



Local Government Insurance Trust

Comprehensive Annual Financial Report

*for the fiscal year ended
June 30, 2012*

*Our Mission Is Serving
Maryland Local Governments*





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Founding Organizations



MARYLAND
Association of
COUNTIES



THE
MARYLAND
MUNICIPAL
LEAGUE

*Our Mission Is Serving
Maryland Local Governments*



Local Government Insurance Trust

Comprehensive Annual Financial Report

*for the fiscal year ended
June 30, 2012*

PREPARED BY

Local Government Insurance Trust
Department of Finance and Information Technology
J. Earle Beyer, Director



*The Comprehensive Annual Financial Report
of the Local Government Insurance Trust
for the fiscal year ended June 30, 2012
is hereby respectfully submitted*

*Our Mission Is Serving
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LETTER FROM THE CHAIR

Your Trust in FY 2012



The Local Government Insurance Trust (Trust) is an insurance pool created in 1987 in response to the lack of an available, affordable, insurance market for Maryland's local governments. Because the Trust is local to Maryland, and is owned and operated by Maryland's local governments, its primary purpose is to resolve the risk management needs of its members. Unlike a typical "insurance company," the Trust is a nonprofit organization, governed by its members. Members can directly access the Board of Directors, the Chairman of the Board and the Executive Director concerning their risk management and insurance issues.

Fiscal year 2012 was a very good one for the Trust, both financially and in member retention. The Trust welcomed two new members bringing total participation to 177. In fiscal year 2012, Trust membership includes 16 counties, 135 municipalities, 23 sponsored entities, the Maryland Municipal League (MML), the Maryland Association of Counties (MACo) and the Local Government Insurance Trust.

Training continues to be a primary focus of our risk management efforts, because the better trained employees are, the fewer losses they will incur. In fiscal year 2012, the Trust provided 67 training and educational opportunities across the state, which were attended by 1,327 local government officials and employees.

In 2012, the Trust also continued its outreach to organizations and groups representing and/or affiliated with the Trust members. These groups included the Maryland Sheriff's Association, the Maryland Police and Correctional Training Commission, the GFOA, the Injured Worker's Insurance Fund, the Public Risk Insurance Management Association, the National League of Cities Risk Information Sharing Consortium, the National Association of Counties and of course, MACo and MML. The Trust continued its partnership with MACo, MML, and the Institute for Governmental Services at the University of Maryland, to conduct the Academy for Excellence in Local Governance.

From a financial standpoint, the Trust was able to increase member equity by approximately \$945,000. This increase was mainly driven by returns on the investment portfolios and the positive conclusion to the Charles County fire dispute with the reinsurance carrier. Overall, the Trust continues to maintain a very healthy reserve and is in excellent financial condition. During fiscal year 2012, \$3,350,000 was returned to the members of the Primary Liability Pool (PLP) and \$400,000 to members of the Excess Pool in the form of premium credits. We also anticipate returning an additional \$3,100,000 of credits in the coming fiscal year 2013. More information regarding the rate stabilization credit program can be found in Note No. 8 of the Notes to the Financial Statements contained in this Comprehensive Annual Financial Report (CAFR).

Also included in the CAFR are the Transmittal letter and Management's Discussion and Analysis, which provide detail regarding the financial operations of the Trust. Additionally, the basic financial statements include the Notes to the financial statements, which are an integral part of the annual report. The annual audit went very well largely due to the quality and the stability of the staff in our finance department and the work of our Finance/Audit Committee.

