

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

**FINANCIAL STATEMENTS**

**AND**

**REQUIRED SUPPLEMENTARY INFORMATION**

**December 31, 2008 and 2007**

**With Independent Auditors' Report**

**LOCAL GOVERNMENT CENTER HEALTHTRUST, 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 HealthTrust, LLC  
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

We have audited the accompanying statements of financial position of Local Government Center HealthTrust, LLC (a wholly-owned subsidiary of Local Government Center, Inc.) (LGC HealthTrust) as of December 31, 2008 and 2007 and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of LGC HealthTrust'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 LGC HealthTrust as of December 31, 2008 and 2007, 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 July 6, 2009 on our consideration of LGC HealthTrust'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 20, reconciliation of claims liabilities by type of contract on pages 37 and 38, and nine-year claims development information on pages 39 and 40 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.

*Berry, Dunn, McNeil & Parker*

Manchester, New Hampshire  
July 6, 2009

**LOCAL GOVERNMENT CENTER HEALTHTRUST, LLC**  
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**Management's Discussion and Analysis**

**December 31, 2008**

**Overview:**

In 1984, Local Government Center (LGC) HealthTrust, LLC (LGC HealthTrust) was established to provide a full spectrum of employee benefits for local government units in New Hampshire that belong to the Local Government Center, Inc. (LGC or the Local Government Center). It operates under New Hampshire RSA 5 B. This statute and Local Government Center By-Laws permit all political subdivisions of the State of New Hampshire, and their instrumentalities, to participate in its programs.

LGC HealthTrust's mission is to provide the highest quality employee benefit products and service consistent with the lowest possible cost for public employers and employees in New Hampshire. LGC HealthTrust operates as a non-profit corporation, with its income not subject to federal income taxation under Internal Revenue Code Section 115. LGC HealthTrust believes that operating without profit seeking contributes to its ability to deliver products to public sector employers and employees at lower charges than might otherwise be obtained for comparable products. The Local Government Center, Inc. also formed the LGC Property-Liability Trust, LLC in 1986 and LGC Workers' Compensation Trust, LLC in 2000. LGC, LGC HealthTrust, LLC, and LGC Property-Liability Trust, LLC formed Local Government Center Real Estate, Inc. in 1989 to build and maintain an office building to house the operations of the Local Government Center.

LGC HealthTrust receives its operational, management and administrative services from its parent organization, the Local Government Center. Under this agreement, LGC furnishes full time professional and support staff to LGC HealthTrust.

LGC HealthTrust and Anthem Blue Cross and Blue Shield (Anthem) entered into a seven year contractual extension in 2002. This is a continuation of their long term contractual relationship from 1984. Under this contract, Anthem provides claims settlement and medical management services for LGC HealthTrust's members. LGC HealthTrust's members have membership cards with both Anthem's and LGC HealthTrust's logo. LGC HealthTrust is able to customize Anthem's basic offerings and bring its focus on public sector issues and concerns to better meet the public sector's healthcare needs. Under this arrangement, LGC HealthTrust is the public sector source for distribution of Anthem's medical products in New Hampshire.

**Discussion of the Basic Financial Statements:**

Following the pronouncements of the Governmental Accounting Standards Board, LGC HealthTrust's financial information is presented in three basic financial statements.

**Statement of Financial Position:** This statement provides information about LGC HealthTrust's assets, liabilities and net assets as of December 31, 2008. The majority of LGC HealthTrust's 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 claims paid by contracted third party administrators in 2008 but not reported to LGC HealthTrust until 2009, amounts owed to

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outside companies for 2008 services that were paid in 2009, amounts on deposit with LGC HealthTrust as part of the self funded plus program, amounts calculated as reasonable estimates for claims incurred but not yet reported to the claims administrators, and other accrued expenses. Net assets represent the difference between assets and liabilities. LGC HealthTrust's Directors review the level of net assets to ensure it is adequate to protect members from the risk that rates would be insufficient to meet claims. For traditional health insurers, the New Hampshire Department of Insurance and the National Association of Insurance Commissioners issue statutory requirements for net assets. Although, by New Hampshire statute, LGC HealthTrust is not regulated by either of these entities, LGC HealthTrust Directors' policy is to maintain an amount in net assets that is sufficient to meet the needs of LGC HealthTrust as recommended by qualified actuarial consultants.

**Statement of Revenues, Expenses, and Changes in Net Assets:** The results of LGC HealthTrust's operations are shown on this statement. This statement provides information about the level of contributions, reinsurance, claims and operating expenses for calendar year 2008. Information about other sources of income and other expenses is provided. Lastly, this statement sets forth LGC HealthTrust's change in net assets for the year (whether LGC HealthTrust had a profit or loss).

**Statement of Cash Flows:** This statement reviews how LGC HealthTrust's cash balance changed from December 31, 2007 to December 31, 2008. It is divided into four different areas explaining where LGC HealthTrust provided or used cash during the year. These areas relate to LGC HealthTrust'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 HealthTrust's cash position.

**Operating Results:**

LGC HealthTrust's operating income for 2008 was \$8,780,776. Operating results consist of contributions less direct expenses of providing benefits to members. Including nonoperating revenue and expenses and distributions to Local Government Center, Inc., \$1,157,373 was added to net assets during 2008. During 2007, operating income was \$15,676,199; and, including nonoperating items, a total of \$14,294,424 was added to net assets in 2007.

The addition to net assets is important to members as it helps protect them from periods of unanticipated claims volume. Due to the current level of net assets, the LGC Board of Directors decided to adjust rates to return undesignated net assets to members over an anticipated three-year period. The amount of the return is adjusted based on the balance in unrestricted net assets at each year-end.

LGC HealthTrust's assets increased \$3,614,834 from December 31, 2007. Cash and cash equivalents decreased \$22,529,551 (the Statement of Cash Flows shows where the cash was provided and used). During 2008, LGC HealthTrust's investment securities increased by \$23,054,604, primarily due to the investment in a certificate of deposit for approximately \$22.2 million with an original maturity in excess

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of three months. As of December 31, 2007, cash and cash equivalents included a certificate of deposit with an original maturity of three months that amounted to approximately \$21.6 million. During 2008, the market value of LGC HealthTrust's portfolio decreased \$3,924,974.

Liabilities increased \$2,457,461 from 2007 levels. The major changes were increases in claims reserves of \$420,344 and accounts payable and accrued expenses of \$2,787,055. As disclosed in Note 14 to the financial statements, accounts payable and accrued expenses includes a contingent liability of approximately \$1,932,000 for a Medical Part D subsidy that may be paid to certain members. These increases were offset by decreases in due to Parent of \$296,956 and unearned contributions of \$527,889. Net assets increased \$1,157,373.

Net operating revenues for 2008 increased \$15,148,570 from 2007 levels or about 4.6%. 2008 rates for the January pool increased. The July 1, 2007 pool renewal resulted in no overall rate change. However, most individually rated groups (those with over 100 subscribers) experienced rate changes. Because healthcare cost trends continue to rise, rate changes are the result of claims experience that was either higher or lower than expected for these groups during the rating period.

As a whole, the healthcare industry experienced rate increases during this same period. These rate increases are attributable to the continually rising costs of technology advances, new drugs, increased utilization, consumer demand for new technology and drugs, Medicaid cost shifting, and increased provider costs, all of which increase claims costs.

LGC HealthTrust purchases stop loss excess coverage to help defer the impact of large claims. LGC HealthTrust retains the first \$1,000,000 of each claim; the stop loss carrier reimburses amounts above that level. LGC HealthTrust pays .7% of contributions for reinsurance.

Administrative expenses for claims administration decreased as the result of renegotiation of the health claims administration fee; other claims administration fees increased as contractually required. For health, the administration rate paid to third party administrators decreased 3.2%.

Other expenses increased 22.2% over 2007 levels. Other expenses as a percent of contributions was 4.2% and 3.6% in 2008 and 2007, respectively.

Expenses as a percent of contributions in FY 2008 and 2007 are:

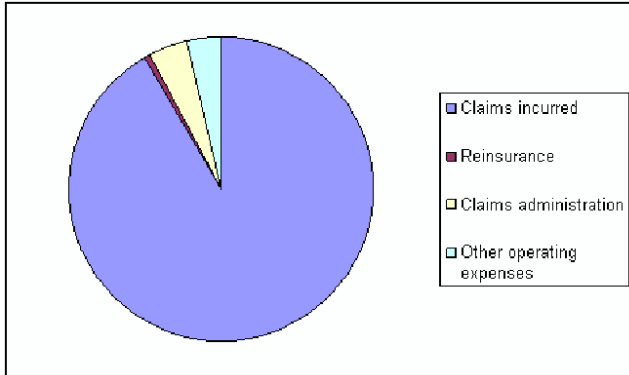
	<u><b>2008</b></u>	<u><b>2007</b></u>	<u><b>Change</b></u>
Claims incurred	<b>89.0 %</b>	86.7 %	2.3 %
Reinsurance	<b>0.6 %</b>	0.7 %	(0.1)%
Claims administration	<b>3.8 %</b>	4.6 %	(0.8)%
Other operating expenses	<b>4.2 %</b>	3.6 %	0.6 %

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These are depicted on the following pie chart.



