



LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

December 31, 2010 and 2009

With Independent Auditors' Report

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Local Government Center, Inc. and Subsidiaries

We have audited the consolidated statements of financial position of Local Government Center, Inc. and Subsidiaries (LGC) as of December 31, 2010 and 2009 and the related consolidated statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of LGC's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Local Government Center, Inc. and Subsidiaries as of December 31, 2010 and 2009 and the consolidated changes in their net assets and their consolidated cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2011 on our consideration of LGC'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.

Management has omitted management's discussion and analysis, the reconciliation of claims liabilities by type of contract, and the ten-year claims development information that U.S. generally accepted accounting principles require to be presented to supplement the basic consolidated financial statements. Such missing information, although not part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic consolidated financial statements is not affected by this missing information.

U.S. generally accepted accounting principles require that the historical pension information on page 24 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information, included in pages 25 through 28, is presented for the purposes of additional analysis of the consolidated financial statements, rather than to present the financial position, changes in net assets or cash flows of the individual organizations. The supplementary information has been subjected to the audit procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
June 15, 2011

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Position

December 31, 2010 and 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Current assets		
Cash and cash equivalents	\$ 58,010,109	\$ 49,672,385
Investment securities	78,553,772	85,573,684
Investment in external investment pool	14,308,220	12,529,721
Contributions receivable	5,794,704	5,319,380
Accounts receivable	4,722,603	3,863,680
Other receivable	2,000,000	-
Claims recovery receivable	44,117	46,458
Accrued interest receivable	513,388	578,227
Prepaid expenses and deposits	<u>2,169,785</u>	<u>1,581,373</u>
Total current assets	166,116,698	159,164,908
Property and equipment, net	10,923,589	11,410,696
Restricted cash	1,000,000	1,000,000
Deposits	<u>1,407,738</u>	<u>1,407,738</u>
Total assets	<u>\$179,448,025</u>	<u>\$172,983,342</u>

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

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current liabilities		
Claims payable	\$ 11,437,311	\$ 11,372,830
Claims reserves	44,474,500	46,756,522
Claims adjustment and administrative reserves	3,414,328	3,284,409
Accounts payable and accrued expenses	4,477,817	3,649,010
Deposits held	261,865	883,110
Unearned contributions	9,136,205	8,448,389
Defined benefit obligation	<u>77,342</u>	<u>23,652</u>
Total current liabilities and total liabilities	<u>73,279,368</u>	<u>74,417,922</u>
Commitments and contingencies (Notes 13, 14, 15, 17 and 19)		
Net assets (deficit)		
Unrestricted	(527,826)	(292,964)
Board designated	93,722,100	87,224,764
Restricted	214,799	254,513
Unrealized gain (loss) on investment securities	1,867,956	(31,589)
Invested in capital assets	<u>10,891,628</u>	<u>11,410,696</u>
Total net assets	<u>106,168,657</u>	<u>98,565,420</u>
Total liabilities and net assets	<u>\$179,448,025</u>	<u>\$172,983,342</u>

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Consolidated Statements of Revenues, Expenses, and Changes in Net Assets

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues		
Member contributions earned	\$ 415,456,918	\$ 389,030,884
Member contributions ceded	(5,275,020)	(5,538,079)
Self-funded plus program - net	(76,158)	(54,339)
Rent	11,415	13,490
Other revenue	<u>263,727</u>	<u>343,985</u>
Total net operating revenues	<u>410,380,882</u>	<u>383,795,941</u>
Operating expenses		
Claims incurred	372,358,462	369,314,907
Administrative fees	13,727,049	14,572,592
Other expenses	<u>22,691,321</u>	<u>22,621,081</u>
Total operating expenses	<u>408,776,832</u>	<u>406,508,580</u>
Operating income (loss)	1,604,050	(22,712,639)
Nonoperating income		
Investment income	3,978,057	3,724,764
Net increase in fair value of investment securities	1,899,546	4,264,781
Other income	<u>121,584</u>	<u>104,798</u>
Increase (decrease) in net assets	7,603,237	(14,618,296)
Net assets, beginning of year	<u>98,565,420</u>	<u>113,183,716</u>
Net assets, end of year	<u>\$ 106,168,657</u>	<u>\$ 98,565,420</u>

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

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Member contributions collected	\$ 415,634,471	\$ 389,898,450
Member contributions ceded to reinsurer	(6,065,618)	(6,028,890)
Restricted contributions received	13,114	107,722
Rental income collected	11,415	13,490
Other revenue received	220,626	206,761
Employee and other expenses paid	(35,217,125)	(34,982,399)
Claims paid	(374,953,603)	(363,841,094)
Loss prevention expenses paid	(1,763,446)	(2,892,478)
Net cash (used) provided by self-funded plus program	<u>(235,088)</u>	<u>270,618</u>
Net cash used by operating activities	<u>(2,355,254)</u>	<u>(17,247,820)</u>
Cash flows from investing activities		
Proceeds from the sale of investment securities	66,221,260	85,100,972
Interest and dividends on investment securities	3,179,799	3,768,952
Purchase of external investment pool	(1,778,499)	(9,494,039)
Purchase of investment securities	<u>(56,438,705)</u>	<u>(75,574,834)</u>
Net cash provided by investing activities	<u>11,183,855</u>	<u>3,801,051</u>
Cash flows from capital and related financing activities		
Payment for construction of building and acquisition of capital assets	<u>(612,461)</u>	<u>(3,613,959)</u>
Cash flows from noncapital financing activities		
Cash received from other income	<u>121,584</u>	<u>104,798</u>
Net increase (decrease) in cash and cash equivalents	8,337,724	(16,955,930)
Cash and cash equivalents, beginning of year	<u>49,672,385</u>	<u>66,628,315</u>
Cash and cash equivalents, end of year	<u>\$ 58,010,109</u>	<u>\$ 49,672,385</u>