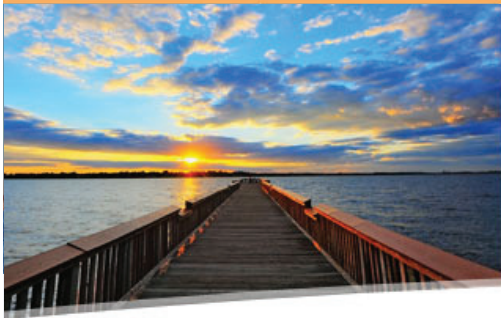
My sincere appreciation is extended to all members for their support, input and ideas, that have made the Trust what it is today. I also express my gratitude to my dedicated fellow Board members and the many local government officials who serve on the Trust's committees. These volunteers are to be commended for their extra effort in making this year a great one. Finally, I would like to take this opportunity to thank the highly experienced staff for their hard work throughout the year. Their commitment and dedication to Maryland's local governments are what sets us apart from the competition.

Respectfully submitted,

A handwritten signature in dark ink that reads "David J. Deutsch". The signature is written in a cursive, flowing style.

David J. Deutsch, Chair
City Manager, City of Bowie

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Introductory Section

Transmittal Letter

Certificate of Achievement
for Excellence in Financial
Reporting

Membership

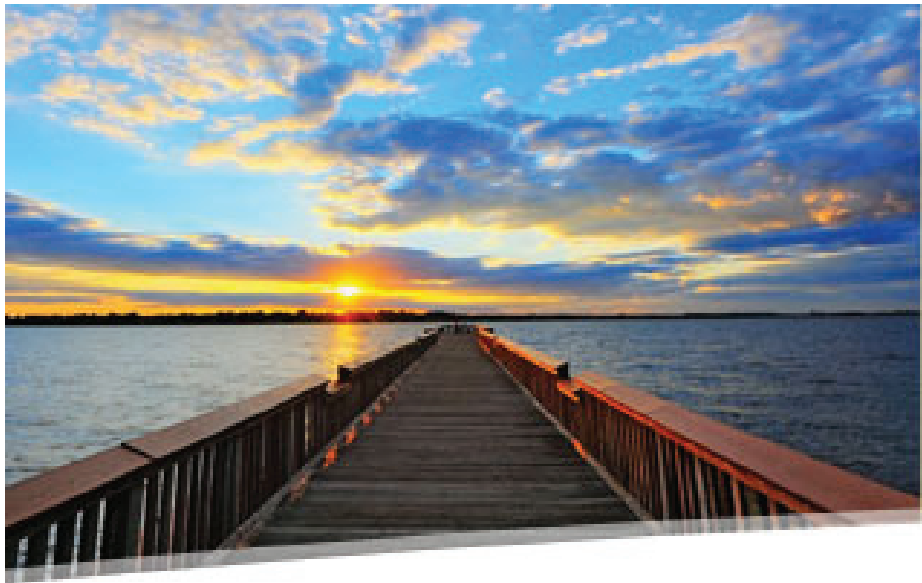
Board of Trustees

LGIT Staff

LGIT Organizational Chart

*Our Mission Is Serving
Maryland Local Governments*







www.lgit.org • 7225 Parkway Drive • Hanover, MD 21076
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October 31, 2012

Board of Trustees
Local Government Insurance Trust
7225 Parkway Drive
Hanover, Maryland 21076

Ladies and Gentlemen:

The Comprehensive Annual Financial Report of the Local Government Insurance Trust (Trust) for the year ended June 30, 2012 is hereby respectfully submitted. The Trust's finance department prepared this report. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Trust. We believe the data, as presented, is accurate in all material respects; presented in a manner designed to fairly present the financial position, results of operations and cash flows of the Trust. It also provides all disclosures necessary to enable the reader to gain the maximum understanding of the Trust's financial affairs.

The Comprehensive Annual Financial Report (CAFR) is presented in three sections: introductory, financial and statistical. The introductory section contains this transmittal letter, which includes a discussion of the financial activities and substantive highlights for the fiscal year, a list of the Trust's members, a list of the Trust's officers, the Trust's organizational chart and a copy of the fiscal year 2011 Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association. The financial section includes the independent auditors' report, management's discussion and analysis, the audited basic financial statements, required supplementary information, and supplementary combining schedules. The statistical section includes selected financial and statistical data, generally presented on a multi-year basis.