LGC HealthTrust had a decrease in cash for the year ended December 31, 2008. As seen on the Statements of Cash Flows, \$8,945,427 was provided by operating activities, while \$24,248,098 was used for net purchases of investments, \$3,669,157 was used for capital financing activities and \$3,557,723 was used by noncapital financing activities. Since LGC HealthTrust's claims payments require ongoing cash flow, LGC HealthTrust has several policies to insure its cash flow needs are met. These policies address the level of cash:

- To be maintained in interest bearing accounts
- To be allocated to cash and investments maturing in three years or less
- To fund reserves (investments are included in this calculation)

LGC HealthTrust maintained sufficient cash and investments to meet these criteria during 2008. All cash is maintained in interest bearing, collateralized accounts at all times.

At December 31, 2008, LGC HealthTrust had approximately 60 days of cash on hand. The Board of Directors deems this to be a sufficient level of cash on hand to meet obligations and to provide ample time to liquidate investments, should the need arise.

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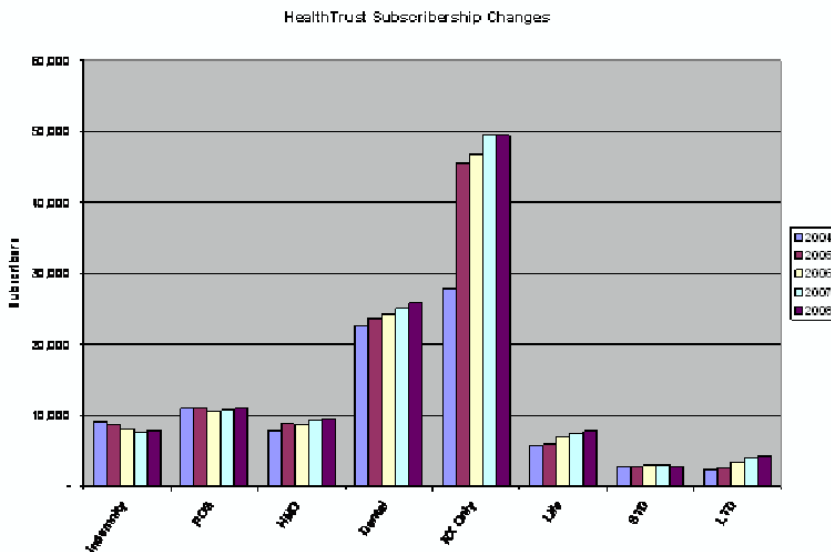
**December 31, 2008**

**Membership Changes:**

Changes in membership, both in size and by product, are indicators LGC HealthTrust watches closely. They are important factors in planning programs, staffing and predicting claims. For example, in times of rising membership, LGC HealthTrust could expect somewhat lower claims costs because claims for new members usually begin to be paid a couple of months after membership is effective. Membership changes between products can also help in assessing how claims might be affected. More members in more tightly controlled products could indicate falling claims costs. More members can also signal more use of health management services, the need for additional field staff to be available as resources, and rising reserves for outstanding claims. Following is a look at the change in LGC HealthTrust membership over the past several years.

**Size and By Product:** At December 31, 2008, LGC HealthTrust's enrollment for all employees, spouses, dependents and retirees was 136,000. Medical coverage total membership increased slightly to 60,921 by December 31, 2008, just over a 3% increase in total medical membership. Indemnity enrollment stayed the same, while POS enrollment increased by just 2%, and HMO enrollment increased by almost 3%.

LGC HealthTrust did experience a 3% increase in dental total membership. Additionally, LGC's self-funded Short-Term Disability program saw an increase of 5% in total membership. Life and Long-Term Disability, insured through Lafayette Life Insurance Company in partnership with National Insurance Services, Inc., saw a decrease of 1 new member group. As a percentage, Life coverage saw an increase of over 4% and Long-Term Disability realized an increase of 5% of total membership between the periods of December 2007 through December 2008. This chart represents membership changes by product from 2004 to 2008.



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**Major Accounting Policies:**

LGC'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 HealthTrust to obtain an annual independent audit of its financial statements and to obtain an annual independent actuarial valuation of rates and reserves. LGC HealthTrust retains Peter J. Riemer, LLC as its actuarial consultant for the purposes of obtaining professional advice about rate setting, reserve levels and Net Assets.

LGC HealthTrust maintains two renewal periods, one in January and one in July. Rates are established for each pool based on information from prior actual results. The actuary provides advice concerning the completeness of this information, expected levels of medical inflation, funding levels for claims administration, claims reinsurance costs, operational expenses, and contingent costs. Directors and management review consider this information in rate setting. Once rates are set, income is recognized each month during the rating cycle as invoices are mailed for coverage for that month. LGC HealthTrust does not provide for bad debts as it deems its receivables to all be collectible. At December 31, 2008, receivables outstanding more than 60 days were very small as compared to monthly contributions invoiced.

Annually, LGC HealthTrust's consulting actuary studies its reserves. The actuary reviews actual payment patterns by LGC HealthTrust's third party claims administrators. These are reviewed for the level of claims as well as how quickly claims incurred in prior periods are paid. Based on this information, the actuary establishes monthly reserve factors that are applied to LGC HealthTrust's monthly subscriber levels. These are then aggregated for a six month period to determine the appropriate level of reserves for claims. As LGC HealthTrust is also responsible for claims administration expenses for these claims, a factor is applied to the claims reserves to determine the appropriate administration reserve.

For some time, LGC's Directors, along with staff and the actuarial consultant, have debated the appropriate level of net assets. An appropriate level of net assets helps protect members from the risk that rates would be insufficient to meet claims during times of unpredicted high claims. The consulting actuary presented an approach based on an industry standard measurement developed by the National Association of Insurance Commissioners (NAIC). It is a formula based approach to determine minimum capital and surplus levels for insurance companies. The minimum level before which regulated health insurers are required to take corrective action is 2.0.

After studying this matter, and under the advice of the consulting actuary, the Directors established a net assets Risk Based Capital (RBC) ratio of 4.2. At the present time, LGC HealthTrust's Risk Based Capital stands at approximately 4.2. LGC HealthTrust reviews its RBC on a semiannual basis. The

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ratio of 4.2 was selected after reviewing the level other health insurers maintain, the level used by the Blue Cross and Blue Shield National Association as well as the RBC level of health insurers with similar asset levels to LGC HealthTrust.

After selecting the 4.2 RBC ratio, LGC's Directors determined that the best way to reach this level is to gradually add funds to net assets. This decision means that during each rating action, Directors will consider a change in the rates to maintain the 4.2 RBC ratio goal. Having met the December 31, 2008 4.2 RBC ratio level of \$61,081,847, the Board apportioned this amount of net assets in a designated account. The RBC will be measured each year and the Board will consider subsequent changes to the amount designated. In addition to the amount designated for RBC, the Board also established \$7,228,794 as designated for future administrative needs. The Board made the decision to use the undesignated balance of net assets to reduce subsequent rating actions through review of the amount of the risk charge during each rating cycle.

In 1985, LGC HealthTrust's Directors adopted a written Investment Policy (the Policy). On a bi-annual basis, an independent investment consultant evaluates the performance of the investment manager and reviews the Policy. The Policy has four basic goals as follows:

- Preserve the principal within prudent investment standards
- Achieve total return consistent with the specified quality and maturity risks
- Prudently diversify with respect to types of assets, issuers, credit quality, strategic styles and investment managers
- Provide adequate investment cash inflow against anticipated liability outflow with provisions for contingencies

The Policy requires the Directors to hire an investment manager to determine the best investments within the Policy guidelines. LGC HealthTrust'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 of three to four years.

LGC HealthTrust 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 HealthTrust also follows Financial Accounting Standards Board Statement 115 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 LGC HealthTrust 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.

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**Risks and Uncertainties:**

LGC HealthTrust contracts with its members on an annual basis for product contribution rates for the annual period. Local Government Center's By-Laws provide that a member group may withdraw from LGC HealthTrust's coverage at any time with a 15-day written notice. Therefore, LGC HealthTrust does not maintain any long-term contracts with its member groups. However, groups generally maintain coverage for a full annual cycle. It is rare for a group to leave in the middle of an annual cycle. As a protection against adverse selection, if a member withdraws from LGC HealthTrust, it is required to wait two years before becoming eligible to rejoin.

LGC HealthTrust operates in a marketplace where there is targeted competition. There are essentially three major insurers providing medical coverage in New Hampshire. LGC HealthTrust estimates its current members to be 75% of the total eligible medical membership. It provides active renewals for current member groups and for eligible groups seeking new coverage.