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

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Concluded)

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating income (loss) to net cash used by operating activities		
Operating income (loss)	\$ 1,604,050	\$ (22,712,639)
Adjustments to reconcile operating income (loss) to net cash used by operating activities		
Depreciation and amortization	1,131,529	558,684
(Increase) decrease in		
Contributions receivable	(511,024)	659,811
Accounts receivable	(823,223)	666,390
Other receivable	(2,000,000)	-
Claims recovery receivable	2,341	55,820
Prepaid expenses and deposits	(588,412)	(142,287)
Increase (decrease) in		
Claims payable	64,481	1,670,003
Claims reserves	(2,282,022)	3,780,024
Claims adjustment reserves	129,919	1,607,409
Deposits held	(621,245)	(193,640)
Accounts payable and accrued expenses	796,846	(3,383,241)
Unearned contributions	687,816	162,194
Defined benefit obligation	<u>53,690</u>	<u>23,652</u>
Net cash used by operating activities	\$ <u>(2,355,254)</u>	\$ <u>(17,247,820)</u>

Supplemental disclosure of non-cash capital financing activities

Supplemental disclosure of non-cash activities		
Cost of construction of building and acquisition of equipment	\$ 644,422	\$ 3,521,289
Less: Cost of construction of building and acquisition of equipment included in accounts payable, trade at year-end	(31,961)	-
Plus: Payment of short-term trade accounts payable at beginning of year used to finance construction of building	<u>-</u>	<u>92,670</u>
Payment for construction of building and acquisition of equipment	\$ <u>612,461</u>	\$ <u>3,613,959</u>

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

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Nature of Operations

Local Government Center, Inc. (LGC) oversees the operations of its subsidiaries: Local Government Center HealthTrust, LLC (HealthTrust); Local Government Center Property-Liability Trust, LLC (Property-Liability Trust); New Hampshire Municipal Association, LLC (NHMA); and Local Government Center Real Estate, Inc. (Real Estate). LGC provides various programs and services to its members, who are governments and municipalities of the State of New Hampshire. Such programs are designed to serve the members by being a catalyst for dialogue and action, an advocate on issues, an advisor on programs, a provider of benefits and risk management services, an educator and trainer in skills, and a resource for information.

HealthTrust provides health coverage and related benefits to its members. Property-Liability Trust provides property-liability and workers' compensation coverage and risk management services to its members. NHMA's services include providing information and technical advice on municipal problems and issues, including legislative policy development and advocacy. Real Estate leases real estate to LGC and its subsidiaries and a third party.

As of December 31, 2010 and 2009, membership in the property and liability risk management component of Property-Liability Trust amounted to 360 and 361, respectively. As of December 31, 2010 and 2009, membership in the workers' compensation component amounted to 226 and 229, respectively. HealthTrust's membership by product at December 31, 2010 and 2009 was as follows:

	<u>2010</u>	<u>2009</u>
Medical	57,074	61,717
Dental	58,758	54,144
Life	7,785	8,128
Short-term disability	2,859	2,912
Long-term disability	4,303	4,250

1. Summary of Significant Accounting Policies

Basis of Presentation

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

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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," LGC 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.

Principles of Consolidation

The consolidated financial statements include the accounts of LGC and its wholly-owned subsidiaries. Significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

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

Cash Equivalents

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

Investment Securities

Investment securities consist of U.S. Government Sponsored Enterprise Securities, U.S. Treasury notes, corporate notes and municipal obligations, certificates of deposit, and mutual funds. 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

HealthTrust and Property-Liability Trust maintain an equity position in an external investment pool sponsored by a government entity, which is carried at fair value. Fair value is determined by each entity's proportionate share of the total fair value of the underlying investment pool's 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. Accounts and contributions receivable are stated at the amount management expects to collect from outstanding balances. Management considers all accounts and contributions receivable to be collectible; accordingly, an allowance for doubtful accounts has not been provided.

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Reinsurance

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

Property and Equipment

Property and 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.

Property and equipment is depreciated using primarily the straight-line method over the following useful lives:

	<u>Estimated Useful Lives (Years)</u>
Land improvements	15
Buildings and building improvements	31-40
Computer equipment	3-5
Office equipment	3-5
Vehicles	3

Claims Reserves

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

Income Taxes

The income of LGC is exempt from federal and state income taxes under provisions of the Internal Revenue Code and State Statutes.

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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, underwriting and claims payment services, administrative expenses and depreciation of capital assets. Other income and expenses are classified as nonoperating in the financial statements.

Restricted Net Assets

Restricted net assets consists of cash received from members whose use is restricted to purposes stipulated by the members of NHMA. The primary purpose of the restricted net assets at December 31, 2010 and 2009 is legal advocacy activities.

2. Cash and Cash Equivalents

The Company maintains its cash in bank deposits and cash management accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 as of December 31, 2010 and 2009, or collateralized with securities held in joint custody with the bank. As of December 31, 2010 and 2009, the bank balance of cash held, in total, in excess of the FDIC limit was approximately \$57,000,000 and \$49,500,000, respectively. The balance is collateralized with securities held in joint custody with the bank.

