590	6,138,257	5,520,887	7,965,159	9,238,000
4.	Net paid (cumulative) as of										
	End of policy year	78,282	128,739	206,576	198,327	244,106	70,856	1,169,369	1,101,434	2,356,609	2,913,806
	One year later	141,917	211,476	386,389	401,449	417,506	16,940,330	2,623,859	2,013,746	4,982,830	-
	Two years later	178,157	290,255	540,850	491,702	623,224	2,097,467	3,228,138	2,429,229	-	-
	Three years later	214,965	318,567	661,122	542,367	597,217	2,312,093	3,541,999	-	-	-
	Four years later	341,465	367,905	630,141	495,168	597,543	2,313,259	-	-	-	-
	Five years later	343,409	402,157	626,829	497,271	597,543	-	-	-	-	-
	Six years later	344,312	401,002	629,390	497,271	-	-	-	-	-	-
	Seven years later	345,345	401,002	634,000	-	-	-	-	-	-	-
	Eight years later	347,485	401,002	-	-	-	-	-	-	-	-
	Nine years later	348,776	-	-	-	-	-	-	-	-	-
5.	Reestimated ceded claims and expenses	-	-	-	-	-	92,000	-	-	-	-
6.	Reestimated net incurred claims and expenses										
	End of policy year	270,000	530,000	735,000	840,000	900,000	3,884,590	6,138,257	5,520,795	7,965,159	9,238,000
	One year later	290,000	465,000	788,737	795,000	837,999	3,421,684	5,219,284	3,879,799	8,358,924	-
	Two years later	285,000	420,000	900,000	773,000	768,566	2,815,000	4,281,284	3,254,229	-	-
	Three years later	410,000	420,000	725,911	778,003	597,000	2,622,092	3,980,999	-	-	-
	Four years later	415,000	462,471	644,586	561,000	597,543	2,447,476	-	-	-	-
	Five years later	384,071	402,155	627,000	497,271	597,543	-	-	-	-	-
	Six years later	344,000	401,000	667,000	497,271	-	-	-	-	-	-
	Seven years later	345,000	401,002	660,000	-	-	-	-	-	-	-
	Eight years later	347,000	401,002	-	-	-	-	-	-	-	-
	Nine years later	363,776	-	-	-	-	-	-	-	-	-
7.	Increase (reduction) in estimated net incurred claims and expenses from end of policy year	\$ 93,776	\$ (128,998)	\$ (75,000)	\$ (342,729)	\$ (302,457)	\$ (1,437,114)	\$ (2,157,258)	\$ (2,266,566)	\$ 393,765	\$ -



**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***

Board of Directors of Local Government Center, Inc., a 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 (a wholly-owned subsidiary of Local Government Center, Inc.) (Property-Liability Trust) as of and for the year ended December 31, 2009 and have issued our report thereon dated June 18, 2010. 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*.

We noted certain matters that we reported to management of Property-Liability Trust in a separate letter dated June 18, 2010.

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.



Manchester, New Hampshire  
June 18, 2010