LGC HealthTrust employs recognized benefits and actuarial firms for advice regarding the overall income needed and the resulting rates to be established for its products at each renewal of coverage for its members and their employees. Since LGC HealthTrust operates without seeking a profit, the philosophy of the rating process is to raise only an amount of income necessary to meet LGC HealthTrust's needs for payment of claims, operations, proper reserves and related items. There is a degree of uncertainty as to whether a particular rating will be sufficient in any one year to meet all of the needs of LGC HealthTrust for that year. Similarly, there exists in the rating process an equal probability that rates established in any year will produce higher revenue than is needed. LGC HealthTrust believes there is a high degree of likelihood, however, that the income raised and the rates established over several year periods will be adequate to meet LGC HealthTrust's obligations to its members and their employees and not cause more income to be received than is adequate for those purposes.

Like other investors, LGC HealthTrust is exposed to the risk that the investments it holds will diminish in market value from the price paid. This occurs primarily when interest rates rise. Conversely, as interest rates fall, the market value of LGC HealthTrust's portfolio improves.

**Outlook:**

The Local Government Center's Board of Directors and management annually review and update the strategic goals of the organization. These goals are prioritized and timelines are established. The Local Government Center's Strategic Planning Committee periodically reviews progress on meeting these goals. Senior management is responsible for implementing the established strategic goals.

The Local Government Center's current strategic goals are categorized to flow with the PRIDE Vision Statement adopted by the Board of Directors, which is as follows:

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Provide education and support that enhances the daily strategic activities of New Hampshire's municipal, school and county governments and their employees  
Regularly communicate with valued members, participants and partners  
Increase the number and retention of members  
Deliver outstanding service and support  
Enable members to achieve organizational health by providing tools to help them govern more effectively and efficiently, maintain and enhance employee health and safety, and manage member loss exposure

LGC HealthTrust works intently to add value to its members by contributing to each area of the strategic plan as highlighted below.

**P**

LGC HealthTrust, in its mission to provide the highest quality benefits at the lowest possible cost, underwent an RFP for pharmacy benefit management in 2008. As a result, the current Caremark contract has been extended until December 31, 2012. The Caremark extension offers a substantial projected savings over this time period.

In 2008, LGC, in conjunction with CVS Caremark, undertook a comprehensive communications campaign intended to introduce members to potential cost saving measures. Each component of the campaign is outlined below.

**iBenefit Report**

The iBenefit Report was developed as an engagement tool designed to empower plan participants by showing them how they can lower their prescription spending through cost-effective healthcare choices. iBenefit is an innovative, dynamic consumer report that generates a personalized summary of plan participants' prescription history and associated recommendations for future purchases. The report:

- Highlights the value of the prescription benefit — plan-paid and participant-paid
- Empowers consumers through educational messaging on the variety of options available to them
- Articulates specific savings opportunities available by choosing cost-effective products and/or mail service on future purchases
- Provides positive reinforcement for making cost-effective healthcare choices

All LGC members who utilized their prescription benefit through LGC received an iBenefit Report from CVS Caremark during 2008.

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**FastStart Mailing**

FastStart assists plan participants by promoting the utilization of the mail service benefit. Some plan participants continue to fill maintenance medications at local participating retail pharmacies, instead of using the mail service offering. Utilizing mail service can help reduce the cost of long-term medications.

FastStart is a direct-to-plan participant program designed to increase awareness and usage of the mail service benefit. Plan participants who purchase their maintenance medications through participating retail pharmacies and have not used the mail service benefit in the last six months received a letter. The letter advised members of easy options to make the first time use of the mail service benefit fast, simple and convenient.

**Count on Generics® Campaign**

The Count on Generics® campaign shares the benefits of generics with plan participants. Through multi-channel campaigns or the promotional materials, members are empowered to save more money on their prescriptions. Print-ready files or electronic excerpts were utilized to connect with members in print.

- **Count on Generics® Participant Brochure** - A tri-fold brochure that was used to promote the value of using generics.
- **Count on Generics® Therapeutic Class Campaign Material** - a series of plan participant outreach programs that focused on increasing awareness and education regarding generic drugs in select therapeutic areas.
- **Count on Generics® Articles for Newsletters** – Newsletter articles were used to promote generics to plan participants.
- **Print Materials** – Count on Generics brochures were included in all welcome kits.

**Caremark.com Campaign**

LGC utilized the Tool Kit to connect one-on-one to members. By sending multi-channel campaigns and using these promotional materials, we empowered consumers to make cost-effective choices and informed healthcare decisions. Print materials, including posters, tri-fold brochures, tent cards and payroll stuffers were distributed to all member group locations.

LGC HealthTrust members continue to have access to Anthem's medical management programs. Anthem's disease management, individual case management and Anthem 360 programs are combined in one integrated, innovative, health improvement program called Proactive Care Management. This program goes beyond the traditional case management program and is just another component of Anthem's health improvement approach to serving members by prospectively identifying members with high risk health factors before they require hospitalization.

Anthem's Proactive Care Management program targets 1% of overall membership who, industry wide, typically account for up 20 - 25% of all medical costs, average 20 - 30% of all hospitalizations, and

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utilize 30 - 45% of all inpatient days. These high risk members are often diagnosed with multiple co-morbidities, face multiple social and psychological challenges, are deteriorating clinically, receive uncoordinated care, and typically are unfamiliar to their primary care physician (PCP). These members are often at high risk for hospitalization within the next year if care management intervention is not implemented.

Members who stratify for proactive care management generally are also assigned an internal care manager at Anthem. Anthem's internal case managers are assigned by "clinical specialty teams" that complement their areas of specialty, such as High Risk OB, Pediatrics, Oncology/Hospice, General Adult, Respiratory, Diabetes/CVD, and Neuro/Rehab. These specialty trained case managers offer comprehensive, personalized attention to program participants. The case manager proactively identifies the needs of all participants. Each case manager contacts his or her assigned members as frequently as necessary to reinforce the physician's treatment plan and to help coordinate care. The case manager works with the member to identify and set goals to achieve optimal health outcomes and functional status. Participation in Proactive Care Management is entirely voluntary.

In addition, each case manager will utilize motivational interviewing techniques and interventions to identify barriers preventing members from receiving appropriate healthcare services. The case manager engages members to work on individual goals that will help them be more self reliant and knowledgeable in their own healthcare decisions (medical compliance, skills to cope with stresses of chronic illness, management of their chronic health condition). Equally important, the case managers will assess the member's readiness to initiate and maintain behavioral changes such as self monitoring, preventative care, and healthy lifestyle changes such as exercise and diet. In other words, the case managers will empower the members to become more effective managers of their own care.

Patients also receive education and counseling concerning any lifestyle issues, such as smoking cessation, being overweight, and exercise, which impact the management and outcome of their health condition. Anthem also integrates and incorporates any existing lifestyle initiatives provided in the community or available to members such as worksite wellness programs. The case manager will also access and provide information to members regarding community and federal resources such as local Meals on Wheels programs, transportation services, and more.

Furthermore, the case manager recommends and coordinates appropriate benefits under the patient's plan for approval. Examples include home health services, mental health resources, dietician consultations, and disease specific educational classes. Case managers identify these healthcare, workplace or environmental needs and work collaboratively with the providers to arrange the necessary services and benefits for the participant.

LGC HealthTrust's Slice of Life program provides benefits that have been shown to boost morale, reduce absenteeism, and increase cost savings resulting from fewer healthcare claims. Any individuals who are covered by HealthTrust may avail themselves, at no additional cost, of valuable health management support and incentives. The Understanding Your Health workshop provides an avenue for

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educating member groups' employees about the Slice of Life program and its many components. One component of the Slice of Life program is the Get Healthy, confidential Personal Health Analysis questionnaire designed to help assess members' health from year to year; it only takes ten or fifteen minutes to complete. It is a completely voluntary and entirely confidential process. Less than three weeks after returning the completed questionnaire, a personalized health report is sent identifying areas of health risk and information about how those risks can be reduced to maximize an individual's health status.

In 2008, 21,913 LGC HealthTrust subscribers, spouses and retirees participated in the Slice of Life Personal Health Analysis (PHA) program. This compares favorably to a Slice of Life review independently conducted over three years ago, which found low utilization of LGC HealthTrust's wellness program offerings. Highlights of last year's Health Risk Appraisal program participation are as follows:

- Overall, 96% of LGC HealthTrust members are satisfied with the Gordian Health Coaching Program
- 93% of members agreed that the Gordian Health Coaching Program assists them in working on their health risk factors
- Gordian Health Coaches averaged 5.9 out of 6 possible points for courtesy & professionalism with LGC HealthTrust participants.

**R**

LGC HealthTrust strives to continually meet the needs of member groups. During 2008, Account Management, Health Management and Risk Management Representatives met with members in excess of 3,400 times at their individual locations.

TRiM programming has moved to the next level with development of the Local Government Center's Stewardship Report. This report provides substantive reporting data addressing all lines of LGC coverage. Representatives from each department meet with key personnel in order to provide a comprehensive review of the member's claims utilization data, as well as details regarding LGC services and programs that have been provided. The intended audience is group decision makers: finance directors, town administrators, management staff and elected officials. Staff reviews specific data and makes recommendations for addressing existing and potential risks.