3. Investment Securities

Investment securities insured or registered consist of:

	2010			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government Sponsored				
Enterprise Securities	\$ 26,981,320	\$ 401,474	\$ (272,008)	\$ 27,110,786
U.S. Treasury Notes	11,005,035	231,171	(31,243)	11,204,963
Corporate Notes	24,017,397	1,486,851	(152,754)	25,351,494
Municipal Obligations	4,376,903	174,988	(108,218)	4,443,673
Mutual Funds	<u>10,305,161</u>	<u>137,695</u>	<u>-</u>	<u>10,442,856</u>
Total	<u>\$ 76,685,816</u>	<u>\$ 2,432,179</u>	<u>\$ (564,223)</u>	<u>\$ 78,553,772</u>

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

	2009			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government Sponsored				
Enterprise Securities	\$ 20,204,347	\$ 720,334	\$ (77,405)	\$ 20,847,276
U.S. Treasury Notes	12,470,680	197,397	(55,634)	12,612,443
Corporate Notes	29,137,832	984,025	(695,162)	29,426,695
Municipal Obligations	1,459,372	26,868	(6,205)	1,480,035
Certificates of Deposit	12,027,881	-	-	12,027,881
Mutual Funds	<u>10,305,161</u>	<u>-</u>	<u>(1,125,807)</u>	<u>9,179,354</u>
 Total	 <u>\$ 85,605,273</u>	 <u>\$ 1,928,624</u>	 <u>\$ (1,960,213)</u>	 <u>\$ 85,573,684</u>

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

	<u>2010</u>	<u>2009</u>
Vanguard 500 Index Fund	\$ 7,644,692	\$ 6,777,838
.25% Certificate of Deposit, due June 1, 2010	N/A	\$ 7,018,913
.25% Certificate of Deposit, due May 3, 2010	N/A	\$ 5,008,968

During 2010 and 2009, LGC realized a net gain of \$1,117,688 and \$226,632, 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 investment securities. Realized gains and losses on investment securities 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 investment securities reported in the prior year.

Custodial Credit Risk

Custodial credit risk for the certificates 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, 2009, the amount of certificates of deposit held subject to custodial credit risk was approximately \$12,000,000. These amounts were collateralized with securities held in joint custody with the bank. As of December 31, 2010, LGC did not have any certificates of deposit subject to custodial risk.

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

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. LGC 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 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, 2010 and 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<u>Maturity Dates</u>	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Not applicable	\$ 10,305,161	\$ 10,442,856	\$ 10,305,161	\$ 9,179,354
Within 1 year	3,042,733	3,092,672	17,151,733	17,260,349
1-5 years	26,783,077	27,539,476	29,317,288	30,148,095
5-10 years	12,305,674	12,946,649	12,011,209	12,382,111
10 + years	<u>24,249,171</u>	<u>24,532,119</u>	<u>16,819,882</u>	<u>16,603,775</u>
Total	\$ <u>76,685,816</u>	\$ <u>78,553,772</u>	\$ <u>85,605,273</u>	\$ <u>85,573,684</u>

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Credit Risk

LGC's investment policy mitigates credit risk by limiting investments to the safest types of securities and diversifying the portfolio. As of December 31, 2010, LGC'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	\$ 1,889,356
Corporate Notes	A2	Moody's	1,407,664
Corporate Notes	A3	Moody's	4,288,524
Corporate Notes	Aa1	Moody's	1,744,836
Corporate Notes	Aa2	Moody's	376,489
Corporate Notes	Aa3	Moody's	1,963,277
Corporate Notes	Aaa	Moody's/S&P	7,918,760
Corporate Notes	Ba2	Moody's	373,546
Corporate Notes	Ba3	Moody's	93,757
Corporate Notes	Baa1	Moody's	1,480,407
Corporate Notes	Baa2	Moody's	2,252,997
Corporate Notes	Baa3	Moody's	1,561,881
Municipal Obligations	A1	Moody's	973,074
Municipal Obligations	A2	Moody's	203,688
Municipal Obligations	A3	Moody's	124,187
Municipal Obligations	Aa1	Moody's	159,203
Municipal Obligations	Aa2	Moody's	770,504
Municipal Obligations	Aa3	Moody's	983,932
Municipal Obligations	Aaa	Moody's	607,972
Municipal Obligations	Baa2	Moody's	621,113
Mutual Funds	3 stars	Morningstar	10,442,856
U.S. Treasury Notes	Aaa	Moody's	11,204,963
U.S. Government Sponsored Enterprises:			
Federal National Mortgage Association	Aaa	Moody's	18,553,315
Government National Mortgage Association	Aaa	Moody's	1,389,079
Federal Home Loan Mortgage Corporation	Aaa	Moody's	3,818,222
Other Agencies	Aaa	Moody's	<u>3,350,170</u>
Total			<u>\$ 78,553,772</u>

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

4. Investment in External Investment Pool

The investment in external investment pool represents HealthTrust's and 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.

5. Other Receivable

HealthTrust has contracted with certain of its members to provide them with assistance in applying to the Centers for Medicare and Medicaid Services (CMS) for Medicare Part D subsidy funds in connection with retiree prescription drug plans. In order to receive the Medicare Part D subsidy, HealthTrust is required to file an application within a specified deadline. In prior years, CMS did not strictly enforce the filing deadline. A change in enforcement policy at CMS resulted in the denial of certain members' subsidy applications for the plan year ended June 30, 2009 on the basis that the application was filed a few days after the filing deadline. During 2009, HealthTrust reimbursed members for the amount of the subsidy of approximately \$2 million.

HealthTrust appealed the denial of the subsidy reimbursement by CMS. On December 22, 2010, CMS issued its final decision on this matter, granting an extension for the late filing of the supporting documentation. As a result of the appeal being granted, the members will receive approximately \$2,000,000. After the initial denial HealthTrust paid the members the amount denied by CMS. Thus, once the members receive payment from CMS the members are required to reimburse HealthTrust.

6. Restricted Cash

Restricted cash represents funds set aside by Property-Liability Trust, 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.

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

7. Property and Equipment

Property and equipment consists of the following:

	<u>Year Ended December 31, 2010</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Land and land improvements	\$ 2,272,989	\$ -	\$ -	\$ 2,272,989
Buildings and building improvements	7,316,614	2,590	-	7,319,204
Computer equipment	4,216,089	594,059	-	4,810,148
Office equipment	603,220	47,773	-	650,993
Vehicles	<u>58,227</u>	<u>-</u>	<u>(32,537)</u>	<u>25,690</u>
	14,467,139	644,422	(32,537)	15,079,024
Less accumulated depreciation	<u>3,056,443</u>	<u>1,131,529</u>	<u>(32,537)</u>	<u>4,155,435</u>
	<u>\$11,410,696</u>	<u>\$ (487,107)</u>	<u>\$ -</u>	<u>\$10,923,589</u>

	<u>Year Ended December 31, 2009</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Land and land improvements	\$ 2,269,747	\$ 3,242	\$ -	\$ 2,272,989
Buildings and building improvements	5,242,800	2,073,814	-	7,316,614
Computer equipment	2,893,485	1,322,604	-	4,216,089
Office equipment	481,591	121,629	-	603,220
Vehicles	<u>78,502</u>	<u>-</u>	<u>(20,275)</u>	<u>58,227</u>
	10,966,125	3,521,289	(20,275)	14,467,139
Less accumulated depreciation	<u>2,518,034</u>	<u>558,684</u>	<u>(20,275)</u>	<u>3,056,443</u>
	<u>\$ 8,448,091</u>	<u>\$ 2,962,605</u>	<u>\$ -</u>	<u>\$11,410,696</u>

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. LGC determined that there were no premium deficiencies for any of the programs of HealthTrust and Property-Liability Trust at December 31, 2010 and 2009, respectively.

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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. Due to the level of net assets at the end of 2007, the LGC Board of Directors decided to adjust rates to return undesignated net assets to members over an anticipated three-year period. During 2009 and 2010, rates included an amount of undesignated net assets as a rate credit. The amount of the return is adjusted based on the balance in unrestricted net assets at each year-end.

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

9. Board Designated Net Assets

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

	<u>2010</u>	<u>2009</u>
Pool risk management reserves for HealthTrust and Property-Liability Trust	\$ 93,222,100	\$ 78,492,313
Administrative needs for HealthTrust	<u>500,000</u>	<u>8,732,451</u>
	<u>\$ 93,722,100</u>	<u>\$ 87,224,764</u>

10. Self-Funded Plus Program

HealthTrust provides a claim servicing pool arrangement to certain participating members where separate accounts are maintained for each member from which losses are paid. Members are assessed fees by HealthTrust for the claims administrative services provided. The net activity from the program is recorded as part of operating revenues in the statement of revenues, expenses, and changes in net assets.

11. Exemption from Statutory Accounting Practices

LGC and its pooled risk management programs 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, LGC is not considered an insurer under the laws of the State, and administration of the activities of LGC shall not constitute conducting an insurance business for purposes of regulation or taxation. At December 31, 2010, Statements of Statutory Accounting Practices as promulgated by the National Association of Insurance Commissioners are not applicable to LGC.

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

12. Claims Reserves

LGC 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 LGC during the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Claims reserves at beginning of year	\$ <u>46,756,522</u>	\$ <u>42,976,498</u>
Incurred claims and claim adjustment expenses		
Provision for covered events of current year	381,094,898	377,311,644
Adjustments to provision for covered events of prior years	<u>(8,736,436)</u>	<u>(7,996,737)</u>
Total incurred claims and claim adjustment expenses	<u>372,358,462</u>	<u>369,314,907</u>
Payments of claims and claims adjustment expenses		
Payments attributable to covered events of current year	(350,458,864)	(343,161,381)
Payments attributable to covered events of prior years	<u>(24,181,620)</u>	<u>(22,373,502)</u>
Total payments	<u>(374,640,484)</u>	<u>(365,534,883)</u>
Total claims reserves at end of year	\$ <u>44,474,500</u>	\$ <u>46,756,522</u>

Incurred claims and claim adjustment expenses included in claims payable in the statements of financial position as of December 31, 2010 and 2009 are considered to have been paid for purpose of the claims reserves reconciliation as of and for the years ended December 31, 2010 and 2009.

13. Reinsurance

LGC 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 LGC from its obligations to participating members. Failure of reinsurers to honor their obligations could result in losses to LGC; consequently, allowances are established for amounts deemed uncollectible. LGC 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 minimize its exposure to significant losses from reinsurer insolvencies.

Effective July 1, 2010, LGC HealthTrust eliminated the purchase of reinsurance.

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

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

14. Leasing Arrangements

LGC leases automobiles under noncancellable operating leases expiring through December 2012. The future minimum lease payments required under the leases are as follows:

2011	\$ 41,453
2012	<u>22,112</u>
	\$ <u>63,565</u>

Rent expense under these leases was approximately \$44,000 and \$81,000 for the years ended December 31, 2010 and 2009, respectively.