Beginning January 1, 2009, the Local Government Center (LGC) offered two new prescription drug program options—RX10/20/45 and RX10/20/35—to complement the current array of available prescription plans. These new plans are considered by CVS Caremark as “qualified” programs; i.e., a prescription program with at least a \$15 difference between the second and third tier copayment. Qualified plans offer notably improved pricing for medication; savings are realized not only for medications considered as second or third tier, but also on generic medications. As a result, LGC is able to offer very competitive pricing for these plans. The reasonable pricing combined with the positive

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behavior modification associated with these types of RX programs provide a cost-effective solution to increased economic pressures. Several members have implemented the new program and are taking this small step toward reducing healthcare costs and encouraging effective and efficient use of prescription drug benefits.

In 2008, all dental coverage through LGC was expanded to include prophylaxis (cleanings) four times in a calendar year as opposed to the two that were being offered. This included routine cleanings or full mouth debridement and/or periodontal maintenance. In addition, coverage was expanded to include oral cancer screenings and fluoride treatment through age 18. LGC notified members of these expanded benefits by mailing an amendment to the Dental Plan Description directly to their homes during the weeks prior to their annual open enrollment period.

Web Services

LGC HealthTrust's members are kept educated by providing helpful information electronically on its robust Web site at [www.nhlgc.org](http://www.nhlgc.org). The [nhlgc.org](http://nhlgc.org) Web site offers LGC HealthTrust's individual members and member groups a one-stop-shopping approach for accessing program and service-related information and also includes password-protected sections for connecting to members' confidential coverage information.

***eMember Services***

*eMember Services* is a secure part of LGC HealthTrust's Web site that allows individual members to review their health coverage information and submit certain forms and requests online.

**Value-Added Services**

LGC HealthTrust offers member groups and individual members additional services in support of the employee benefits programs.

Coverage Continuation Benefits

- *Transition Care* – In the event of the death of an active employee, *Transition Care* benefits allow covered family members to continue their LGC HealthTrust-sponsored medical and/or dental plan coverage through their employer at no cost for a temporary period until they can explore other coverage opportunities (up to 12 months). At this time, LGC HealthTrust is providing *Transition Care* benefits to 15 subscribers.
- *Survivor Care* – In the event an active employee dies while performing his/her job responsibilities, *Survivor Care* benefits allow covered family members to continue their LGC HealthTrust-sponsored medical and/or dental plan coverage through their employer at no cost until experiencing an event that ends eligibility such as becoming Medicare eligible. LGC HealthTrust provides *Survivor Care* benefits to two subscribers currently.

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Billing Services – LGC offers retiree and COBRA billing administration to our member groups.

- Billing Administration for Retirees – For some retirees, the New Hampshire Retirement System (NHRS) pays a portion of their contribution, and the retiree and/or member group may be responsible for the remaining contribution amount. Through this billing service, LGC HealthTrust issues invoices directly to retirees and/or the member groups and collects the required contributions from each, thereby relieving member groups of the administration of collecting payments for retiree coverage. In 2008, LGC implemented retiree billing administration for all member groups utilizing LGC as their NHRS vendor. As of the end of 2008, 1,368 invoices were issued to retirees.
- Individual Billing for COBRA Members – Through this service, LGC HealthTrust issues invoices directly to COBRA members and collects COBRA payment directly from COBRA members, thereby relieving member groups of the administration of collecting COBRA contribution payment. A total of 158 invoices were issued to COBRA beneficiaries for December 2008.

As part of LGC HealthTrust's mission to serve as a resource for information, the following publications are regularly provided as a means of keeping both individual members and member groups up to date on available programs and services as well as aware of health management findings and industry news.

**Slice of Life**

*Slice of Life* and *Slice of Life for Seniors* newsletters are mailed quarterly to LGC HealthTrust subscriber homes and feature health-improving information for becoming smarter healthcare consumers.

**Coordinator Connection**

This newsletter is published quarterly for wellness coordinators at member groups of LGC HealthTrust as a resource for promoting the good health of their employees.

**Benefits Bulletin**

This quarterly publication is designed to keep member groups of LGC HealthTrust informed of benefit news, service improvements and upcoming events.

**A Matter of Trust**

This newsletter is published biennially to keep decision makers of LGC HealthTrust's member groups informed about Risk Services and industry trends.

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**I**

LGC HealthTrust provides access to quality, discounted eyecare services through EyeMed Vision Care, an extensive network of private practicing optometrists, ophthalmologists, opticians, and the optical retailer LensCrafters®. The EyeMed program places its emphasis on Choice, Quality, Value and Service Excellence. In 2008, over 2,000 members availed themselves of this benefit representing an average retail discount of 37.5% or \$334,000 in savings at LensCrafters® alone. These savings represent an additional \$40,000 of savings realized by LGC members over 2007.

During 2008, we continued to see growth in our Flexible Spending Account administration services. A long time advocate of this tax savings benefit for employers and employees, LGC HealthTrust brought these services in house effective January 1, 2006. LGC HealthTrust offers member groups the simplest form of a Flexible Benefits Plan – the Pre Tax Payroll Deduction of Insurance Premiums (called “Premium Conversion”) – as well as the administration of Healthcare Flexible Spending and Dependent Care Reimbursement Accounts.

LGC HealthTrust added 8 member groups for Premium Conversion during 2008. We now assist a total of 32 member groups (34 employers) with keeping their IRS required Plan Documents up to date.

An additional 38 member groups retained LGC HealthTrust during 2008 to administer their full Flex Plans. A total of 75 member groups (117 employers) now look to LGC HealthTrust to process their employees’ Healthcare and Dependent Care claims, keep their IRS required Plan Documents up to date, maintain balances in each employee’s account(s), and provide all required and requested reporting.

Claims volume also increased significantly during 2008. The number of paper claims processed increased 38% from 11,195 to 15,463. Once debit card claims are factored in, we saw an overall increase of 47% or from 18,164 to 26,783 claims. The total dollar value of claims processed during 2008 was \$1,961,004, a 65% increase over 2007.

We will continue to educate member groups on the advantages of offering a Flexible Spending Account and expect to increase the number of participants with each renewal.

**D**

In 2008, the Risk and Health Management Representatives conducted 541 workshops, training 8,265 attendees comprised of employees, retirees and elected officials. These training sessions covered topics dealing with a variety of health and safety related issues. Some examples are chainsaw safety, driving, employment, ergonomics, simunitions/interactive use of force, men’s health, sleep deprivation, women’s health, nutrition 101, and the new “Understanding Your Health” workshop that is designed to assist members in making more informed healthcare decisions.

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Member Care Center Activity

The following chart displays the call and inquiry activity in the Member Services department's Member Care Center during 2007 and 2008. There was a significant increase in calls offered, calls handled and number of inquiries handled during Q3 2007 as a result of the Caremark implementation. Overall, there was less activity in the Member Care Center in 2008 compared to 2007 attributable in part to the increase in member communication materials being distributed by HealthTrust on an annual and as needed basis.

<u>Quarter</u>	<u>Calls Offered</u>	<u>Calls Handled</u>	<u>Number of Inquiries Handled</u>	<u>Average Speed of Answer</u>	<u>Calls Handled Rate</u>	<u>Average Handling Time</u>
<b>Q1 2007</b>	12,646	10,807	8,607	:08 sec	98.7 %	3:40 min
<b>Q1 2008</b>	11,380	10,116	7,235	:09 sec	98.6 %	3:55 min
<b>Q2 2007</b>	11,834	10,452	8,337	:09 sec	98.6 %	3:43 min
<b>Q2 2008</b>	10,121	9,009	5,742	:08 sec	98.6 %	3:57 min
<b>Q3 2007</b>	18,912	14,679	11,193	:10 sec	98.1 %	3:58 min
<b>Q3 2008</b>	13,323	9,858	7,337	:10 sec	97.7 %	4:01 min
<b>Q4 2007</b>	11,094	9,703	7,027	:09 sec	98.6 %	4:02 min
<b>Q4 2008</b>	9,538	7,905	5,022	:09 sec	98.2 %	3:57 min
<b>Year 2007</b>	54,486	45,641	35,164	:09 sec	98.4 %	3:55 min
<b>Year 2008</b>	44,362	36,888	25,336	:09 sec	98.2 %	3:57 min

Member Services Workshops

During 2008, the Member Services department presented various workshops designed to assist member group Benefits Administrators perform their responsibilities. Workshops were offered on the following topics: Retirees Turning Age 65 (4 workshops a year); annual Benefits Administrator Workshop to provide Benefits Administrators with updates and new relevant information; and the Learning Track series of workshops for New Benefits Administrators held in the Fall of 2008.