15. Description of Rent Agreements

Real Estate entered into a rent agreement with a third-party tenant (tenant A) during 2004. The initial term of the rent agreement is for a period of ten years, expiring on December 31, 2014. Beginning in April 2005, Real Estate provides office space to another third-party tenant at no charge for an initial term of ten years. The estimated fair value of the office space leased is approximately \$9,775 per year. The following is a schedule of future minimum lease payments to be received under the rent agreement with tenant A:

2011	\$ 12,452
2012	12,452
2012	12,452
2014	<u>12,452</u>
	\$ <u>49,808</u>

Rent income under the lease with tenant A totaled \$11,415 for 2010 and \$13,490 for 2009.

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

16. Deferred Compensation Plan

The employees of LGC are covered by a Section 457 Deferred Compensation Plan administered by ICMA Retirement Corporation. All full-time employees are immediately eligible to participate in the plan and may elect to defer up to 100% of their gross compensation up to the federal limits. Employee contributions totaled \$268,610 and \$265,318 for the years ended December 31, 2010 and 2009, respectively. There were no employer contributions in 2010 and 2009.

17. Defined Benefit Pension Plan

Effective January 1, 2007, LGC established the New Hampshire Local Government Center Defined Benefit Pension Plan (the Plan), a single employer plan. The LGC Board of Directors assigns the authority to establish, amend or terminate the Plan and its provisions at any time. The LGC Board of Directors also established a Retirement Committee to govern and administer the Plan. The Retirement Committee shall serve as the Plan Administrator to the Plan and shall have discretionary authority to interpret the terms of the Plan and its decisions regarding administration, interpretation, and application. All active employees of LGC are required to participate in the Plan as a condition of employment. The plan provides a monthly benefit when a Plan participant retires or leaves LGC after qualifying for benefits.

The contribution requirements of plan members and the LGC are established and may be amended by the LGC Board of Directors. A participant's benefit is determined under a formula that multiplies the participant's average monthly pay by her/his credited service with LGC. The formula is 1.50% of the final average salary (defined as the highest average of 3 Plan year's base salary out of the last 10 years prior to retirement or termination) for each year of credited service not to exceed 50% of the participant's average salary. If a participant chooses early retirement, the benefit will be reduced by 0.25% for each month prior to his normal retirement date. If a participant remains employed after age 65, benefits will continue to accrue without any actuarial adjustment for late retirement. The Plan does not issue a stand-alone financial report.

Participants shall contribute 5% of their earnings to the Plan. LGC shall contribute to the Plan an amount determined by its Board of Directors. For the years ended December 31, 2010 and 2009, LGC contributed 7.25% of each participant's earnings to the Plan. The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Investments are reported at fair value based upon quoted market prices.

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

SCHEDULE OF PLAN NET ASSETS AS OF DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 108,576	\$ 47,030
Investments, at fair value	<u>6,057,087</u>	<u>4,855,323</u>
Net assets held in trust for pension benefits	\$ <u>6,165,663</u>	\$ <u>4,902,353</u>

**SCHEDULE OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Contributions		
Employer	\$ 531,172	\$ 541,208
Plan members	<u>276,161</u>	<u>367,533</u>
Total contributions	<u>807,333</u>	<u>908,741</u>
Investment income		
Net realized and unrealized appreciation in fair value of investments	455,820	691,785
Interest	63,875	51,043
Dividends	52,372	40,387
Less investment fees	<u>(31,375)</u>	<u>(22,425)</u>
Net investment income	<u>540,692</u>	<u>760,790</u>
Benefits paid directly to participants	<u>(84,715)</u>	<u>(37,214)</u>
Net increase in net assets held in trust for pension benefits	1,263,310	1,632,317
Net assets held in trust for pension benefits, beginning of year	<u>4,902,353</u>	<u>3,270,036</u>
Net assets held in trust for pension benefits, end of year	\$ <u>6,165,663</u>	\$ <u>4,902,353</u>

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Changes in LGC's net pension obligation (asset) as of and for the years ended December 31, 2010 and 2009 were:

	<u>2010</u>	<u>2009</u>
Annual required contribution	\$ 601,853	\$ 604,737
Less contributions made	(531,172)	(541,208)
Interest on net pension obligation	<u>(16,991)</u>	<u>(17,312)</u>
Change in net pension obligation (asset)	53,690	46,217
Net pension obligation (asset), beginning of year	<u>23,652</u>	<u>(22,565)</u>
Net pension obligation, end of year	\$ <u>77,342</u>	\$ <u>23,652</u>

Trend information is as follows:

Plan year ended <u>December 31,</u>	Annual pension cost <u>(APC)</u>	Percentage of APC <u>contributed</u>	Net pension (asset) <u>obligation</u>
2008	\$ 439,136	108.7 %	\$ (22,565)
2009	587,425	92.1 %	23,652
2010	601,334	88.3 %	77,342

Additional information as of the latest actuarial valuation of January 1, 2010 is as follows:

Actuarial cost method	Aggregate actuarial cost method
	based on earnings
Asset valuation method	Market value
Actuarial assumptions	
Discount rate	6.5%
Section 417(e) interest rate	5.0%
Interest on employee contributions	4.0%
Projected salary increases	4.0%

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

The funded ratio measures the relationship between valuation assets and the actuarial accrued liability. Information regarding the Plan's funded ratio as of the most recent valuation date is as follows:

Actuarial accrued liability	\$ 7,295,708
Actuarial value of plan assets	<u>4,902,353</u>
Unfunded actuarial accrued liability	\$ <u>2,393,355</u>
Funded ratio	67.2 %
Annual covered payroll	7,416,540
Unfunded actuarial accrued liability to annual covered payroll	32.3 %

The Plan uses the aggregate actuarial cost method based on earnings. That actuarial method does not identify or separately amortize unfunded actuarial liabilities. As a result, the information about the funded status and funding progress of the Plan has been prepared using the entry age cost method. The purpose of providing the above disclosure is to provide information that serves as a surrogate for the funded status and funding progress of the Plan.