**E**

LGC HealthTrust's *Slice of Life* program is a comprehensive menu of health management offerings that are available to every member and their dependents covered by an LGC HealthTrust medical plan. Utilization of various program components provides valuable health management support and incentives to help improve and maintain healthy lifestyles. A sampling of some of the most popular programs is as follows:

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- Healthy Baby and Child Program is designed to ensure good health of a child beyond proper prenatal care.
- *Health At Home* is a comprehensive self-care manual providing information on more than 180 health-related issues such as prevention, home treatment, preparing for doctor visits, wise use of medication, and healthy lifestyles.
- *Slice of Life* newsletters are quarterly publications sent to active and retired members, containing information related to important health and wellness issues plus important health plan news.
- Personal Health Analysis is a personalized and confidential questionnaire that is evaluated for individuals' health risk factors.
- Health Coaching is for those individuals that stratify from taking the Personal Health Analysis dealing with Lifestyle and Chronic Conditions.
- Health Awareness Program provides calendar-year reimbursements for eligible programs covering a wide variety of health-related issues and activities that are geared toward reaping the rewards of a healthier lifestyle.
- Wellness Lending Library is a valuable resource for books, manuals, videos, etc., that are available for member groups to borrow.
- LifeResources-Member Assistance Program offers comprehensive mental health counseling and referral services for issues such as stress management, parenting, addictions, referral services for helping to find housing options for aging parents, and providing answers about managing credit card debt.
- Consultation Services affords an opportunity for LGC HealthTrust's Health Management Representatives to help design and implement group wellness programs. They can analyze a group's health claims history and customize a health management program according to a group's needs.
- Flu Vaccine Program provides a reimbursement program for onsite flu shot clinics for covered members.
- Wellness Coordinator support includes a quarterly newsletter, *Coordinator Connection*, annual training, and a variety of materials that may assist with wellness planning efforts.

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- *WELLDollars* Discretionary Grant Program helps groups implement appropriate onsite wellness activities that work to reduce employees' overall health risks through grants that are applied for from LGC HealthTrust on an annual basis.
- We continue to enhance our best-practice population health management system. Our system includes launch of a personal health analysis program based on state-of-the-art technology; creation of an enhanced incentive and communication campaign to increase program participation in order to realize optimal outcomes on membership health and also to establish a valid return on investment (ROI) evaluation process; and initiation of new Health Awareness programs to increase member resources for addressing prominent health risks such as physical activity, nutrition, and smoking.
- We have 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, Car Control program, Chainsaw Safety, and Joint Loss Management Committee consultations, as well as special programs including Emergency Preparedness and "Who Put Health in My Safety?"
- We have initiated a team-focused annual strategic workplan. To ensure sustained quality and effectiveness of the work plan, we have established an ongoing evaluation process through the implementation of a quarterly team goals and objectives review program. In addition to continuous quality review objectives, quarterly meetings include active team-building activities.

**Conclusion:**

LGC HealthTrust distinguishes itself from commercial insurers through its close relationship to its members, beginning at the Board of Directors' level. The Local Government Center's 31-member board is made up of school, municipal, and county representation at the employee, management and elected representative levels. The Local Government Center's Board of Directors' decisions are based directly on members' needs and values. In thinking about services to members, the Board and management routinely take a holistic approach to meeting the employee benefit needs of members.

The Local Government Center HealthTrust, LLC is committed to *provide the highest quality employee-benefit products and services, consistent with the lowest possible cost, for public employers and employees in New Hampshire.*

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**Statements of Financial Position**

**December 31, 2008 and 2007**

**ASSETS**

	<u>2008</u>	<u>2007</u>
Current assets		
Cash and cash equivalents	\$ 54,248,364	\$ 76,777,915
Investment securities	63,543,103	40,488,499
Investment in external investment pool	428,841	418,551
Contributions receivable	5,518,162	3,955,896
Accounts receivable	4,501,620	3,673,125
Accrued interest receivable	301,931	278,635
Prepaid expenses and deposits	<u>312,501</u>	<u>269,983</u>
Total current assets	128,854,522	125,862,604
Deposits	1,407,738	1,407,738
Equipment, net	<u>1,893,720</u>	<u>1,270,804</u>
Total assets	<u>\$ 132,155,980</u>	<u>\$ 128,541,146</u>

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

## LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
Current liabilities		
Claims payable	\$ 9,702,827	\$ 9,571,942
Claims reserves	22,895,949	22,475,605
Deposits held	1,076,750	1,132,728
Accounts payable and accrued expenses	5,002,879	2,215,824
Due to Parent	338,094	635,050
Unearned contributions	<u>453,436</u>	<u>981,325</u>
Total current and total liabilities	<u>39,469,935</u>	<u>37,012,474</u>
Commitments and contingencies (Notes 9, 10 and 14)		
Net assets		
Unrestricted	25,723,110	25,046,815
Board designated	68,310,641	64,527,505
Unrealized (loss) gain on investment securities	(3,241,426)	683,548
Invested in capital assets	<u>1,893,720</u>	<u>1,270,804</u>
Total net assets	<u>92,686,045</u>	<u>91,528,672</u>
Total liabilities and net assets	<u>\$ 132,155,980</u>	<u>\$ 128,541,146</u>

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**LOCAL GOVERNMENT CENTER HEALTHTRUST, LLC**  
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**Statements of Revenues, Expenses, and Changes in Net Assets**

**Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Operating revenues		
Member contributions earned	\$ 345,080,975	\$ 329,446,994
Member contributions ceded	(2,101,127)	(2,364,862)
Self-funded plus program - net	322,493	996,568
Other revenues	<u>148,868</u>	<u>223,939</u>
Total net operating revenues	<u>343,451,209</u>	<u>328,302,639</u>
Operating expenses		
Claims incurred	307,066,394	285,553,084
Administrative fees	13,155,520	15,245,099
Other expenses	<u>14,448,519</u>	<u>11,828,257</u>
Total operating expenses	<u>334,670,433</u>	<u>312,626,440</u>
Operating income	8,780,776	15,676,199
Nonoperating income (expense)		
Investment income	2,765,066	3,138,257
Net (decrease) increase in fair value of investment securities	(3,924,974)	648,312
Defined benefit plan past service liability expense	-	(792,938)
Other income	<u>81,292</u>	<u>125,475</u>
Increase in net assets before distributions	7,702,160	18,795,305
Distributions to Parent	<u>6,544,787</u>	<u>4,500,881</u>
Increase in net assets	1,157,373	14,294,424
Net assets, beginning of year	<u>91,528,672</u>	<u>77,234,248</u>
Net assets, end of year	<u>\$ 92,686,045</u>	<u>\$ 91,528,672</u>

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

**LOCAL GOVERNMENT CENTER HEALTHTRUST, LLC**  
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**Statements of Cash Flows**

**Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Member contributions collected	\$ 342,990,820	\$ 329,726,743
Member contributions ceded to reinsurer	(2,101,127)	(2,364,862)
Other revenues	148,868	223,939
Employee and other expenses paid	(24,948,581)	(24,720,653)
Claims paid	(307,078,841)	(284,037,062)
Payment of past service liability expense for defined benefit plan	-	(792,938)
Net cash (used) provided by self-funded plus program	<u>(65,712)</u>	<u>2,641,056</u>
Net cash provided by operating activities	<u>8,945,427</u>	<u>20,676,223</u>
Cash flows from investing activities		
Proceeds from the sale of investment securities	11,445,895	24,393,759
Interest and dividends on investment securities	2,659,709	3,372,703
Cash payments for the purchase of investment securities	(38,343,412)	(24,961,777)
Purchase of external investment pool	<u>(10,290)</u>	<u>(20,273)</u>
Net cash (used) provided by investing activities	<u>(24,248,098)</u>	<u>2,784,412</u>
Cash flows from capital and related financing activities		
Distribution to Parent for purchases of property	(2,905,772)	-
Acquisition of equipment	<u>(763,385)</u>	<u>(1,198,888)</u>
Net cash used by capital and related financing activities	<u>(3,669,157)</u>	<u>(1,198,888)</u>
Cash flows from noncapital financing activities		
Distributions to Parent	(3,639,015)	(4,500,881)
Cash received from other income	<u>81,292</u>	<u>125,475</u>
Net cash used by noncapital financing activities	<u>(3,557,723)</u>	<u>(4,375,406)</u>
Net (decrease) increase in cash and cash equivalents	(22,529,551)	17,886,341
Cash and cash equivalents at beginning of year	<u>76,777,915</u>	<u>58,891,574</u>
Cash and cash equivalents at end of year	<u>\$ 54,248,364</u>	<u>\$ 76,777,915</u>

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

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**Statements of Cash Flows (Concluded)**

**Years Ended December 31, 2008 and 2007**

	<u><b>2008</b></u>	<u><b>2007</b></u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ <b>8,780,776</b>	\$ 15,676,199
Adjustments to reconcile operating income to net cash provided by operating activities		
Payment of past service liability expense for defined benefit plan	-	(792,938)
Depreciation and amortization	<b>140,469</b>	170,034
(Increase) decrease in		
Contributions receivable	<b>(1,562,266)</b>	(158,775)
Accounts receivable	<b>(828,495)</b>	2,571,407
Prepaid expenses and deposits	<b>(42,518)</b>	157,045
Increase (decrease) in		
Claims payable	<b>130,885</b>	1,144,170
Claims reserves	<b>420,344</b>	102,843
Deposits held	<b>(55,978)</b>	25,847
Accounts payable and accrued expenses	<b>2,787,055</b>	928,456
Unearned contributions	<b>(527,889)</b>	438,525
Due to Parent	<b><u>(296,956)</u></b>	<b><u>413,410</u></b>
Net cash provided by operating activities	<b><u>\$ 8,945,427</u></b>	<b><u>\$ 20,676,223</u></b>