18. Risks and Uncertainties

LGC 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 reported amounts in the consolidated financial statements.

19. Contingencies

LGC assesses potential liabilities in connection with lawsuits and threatened lawsuits under Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*. LGC accrues an estimated loss for 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. LGC expenses legal costs as they are incurred. LGC is involved in legal proceedings arising in the ordinary course of business.

In March 2010, LGC and HealthTrust were named as parties in a lawsuit brought by the Professional Firefighters of New Hampshire demanding return of all excess earnings and surplus to participating local governments. On November 1, 2010, the New Hampshire Superior Court granted LGC's motion to dismiss the case. No appeal was taken of that decision, the suit has been dismissed and there is no liability to recognize as a result.

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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

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

20. Subsequent Events

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

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

SUPPLEMENTARY INFORMATION

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Required Supplemental Information - Historical Pension Information
(Unaudited)

December 31, 2010

Schedule of Funding Progress

Actuarial valuation <u>date</u>	Actuarial value of <u>assets</u>	Actuarial accrued <u>liability (AAL)</u>	Unfunded AAL <u>(UAAL)</u>	Funded <u>ratio</u>	Covered <u>payroll</u>	UAAL as a percentage of <u>covered payroll</u>
1/1/2009	\$ 3,270,036	\$ 6,043,626	\$ 2,773,590	54.1 %	\$ 6,950,180	39.9 %
1/1/2010	\$ 4,902,353	\$ 7,295,708	\$ 2,393,355	67.2 %	\$ 7,416,540	32.3 %

Schedule of Employer and Employee Contributions

Plan year ended <u>December 31,</u>	Annual required <u>contributions</u>	Employer <u>contributions</u>	Employee <u>contributions</u>	Percentage <u>contributed</u>
2007	\$ 1,834,087	\$ 1,804,815	\$ 1,424,859	98.4 %
2008	454,399	477,136	294,835	105.0 %
2009	604,737	541,208	367,533	89.5 %
2010	601,853	531,172	276,161	88.3 %

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Consolidating Statement of Financial Position

December 31, 2010

	<u>LGC, Inc.</u>	<u>Property- Liability Trust</u>	<u>HealthTrust</u>	<u>Real Estate</u>	<u>NHMA</u>	<u>Eliminations</u>	<u>Total</u>
Current assets							
Cash and cash equivalents	\$ 353,483	\$ 4,326,319	\$ 52,523,731	\$ 258,462	\$ 548,114	\$ -	\$ 58,010,109
Investment securities	-	32,661,532	45,892,240	-	-	-	78,553,772
Investment in external investment pool	-	8,359,622	5,948,598	-	-	-	14,308,220
Contributions receivable	-	428,343	5,366,361	-	-	-	5,794,704
Accounts receivable	64,150	-	4,658,453	-	-	-	4,722,603
Other receivable	-	-	2,000,000	-	-	-	2,000,000
Claims recovery receivable	-	44,117	-	-	-	-	44,117
Due from subsidiaries	304,659	-	-	-	-	(304,659)	-
Accrued interest receivable	-	227,454	285,934	-	-	-	513,388
Due from Parent	-	111,624	-	-	-	(111,624)	-
Prepaid expenses and deposits	<u>36,299</u>	<u>1,960,569</u>	<u>160,428</u>	<u>4,195</u>	<u>8,294</u>	<u>-</u>	<u>2,169,785</u>
Total current assets	758,591	48,119,580	116,835,745	262,657	556,408	(416,283)	166,116,698
Property and equipment, net	14,037	330,393	2,237,390	8,341,769	-	-	10,923,589
Restricted cash	-	1,000,000	-	-	-	-	1,000,000
Deposits	-	-	1,407,738	-	-	-	1,407,738
Investment in subsidiary	<u>9,023,215</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,023,215)</u>	<u>-</u>
Total assets	<u>\$ 9,795,843</u>	<u>\$ 49,449,973</u>	<u>\$ 120,480,873</u>	<u>\$ 8,604,426</u>	<u>\$ 556,408</u>	<u>\$ (9,439,498)</u>	<u>\$ 179,448,025</u>
Current liabilities							
Claims payable	\$ -	\$ -	\$ 11,437,311	\$ -	\$ -	\$ -	\$ 11,437,311
Claims reserves	-	24,872,158	19,602,342	-	-	-	44,474,500
Claims adjustment and administrative reserves	-	3,414,328	-	-	-	-	3,414,328
Accounts payable and accrued expenses	492,265	1,891,043	1,995,436	53,490	45,583	-	4,477,817
Deposits held	-	-	261,865	-	-	-	261,865
Unearned contributions	25,413	8,764,824	229,551	-	116,417	-	9,136,205
Defined benefit obligation	77,342	-	-	-	-	-	77,342
Due to Parent	<u>-</u>	<u>105,812</u>	<u>172,587</u>	<u>47,004</u>	<u>90,880</u>	<u>(416,283)</u>	<u>-</u>
Total current and total liabilities	<u>595,020</u>	<u>39,048,165</u>	<u>33,699,092</u>	<u>100,494</u>	<u>252,880</u>	<u>(416,283)</u>	<u>73,279,368</u>
Net assets (deficit)							
Unrestricted	9,186,786	-	(974,250)	194,124	88,729	(9,023,215)	(527,826)
Board designated	-	9,309,939	84,412,161	-	-	-	93,722,100
Restricted	-	-	-	-	214,799	-	214,799
Unrealized gain on investment securities	-	761,476	1,106,480	-	-	-	1,867,956
Invested in capital assets	<u>14,037</u>	<u>330,393</u>	<u>2,237,390</u>	<u>8,309,808</u>	<u>-</u>	<u>-</u>	<u>10,891,628</u>
Total net assets	<u>9,200,823</u>	<u>10,401,808</u>	<u>86,781,781</u>	<u>8,503,932</u>	<u>303,528</u>	<u>(9,023,215)</u>	<u>106,168,657</u>
Total liabilities and net assets	<u>\$ 9,795,843</u>	<u>\$ 49,449,973</u>	<u>\$ 120,480,873</u>	<u>\$ 8,604,426</u>	<u>\$ 556,408</u>	<u>\$ (9,439,498)</u>	<u>\$ 179,448,025</u>