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

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**Notes to Financial Statements**

**December 31, 2008 and 2007**

**Nature of Operations**

Local Government Center HealthTrust, LLC (LGC HealthTrust) is a wholly-owned subsidiary of Local Government Center, Inc. (LGC). LGC HealthTrust provides a program of employee benefits for its member organizations and operates pursuant to RSA 5-B, New Hampshire statutes. In accordance with its By-Laws, all political subdivisions of the State of New Hampshire and their instrumentalities are eligible to participate. LGC HealthTrust serves as a cooperative group of municipalities joining together to finance their exposure to employee healthcare costs. LGC HealthTrust is fully funded by its participating members. LGC HealthTrust's objectives are to formulate, develop, and administer, on behalf of the member political subdivisions, a program of employee benefits, to obtain lower costs for those benefits, and to develop loss control programs. 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. LGC HealthTrust'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," LGC HealthTrust has elected to apply the provision of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

**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.

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**Notes to Financial Statements**

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**Cash Equivalents**

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

**Investment Securities**

Investment securities consist of U.S. Government Sponsored Enterprise Securities, U.S. Treasury notes, corporate notes, municipal 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**

LGC HealthTrust maintains an equity position in an external investment pool sponsored by a government entity, which is carried at fair value. Fair value is determined by LGC HealthTrust'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.

**Reinsurance**

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

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**Contract Acquisition Costs**

Acquisition costs, which consisted primarily of salaries and certain underwriting expenses, vary with, and are primarily related to, the issuance of new member participation contracts. LGC HealthTrust capitalized the contract acquisition costs associated with a new contract acquired during the year ended December 31, 2005. This contract was amortized on a straight-line basis over the life of the underlying contract. The contract was fully amortized as of December 31, 2007. Acquisition costs associated with unearned revenue for new contracts that are not considered material to the financial statements are charged to expense when incurred.

**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>
Computer equipment	3-5
Office equipment	3-5
Vehicles	3

**Operating Revenues and Expenses**

The excess of operating revenues over expenses reported in the financial statements includes revenues and expenses related to the primary, continuing operations of LGC HealthTrust. Principal operating revenues are charges to participating members for contributions to cover estimated benefit obligations and administrative costs. Principal operating expenses are the costs of providing underwriting and claims payment services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements. The employer portion of the past service liability for the participants of the defined benefit pension plan sponsored by the Parent during the year ended December 31, 2007 was reported as nonoperating expense due to the infrequent nature of the expense.

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**Notes to Financial Statements**

**December 31, 2008 and 2007**

**Unpaid Claims Liabilities**

LGC HealthTrust establishes claims liabilities 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 liabilities does not necessarily result in an exact amount. Claims liabilities 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 liabilities are charged or credited to expense in the periods in which they are made.

**Income Taxes**

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

**2. Cash and Cash Equivalents**

LGC HealthTrust 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, 2008 and up to \$100,000 as of December 31, 2007. As of December 31, 2008 and 2007, the carrying amount of cash held, in total, in excess of the FDIC limit was approximately \$54,100,000 and \$76,700,000, respectively. The balance in excess of the FDIC limit is collateralized with securities held in joint custody with the bank.

**3. Board Designated Net Assets**

Board designated net assets includes the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Net Assets Risk Based Capital Ratio of 4.2	\$ 61,081,847	\$ 56,948,846
Administrative needs	<u>7,228,794</u>	<u>7,578,659</u>
	<u>\$ 68,310,641</u>	<u>\$ 64,527,505</u>

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**(A Wholly-Owned Subsidiary of Local Government Center, Inc.)**

**Notes to Financial Statements**

**December 31, 2008 and 2007**

**4. Investment Securities**

Investment securities insured or registered consist of:

	2008			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government Sponsored				
Enterprise Securities	\$ 11,463,083	\$ 567,080	\$ -	\$ 12,030,163
U.S. Treasury Notes	6,828,290	399,536	-	7,227,826
Corporate Notes	17,748,133	89,084	(1,907,582)	15,929,635
Municipal Obligations	474,882	10,166	(1,695)	483,353
Certificate of Deposit	22,235,680	-	-	22,235,680
Mutual Funds	<u>8,034,461</u>	<u>-</u>	<u>(2,398,015)</u>	<u>5,636,446</u>
Total	<u>\$ 66,784,529</u>	<u>\$ 1,065,866</u>	<u>\$ (4,307,292)</u>	<u>\$ 63,543,103</u>
	2007			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government Sponsored				
Enterprise Securities	\$ 11,901,761	\$ 119,559	\$ (26,600)	\$ 11,994,720
U.S. Treasury Notes	6,024,660	111,836	-	6,136,496
Corporate Notes	16,003,427	98,232	(176,967)	15,924,692
Municipal Obligations	249,651	3,667	(522)	252,796
Mutual Funds	<u>5,625,700</u>	<u>554,095</u>	<u>-</u>	<u>6,179,795</u>
Total	<u>\$ 39,805,199</u>	<u>\$ 887,389</u>	<u>\$ (204,089)</u>	<u>\$ 40,488,499</u>

During 2008 and 2007, LGC HealthTrust realized a net gain (loss) of \$149,133 and \$(70,899), 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.

**LOCAL GOVERNMENT CENTER HEALTHTRUST, LLC**  
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**Notes to Financial Statements**

**December 31, 2008 and 2007**

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

	<u>2008</u>	<u>2007</u>
Vanguard 500 Index Fund	\$ 3,800,910	\$ 6,179,795
2.34% Certificate of Deposit, due May 6, 2009	22,235,680	N/A
2% U.S. Treasury Note TIPS, due April 15, 2012	N/A	2,081,624

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. LGC HealthTrust 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 on-going 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, 2008 and 2007, 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>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Not Applicable	\$ 8,034,461	\$ 5,636,446	\$ 5,625,700	\$ 6,179,795
Within 1 Year	23,900,599	23,905,385	1,341,284	1,344,542
1 < 5 Years	17,502,294	17,448,673	14,220,064	14,334,778
5 < 10 Years	4,821,279	4,708,957	5,789,089	5,766,256
10 + Years	12,525,896	11,843,642	12,829,062	12,863,128
Total	\$ 66,784,529	\$ 63,543,103	\$ 39,805,199	\$ 40,488,499

**LOCAL GOVERNMENT CENTER HEALTHTRUST, LLC**  
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**Notes to Financial Statements**

**December 31, 2008 and 2007**

Credit Risk

LGC HealthTrust's investment policy mitigates credit risk by limiting investments to the safest types of securities and diversifying the portfolio. As of December 31, 2008, LGC HealthTrust'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	\$ 1,575,495
Corporate Notes	A2	Moody's	2,890,883
Corporate Notes	A3	Moody's	1,699,361
Corporate Notes	Aa2	Moody's	583,812
Corporate Notes	Aa3	Moody's	591,835
Corporate Notes	Aaa	Moody's/S&P	5,585,581
Corporate Notes	Baa1	Moody's	1,361,252
Corporate Notes	Baa2	Moody's	1,325,278
Corporate Notes	Baa3	Moody's	316,138
Municipal Obligations	A1	Moody's	226,266
Municipal Obligations	A3	Moody's	157,175
Municipal Obligations	Aa2	Moody's	99,912
Mutual Funds	3 stars	Morningstar	5,636,446
U.S. Treasury Notes	Aaa	Moody's	7,227,826
Certificate of Deposit	N/A	N/A	22,235,680
U.S. Government Sponsored Enterprises:			
FNMA	Aaa	Moody's	9,944,341
GNMA	Aaa	Moody's	453,199
FHLMC	Aaa	Moody's	<u>1,632,623</u>
Total			\$ <u>63,543,103</u>

Custodial Credit Risk

For investments, custodial credit risk is the risk that, in the event of failure of the counterparty, LGC HealthTrust will not be able to recover the value of its investments that are in the possession of the outside party. At December 31, 2008, LGC HealthTrust did not have any investments subject to custodial credit risk.

**LOCAL GOVERNMENT CENTER HEALTHTRUST, LLC**  
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**Notes to Financial Statements**

**December 31, 2008 and 2007**

**5. Investment in External Investment Pool**

Investment in external investment pool consists of the following:

	<u>2008</u>	<u>2007</u>
New Hampshire Public Deposit Investment Pool (NHPDIP)		
Reported amount, at fair value	\$ <u>428,841</u>	\$ <u>418,551</u>

The NHPDIP was established under State of New Hampshire Statute, RSA 383:24. The Bank Commissioner, in conjunction with the Advisory Committee, provides regulatory oversight of the investment pool's operations.