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Consolidating Statement of Revenues, Expenses, and Changes in Net Assets

Year Ended December 31, 2010

	LGC, Inc.	Property- Liability Trust	HealthTrust	Real Estate	NHMA	Eliminations	Total
Operating revenues							
Member contributions earned	\$ 651,879	\$ 20,047,160	\$ 394,105,071	\$ -	\$ 652,808	\$ -	\$ 415,456,918
Member contributions ceded	-	(3,275,807)	(1,999,213)	-	-	-	(5,275,020)
Self-funded plus program - net	-	-	(76,158)	-	-	-	(76,158)
Rent	-	-	-	378,962	-	(367,547)	11,415
Other revenue	<u>29,987</u>	<u>-</u>	<u>213,893</u>	<u>6,733</u>	<u>13,114</u>	<u>-</u>	<u>263,727</u>
Total net operating revenues	<u>681,866</u>	<u>16,771,353</u>	<u>392,243,593</u>	<u>385,695</u>	<u>665,922</u>	<u>(367,547)</u>	<u>410,380,882</u>
Operating expenses							
Claims incurred	-	15,556,703	356,801,759	-	-	-	372,358,462
Administrative fees	-	23,451	13,703,598	-	-	-	13,727,049
Other expenses	<u>1,477,520</u>	<u>5,692,205</u>	<u>14,538,421</u>	<u>657,210</u>	<u>693,512</u>	<u>(367,547)</u>	<u>22,691,321</u>
Total operating expenses	<u>1,477,520</u>	<u>21,272,359</u>	<u>385,043,778</u>	<u>657,210</u>	<u>693,512</u>	<u>(367,547)</u>	<u>408,776,832</u>
Operating (loss) income	(795,654)	(4,501,006)	7,199,815	(271,515)	(27,590)	-	1,604,050
Nonoperating income and expenses							
Investment income	403	1,495,871	2,481,199	208	376	-	3,978,057
Net increase in fair value of investment securities	-	513,133	1,386,413	-	-	-	1,899,546
Loss from subsidiary	(271,307)	-	-	-	-	271,307	-
Other income	<u>-</u>	<u>14,115</u>	<u>107,469</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>121,584</u>
(Decrease) increase in net assets before contributions and distributions	(1,066,558)	(2,477,887)	11,174,896	(271,307)	(27,214)	271,307	7,603,237
Transfers to Subsidiary	(3,255,970)	3,255,970	-	-	-	-	-
Transfers to Parent	<u>4,096,682</u>	<u>(221,995)</u>	<u>(3,874,687)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(Decrease) increase in net assets	(225,846)	556,088	7,300,209	(271,307)	(27,214)	271,307	7,603,237
Net assets, beginning of year	<u>9,426,669</u>	<u>9,845,720</u>	<u>79,481,572</u>	<u>8,775,239</u>	<u>330,742</u>	<u>(9,294,522)</u>	<u>98,565,420</u>
Net assets, end of year	<u>\$ 9,200,823</u>	<u>\$ 10,401,808</u>	<u>\$ 86,781,781</u>	<u>\$ 8,503,932</u>	<u>\$ 303,528</u>	<u>\$ (9,023,215)</u>	<u>\$ 106,168,657</u>

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Consolidating Statement of Cash Flows