**6. Equipment**

Equipment consists of the following:

	<u>Year Ended December 31, 2008</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Office equipment	\$ 145,761	\$ 1,960	\$ (40,268)	\$ 107,453
Computer equipment	2,438,325	761,425	(1,030,291)	2,169,459
Vehicles	<u>15,872</u>	<u>-</u>	<u>-</u>	<u>15,872</u>
	<u>2,599,958</u>	<u>763,385</u>	<u>(1,070,559)</u>	<u>2,292,784</u>
Less accumulated depreciation	<u>1,329,154</u>	<u>140,469</u>	<u>(1,070,559)</u>	<u>399,064</u>
	<u>\$ 1,270,804</u>	<u>\$ 622,916</u>	<u>\$ -</u>	<u>\$ 1,893,720</u>

	<u>Year Ended December 31, 2007</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Office equipment	\$ 130,030	\$ 15,731	\$ -	\$ 145,761
Computer equipment	1,255,168	1,183,157	-	2,438,325
Vehicles	<u>15,872</u>	<u>-</u>	<u>-</u>	<u>15,872</u>
	<u>1,401,070</u>	<u>1,198,888</u>	<u>-</u>	<u>2,599,958</u>
Less accumulated depreciation	<u>1,216,408</u>	<u>112,746</u>	<u>-</u>	<u>1,329,154</u>
	<u>\$ 184,662</u>	<u>\$ 1,086,142</u>	<u>\$ -</u>	<u>\$ 1,270,804</u>

**LOCAL GOVERNMENT CENTER HEALTHTRUST, LLC**  
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**Notes to Financial Statements**

**December 31, 2008 and 2007**

During the year ended December 31, 2007, the Board of Directors of LGC HealthTrust designated \$1,500,000 for the acquisition of a new enrollment and billing system. During 2007, LGC HealthTrust incurred \$1,021,341 of costs in connection with the acquisition and configuration of the new enrollment and billing system. During 2008, the Board of Directors designated an additional \$175,000 for the new enrollment and billing system. During 2008, LGC HealthTrust incurred \$524,865 of costs associated with the new enrollment and billing system. LGC HealthTrust will begin amortizing the costs incurred when the enrollment and billing system is placed into service.

**7. Unpaid Claims Liabilities**

As discussed in Note 1, LGC HealthTrust 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 liabilities for LGC HealthTrust during the years ended December 31:

	<u><b>2008</b></u>	<u><b>2007</b></u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ <u><b>22,475,605</b></u>	\$ <u>22,372,762</u>
Incurred claims and claim adjustment expenses		
Provision for covered events of current year	<b>315,367,947</b>	290,207,766
Adjustments to provision for covered events of prior years	<u><b>(8,301,553)</b></u>	<u>(4,654,682)</u>
Total incurred claims and claim adjustment expenses	<u><b>307,066,394</b></u>	<u>285,553,084</u>
Payments of claims and claim adjustment expenses		
Payments attributable to covered events of current year	<b>(292,616,063)</b>	(267,732,161)
Payments attributable to covered events of prior years	<u><b>(14,029,987)</b></u>	<u>(17,718,080)</u>
Total payments	<u><b>(306,646,050)</b></u>	<u>(285,450,241)</u>
Total unpaid claims and claim adjustment expenses at end of year	<u><b>\$ 22,895,949</b></u>	<u>\$ 22,475,605</u>

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

**Notes to Financial Statements**

**December 31, 2008 and 2007**

**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. At December 31, 2008 and 2007, LGC HealthTrust determined there were no premium deficiencies. Investment income was included as part of the calculation in determining if a premium deficiency existed. Premium deficiencies for LGC HealthTrust programs are mitigated by the continued support of Local Government Center's Board of Directors. The LGC 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 current level of net assets, the LGC Board of Directors decided to adjust rates to return undesignated net assets to members over an anticipated three-year period. The amount of the return is adjusted based on the balance in unrestricted net assets at each year-end.

**9. Related Party Transactions**

LGC HealthTrust 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 \$194,699 for the years ended December 31, 2008 and 2007, respectively.

LGC is the sole member in LGC HealthTrust. LGC provides substantially all the administrative and operational services to LGC HealthTrust. Total administrative expenses paid by LGC HealthTrust to LGC during 2008 and 2007 were \$8,004,725 and \$7,291,736, respectively. LGC allocated \$792,938 of the employer contribution to fund additional benefits related to past service for the participants of the LGC sponsored defined benefit pension plan in January 2007. Amounts payable to LGC at December 31, 2008 and 2007 totaled \$338,094 and \$635,050, respectively.

LGC is a participating member in LGC HealthTrust's risk management programs. During the years ended December 31, 2008 and 2007, LGC paid \$1,337,071 and \$1,315,104, respectively, to LGC HealthTrust for services under its programs.

**LOCAL GOVERNMENT CENTER HEALTHTRUST, LLC**  
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**Notes to Financial Statements**

**December 31, 2008 and 2007**

**10. Reinsurance**

LGC HealthTrust 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 HealthTrust from its obligations to participating members. Failure of reinsurers to honor their obligations could result in losses to LGC HealthTrust; consequently, allowances are established for amounts deemed uncollectible. LGC HealthTrust 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. At December 31, 2008 and 2007, there were no reinsurance receivables or prepaid reinsurance premiums. During the years ended December 31, 2008 and 2007, LGC HealthTrust ceded reinsurance premiums amounting to \$2,101,127 and \$2,364,862, respectively.

**11. Self-Funded Plus Program**

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

**12. Exemption from Statutory Accounting Practices**

LGC HealthTrust 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, LGC HealthTrust is not considered an insurer under the laws of the State, and administration of the activities of LGC HealthTrust shall not constitute conducting an insurance business for purposes of regulation or taxation. At December 31, 2008 and 2007, Statements of Statutory Accounting Practices as promulgated by the National Association of Insurance Commissioners are not applicable to LGC HealthTrust.

**13. Risks and Uncertainties**

LGC HealthTrust 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.

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

**Notes to Financial Statements**

**December 31, 2008 and 2007**

**14. Contingencies**

LGC HealthTrust assesses potential liabilities in connection with lawsuits and threatened lawsuits under FASB's Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies." LGC HealthTrust 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 HealthTrust expenses legal costs as they are incurred.

LGC HealthTrust is involved in a lawsuit in the ordinary course of its business. The lawsuit was filed under the New Hampshire Right to Know Law relative to access to certain LGC records and information. As of December 31, 2008, LGC HealthTrust has not accrued any liability for this lawsuit filed as the conditions for accrual have not been met.

LGC 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, LGC 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 ending June 30, 2009 on the basis that the application was filed a few days after the filing deadline. LGC HealthTrust filed an appeal which is currently pending with CMS. If CMS denies that appeal, LGC HealthTrust expects to reimburse members for the amount of the subsidy. LGC HealthTrust has recorded a liability of approximately \$1,932,000 for the estimated amount of the subsidy due to members as the conditions for accrual have been met.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**LOCAL GOVERNMENT CENTER HEALTHTRUST, 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 LGC HealthTrust's three types of contracts: employee health, dental benefits, and short-term disability.

	<u>Health</u>	<u>Dental</u>	<u>Short-Term Disability</u>	<u>Total</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ <u>20,322,962</u>	\$ <u>2,006,535</u>	\$ <u>146,108</u>	\$ <u>22,475,605</u>
Incurred claims and claim adjustment expenses				
Provision for covered events of current year	293,351,040	21,443,475	573,432	315,367,947
Adjustments to provision for covered events of prior years	<u>(6,827,778)</u>	<u>(1,423,746)</u>	<u>(50,029)</u>	<u>(8,301,553)</u>
Total incurred claims and claim adjustment expenses	<u>286,523,262</u>	<u>20,019,729</u>	<u>523,403</u>	<u>307,066,394</u>
Payments of claims and claim adjustment expenses				
Payments attributable to covered events of current year	(272,867,640)	(19,316,404)	(432,018)	(292,616,062)
Payments attributable to covered events of prior years	<u>(13,351,120)</u>	<u>(582,789)</u>	<u>(96,079)</u>	<u>(14,029,988)</u>
Total payments	<u>(286,218,760)</u>	<u>(19,899,193)</u>	<u>(528,097)</u>	<u>(306,646,050)</u>
Total unpaid claims and claim adjustment expenses at end of year	\$ <u>20,627,464</u>	\$ <u>2,127,071</u>	\$ <u>141,414</u>	\$ <u>22,895,949</u>

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

**Reconciliation of Claims Liabilities by Type of Contract**

**Year Ended December 31, 2007**

The schedule below presents the changes in claims liabilities for LGC HealthTrust's three types of contracts: employee health, dental benefits, and short-term disability.