Year Ended December 31, 2010

	<u>LGC, Inc.</u>	<u>Property- Liability Trust</u>	<u>HealthTrust</u>	<u>Real Estate</u>	<u>NHMA</u>	<u>Eliminations</u>	<u>Total</u>
Cash flows from operating activities							
Member contributions collected	\$ 637,253	\$ 20,673,456	\$ 393,626,362	\$ -	\$ 697,400	\$ -	\$ 415,634,471
Member contributions ceded to reinsurer	-	(4,066,405)	(1,999,213)	-	-	-	(6,065,618)
Restricted contributions received	-	-	-	-	13,114	-	13,114
Rental income collected	-	-	-	378,962	-	(367,547)	11,415
Other revenue received	-	-	213,893	6,733	-	-	220,626
Employee and other expenses paid	(1,103,164)	(2,767,662)	(30,630,793)	(369,468)	(713,585)	367,547	(35,217,125)
Claims paid	-	(13,855,958)	(361,097,645)	-	-	-	(374,953,603)
Loss prevention expenses paid	-	(1,763,446)	-	-	-	-	(1,763,446)
Net cash used by self-funded plus program	<u>-</u>	<u>-</u>	<u>(235,088)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(235,088)</u>
 Net cash (used) provided by operating activities	 <u>(465,911)</u>	 <u>(1,780,015)</u>	 <u>(122,484)</u>	 <u>16,227</u>	 <u>(3,071)</u>	 <u>-</u>	 <u>(2,355,254)</u>
Cash flows from investing activities							
Proceeds from the sale of investment securities	-	18,574,553	47,646,707	-	-	-	66,221,260
Interest and dividends on investment securities	403	1,257,024	1,921,788	208	376	-	3,179,799
Purchase of external investment pool	-	(1,766,069)	(12,430)	-	-	-	(1,778,499)
Purchase of investment securities	<u>-</u>	<u>(21,904,440)</u>	<u>(34,534,265)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(56,438,705)</u>
 Net cash provided (used) by investing activities	 <u>403</u>	 <u>(3,838,932)</u>	 <u>15,021,800</u>	 <u>208</u>	 <u>376</u>	 <u>-</u>	 <u>11,183,855</u>
Cash flows from capital and related financing activities							
Payment for construction of building and acquisition of capital assets	<u>(13,427)</u>	<u>(212,064)</u>	<u>(306,547)</u>	<u>(80,423)</u>	<u>-</u>	<u>-</u>	<u>(612,461)</u>
Cash flows from noncapital financing activities							
Distributions to Parent	4,096,682	(221,995)	(3,874,687)	-	-	-	-
Cash received from other income	-	14,115	107,469	-	-	-	121,584
Contribution to net assets from Parent	<u>(3,360,780)</u>	<u>3,360,780</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Net cash provided (used) by noncapital financing activities	 <u>735,902</u>	 <u>3,152,900</u>	 <u>(3,767,218)</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>121,584</u>
 Net increase (decrease) in cash and cash equivalents	 256,967	 (2,678,111)	 10,825,551	 (63,988)	 (2,695)	 -	 8,337,724
Cash and cash equivalents, beginning of year	<u>96,516</u>	<u>7,004,430</u>	<u>41,698,180</u>	<u>322,450</u>	<u>550,809</u>	<u>-</u>	<u>49,672,385</u>
Cash and cash equivalents, end of year	<u>\$ 353,483</u>	<u>\$ 4,326,319</u>	<u>\$ 52,523,731</u>	<u>\$ 258,462</u>	<u>\$ 548,114</u>	<u>\$ -</u>	<u>\$ 58,010,109</u>

LOCAL GOVERNMENT CENTER, INC. AND SUBSIDIARIES

Consolidating Statement of Cash Flows (Concluded)

Year Ended December 31, 2010

	<u>LGC, Inc.</u>	<u>Property- Liability Trust</u>	<u>HealthTrust</u>	<u>Real Estate</u>	<u>NHMA</u>	<u>Eliminations</u>	<u>Total</u>
Reconciliation of operating (loss) income to net cash (used) provided by operating activities							
Operating (loss) income	\$ (795,654)	\$ (4,501,006)	\$ 7,199,815	\$ (271,515)	\$ (27,590)	\$ -	\$ 1,604,050
Adjustments to reconcile operating (loss) income to net cash (used) provided by operating activities							
Depreciation and amortization	7,554	139,322	702,498	281,622	533	-	1,131,529
(Increase) decrease in							
Contributions receivable	(35,700)	(12,948)	(462,376)	-	-	-	(511,024)
Accounts receivable	-	-	(823,223)	-	-	-	(823,223)
Other receivable	-	-	(2,000,000)	-	-	-	(2,000,000)
Claims recovery receivable	-	2,341	-	-	-	-	2,341
Prepaid expenses and deposits	(22,061)	(504,551)	(57,054)	(3,921)	(825)	-	(588,412)
Increase (decrease) in							
Claims payable	-	-	64,481	-	-	-	64,481
Claims reserves	-	1,700,745	(3,982,767)	-	-	-	(2,282,022)
Claims adjustment reserves	-	129,919	-	-	-	-	129,919
Deposits held	-	-	(621,245)	-	-	-	(621,245)
Accounts payable and accrued expenses	205,741	580,290	24,810	1,653	(15,648)	-	796,846
Unearned contributions	20,313	639,244	(16,333)	-	44,592	-	687,816
Defined benefit obligation	53,690	-	-	-	-	-	53,690
Due to Parent and affiliates	<u>100,206</u>	<u>46,629</u>	<u>(151,090)</u>	<u>8,388</u>	<u>(4,133)</u>	<u>-</u>	<u>-</u>
Net cash (used) provided by operating activities	<u>\$ (465,911)</u>	<u>\$ (1,780,015)</u>	<u>\$ (122,484)</u>	<u>\$ 16,227</u>	<u>\$ (3,071)</u>	<u>\$ -</u>	<u>\$ (2,355,254)</u>
Supplemental disclosure of non-cash capital financing activities							
Cost of construction of building and acquisition of equipment	\$ 13,427	\$ 212,064	\$ 306,547	\$ 112,384	\$ -	\$ -	\$ 644,422
Less: Cost of construction of building and acquisition of equipment included in accounts payable, trade at year-end	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,961)</u>	<u>-</u>	<u>-</u>	<u>(31,961)</u>
Payment for construction of building and acquisition of equipment	<u>\$ 13,427</u>	<u>\$ 212,064</u>	<u>\$ 306,547</u>	<u>\$ 80,423</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 612,461</u>

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

The Board of Directors
Local Government Center, Inc. and Subsidiaries

We have audited the consolidated financial statements of Local Government Center, Inc. and Subsidiaries (LGC) as of and for the year ended December 31, 2010 and have issued our report thereon dated June 15, 2011. That report contained an explanatory paragraph addressing the omission of required supplementary information, including management's discussion and analysis. 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 LGC'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 LGC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LGC'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 LGC'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 LGC's consolidated 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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
June 15, 2011