	<u>Health</u>	<u>Dental</u>	<u>Short-Term Disability</u>	<u>Total</u>
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$ <u>20,487,251</u>	\$ <u>1,745,012</u>	\$ <u>140,499</u>	\$ <u>22,372,762</u>
Incurred claims and claim adjustment expenses				
Provision for covered events of current year	269,880,234	19,639,638	687,894	290,207,766
Adjustments to provision for covered events of prior years	<u>(3,506,422)</u>	<u>(1,115,409)</u>	<u>(32,851)</u>	<u>(4,654,682)</u>
Total incurred claims and claim adjustment expenses	<u>266,373,812</u>	<u>18,524,229</u>	<u>655,043</u>	<u>285,553,084</u>
Payments of claims and claim adjustment expenses				
Payments attributable to covered events of current year	(249,557,272)	17,633,103)	(541,786)	(267,732,161)
Payments attributable to covered events of prior years	<u>(16,980,829)</u>	<u>(629,603)</u>	<u>(107,648)</u>	<u>(17,718,080)</u>
Total payments	<u>(266,538,101)</u>	<u>18,262,706)</u>	<u>(649,434)</u>	<u>(285,450,241)</u>
Total unpaid claims and claim adjustment expenses at end of year	\$ <u>20,322,962</u>	\$ <u>2,006,535</u>	\$ <u>146,108</u>	\$ <u>22,475,605</u>

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

**Nine-Year Claims Development Information**

**Years Ended December 31, 2000 through 2008**

The following nine-year claims development information includes health, dental and short-term disability contracts.

The following table illustrates how LGC HealthTrust'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 LGC HealthTrust as of the end of each of the past nine 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 LGC HealthTrust including overhead and claims expense not allocable to individual claims. (3) This line shows LGC HealthTrust'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 nine 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 HEALTHTRUST, LLC**  
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

Nine-Year Claims Development Information

Years Ended December 31, 2000 through 2008

Fiscal and Policy Year Ended (In Thousands)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
1. Required contribution and investment revenue									
Earned	\$ 122,939	\$ 152,524	\$ 190,260	\$ 224,519	\$ 265,011	\$ 294,302	\$ 319,198	\$ 333,234	\$ 343,921
Ceded	<u>2,743</u>	<u>3,271</u>	<u>3,986</u>	<u>5,149</u>	<u>5,766</u>	<u>3,585</u>	<u>2,329</u>	<u>2,365</u>	<u>2,126</u>
Net earned	<u>120,196</u>	<u>149,253</u>	<u>186,274</u>	<u>219,370</u>	<u>259,245</u>	<u>290,717</u>	<u>316,869</u>	<u>330,869</u>	<u>341,795</u>
2. Unallocated expenses	14,034	16,668	19,101	20,219	23,860	24,882	25,652	27,073	27,604
3. Estimated claims and expenses, end of policy year									
Incurred	110,336	133,273	171,757	222,567	242,797	275,603	273,595	290,397	315,368
Ceded claims	<u>582</u>	<u>1,317</u>	<u>1,799</u>	<u>2,313</u>	<u>2,210</u>	<u>3,428</u>	<u>467</u>	<u>189</u>	<u>-</u>
Net incurred	<u>109,754</u>	<u>131,956</u>	<u>169,958</u>	<u>220,254</u>	<u>240,587</u>	<u>272,175</u>	<u>273,128</u>	<u>290,208</u>	<u>315,368</u>
4. Net paid (cumulative) as of									
End of policy year	94,607	131,956	169,958	196,925	215,715	247,913	273,128	267,732	292,616
One year later	105,992	126,479	163,728	216,544	230,927	265,572	268,972	281,938	-
Two years later	106,135	127,253	163,728	216,544	231,146	265,148	268,887	-	-
Three years later	106,135	127,253	163,728	216,543	231,072	265,069	-	-	-
Four years later	106,135	127,253	163,728	216,542	231,060	-	-	-	-
Five years later	106,135	127,253	163,728	216,542	-	-	-	-	-
Six years later	106,135	127,253	163,728	-	-	-	-	-	-
Seven years later	106,135	127,253	-	-	-	-	-	-	-
Eight years later	106,135	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	582	1,317	1,799	2,313	2,210	3,428	467	189	-
6. Reestimated net incurred claims and expenses:									
End of policy year	109,754	131,956	169,958	220,254	240,587	272,175	273,128	290,208	315,368
One year later	105,992	126,479	163,728	216,544	230,927	265,572	268,972	282,082	-
Two years later	106,135	127,253	163,728	216,544	231,146	265,148	268,887	-	-
Three years later	106,135	127,253	163,728	216,543	231,072	265,069	-	-	-
Four years later	106,135	127,253	163,728	216,542	231,060	-	-	-	-
Five years later	106,135	127,253	163,728	-	-	-	-	-	-
Six years later	106,135	127,253	163,728	-	-	-	-	-	-
Seven years later	106,135	127,253	-	-	-	-	-	-	-
Eight years later	106,135	-	-	-	-	-	-	-	-
7. Decrease in estimated net incurred claims and expenses from end of policy year	(3,619)	(4,703)	(6,229)	(3,712)	(9,527)	(7,106)	(4,241)	(8,126)	-



**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., as Sole Member of  
Local Government Center HealthTrust, LLC  
(A Wholly-Owned Subsidiary of Local Government Center, Inc.)

We have audited the financial statements of Local Government Center HealthTrust, LLC (a wholly-owned subsidiary of Local Government Center, Inc.) (LGC HealthTrust) as of and for the year ended December 31, 2008 and have issued our report thereon dated July 6, 2009. 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 HealthTrust'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 HealthTrust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LGC HealthTrust'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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 HealthTrust'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 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 HealthTrust'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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2008-01.

We noted certain matters that we reported to management of LGC HealthTrust in a separate letter dated July 6, 2009.

LGC HealthTrust's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit LGC HealthTrust's response, and accordingly, we express no opinion on it.

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



Manchester, New Hampshire  
July 6, 2009

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

**Schedule of Findings and Responses**

**Year Ended December 31, 2008**

Finding Number: 2008-01

Condition Found: LGC HealthTrust contracts with member groups to provide assistance in applying to the Centers for Medicare and Medicaid Services ("CMS") in order to receive Medicare Part D subsidy funds in connection with the retiree prescription drug plans. In order to receive the Medicare Part D subsidy, LGC HealthTrust is required to file an application within a specified deadline. In prior years, we understand 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 ending June 30, 2009 on the basis that the application was filed a few days after the filing deadline. LGC HealthTrust filed an appeal which is currently pending with CMS. If CMS denies that appeal, LGC HealthTrust expects to pay member groups the amount of the lost subsidy.

Recommendation: We recommend LGC HealthTrust file the Medicare Part D subsidy application within the filing deadline established by CMS.

Views of a Responsible  
Official and Corrective  
Action Plan:

LGC HealthTrust immediately took steps to mitigate the chance of this recurring. Two LGC HealthTrust individuals are designees for each Medicare D filing. A 30-day extension is promptly applied for and, instead of waiting for all other steps to be completed, LGC HealthTrust immediately produces and transmits the required information to the Medicare Part D Retiree Drug Subsidy Program. This provides LGC HealthTrust with sufficient time in order to be able to manage its portions of the application process. In addition, a tracking system has been established in a shared MS Excel worksheet to track the stages of each application. The Operations Manager maintains a MS Outlook Task List item to assure the timeliness of all applications being processed by LGC HealthTrust.

**LOCAL GOVERNMENT CENTER HEALTHTRUST, LLC  
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**Summary Schedule of Prior Audit Findings**

**Year Ended December 31, 2008**

Finding Number: 2007-01

Condition Found: In accordance with the disclosures required by the Governmental Accounting Standards Board (GASB) for Public Entity Risk Pools (as described in GASB Codification Section Po20.148a), revenue and claims development information should be included as Required Supplementary Information. As disclosed in the Eight-Year Claims Development Information, HealthTrust's financial reporting system does not have the ability to report incurred claims and allocated claim adjustment expenses as originally reported and reestimated for each of the years presented at December 31, 2007.

Recommendation: We recommend management discuss these disclosure requirements with the actuary and the third-party administrators to determine whether the disclosure information can be reasonably obtained.

Action Taken: The Nine-Year Claims Development Information included in the financial statements as of and for the year ended December 31, 2008 includes the disclosures required by GASB for Public Entity Risk Pools.

Status: **CORRECTED**

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

**Summary Schedule of Prior Audit Findings**

**Year Ended December 31, 2008**

Finding Number: 2007-02

Condition Found: In accordance with the disclosures required by GASB for Public Entity Risk Pools (as described in GASB Codification Sections Po20.147g and Po20.148b), a reconciliation of total claims liabilities, including an analysis of changes in aggregate liabilities for claims and claim adjustment expenses for the current fiscal year and prior fiscal year, should be presented in tabular format. In addition to the reconciliation of total claims liabilities, a reconciliation of claims liabilities by type of contract, including an analysis of changes in liabilities for claims and claim adjustment expenses for the current fiscal year and prior year, should be disclosed.

As described in Note 6 to HealthTrust's financial statements, HealthTrust's financial reporting system does not have the ability to report the differentiation of the provision for incurred claims and claim adjustment expenses for covered events of the current year and the change in the provision for covered events of prior years for the years ended December 31, 2007 and 2006.

Recommendation: We recommend management discuss the disclosure requirements with the actuary and the third party administrators to determine whether the disclosure information can be reasonably obtained.

Action Taken: Management established a procedure to calculate the differentiation of the provision for incurred claims and claim adjustment expenses for the covered events of the current year from the adjustments to the provision for covered events of prior years for the years ended December 31, 2008 and 2007. The calculation was performed for the reconciliation of claims liability by type of contract and in total for each of the calendar years.

Status: **CORRECTED**