The Reporting Entity and Its Services

The Trust is a joint association of Maryland local governments formed July 1, 1987 to provide insurance coverage and other risk management services. Specifically, the Trust provides insurance coverage for certain classes of casualty and property related risks, as well as support services such as litigation, administration and management of claims, risk management and loss control services, training and property valuations. As of June 30, 2012, the Trust operates three pools of coverage: the Primary Liability Pool (PLP), the Property Pool, and the Excess Liability Pool (ELP). The Trust also sponsors Environmental Impairment Liability and Bond Programs. Outside insurance carriers hold the financial risk of both programs and its participants deal directly with them. The Trust also serves as the administrator and treasurer for the Maryland Local Government Health Cooperative (Cooperative) which is a self-insurance alliance among member governments. The Cooperative is a separate entity from the Trust and the Trust holds no financial risk associated with the role of treasurer and administrator. Membership in the Trust is limited to Maryland local governments that are members of either the Maryland Association of Counties (MACo) or the Maryland Municipal League (MML).

A Board of Trustees (Board) consisting of 13 voting members governs the Trust. The Board is comprised of five municipal and five county officials and one member that alternates between the counties and the municipalities, all elected by the membership. Additionally, both executive directors of MACo and MML serve as ex-officio Trustees. The Board elects a Chairman, Vice-Chairman and a Secretary from its members and Elected Trustees are eligible for reelection every three years. The day-to-day operations of the Trust are overseen by the Executive Director, who is the chief administrative officer and is responsible for the administrative implementation of policies stated in the Trust Agreement and By-Laws, as well as the policy manual and as established by the Board.

Economic Outlook

In fiscal year 2012, Trust member participation remains very strong, with 100% retention plus two new enrollments, the Village of Martin's Additions and the Town of Greensboro. Services provided by the Trust such as personalized claims handling, underwriting and loss control services, training opportunities, and other value added services, typically not provided by commercial insurers, continues to engender a level of solid loyalty thus minimizing attrition. Innovation, such as placing excess and reinsurance coverage with more aggressive insurers, reduces the Trust's overhead costs resulting in more competitive rating. These savings allow the Trust to compete even more effectively than in the past with those commercial insurers which try to "buy the business" with short-term rate reductions.

Current indications point to a stable liability insurance market for the rest of calendar year 2012 and into fiscal year 2013. Reinsurance costs for the next Excess reinsurance renewal in the spring of 2013 are expected to remain relatively unchanged from fiscal year 2013 rates, which is approximately 4% less than what was paid for fiscal year 2012. In addition, the surplus of the Excess pool is large enough to support the first layer of \$1,000,000 of coverage at no charge to members. This combination resulted in a net cost reduction to members of the Excess Liability pool of more than 8% for fiscal 2013.

For the Property pool, reinsurance prices have increased by approximately 10% for fiscal year 2013 compared to fiscal year 2012 and we are expecting more price increases to come in the future, particularly for catastrophe coverage such as flood and wind risks. Accumulated levels of surplus available in the Property pool have allowed the funding of credits for members of the pool thereby offsetting the increases to the net aggregate cost to members.

As in the past, the Trust continues to rely on responsible underwriting by funding the pools based on actuarial projections rather than gambling on underpriced risks. The availability of surplus as discussed above in all of the Trust's three pools has allowed the Trust to hold down prices which further creates loyalty among the members of these pools and is likely to continue over the next few years.

MAJOR INITIATIVES

For the Year

The following highlights some of the Trust's major accomplishments during fiscal year 2012:

- ❑ **INFORMATION TECHNOLOGY** – In April of fiscal year 2012, the Phase I and 2 installation and configuration of the Risk 360 member portal for policy renewal, service requests, quote requests and document exchange was completed. Charles County, Charlestown and College Park participated in the member portal pilot program and successfully completed their fiscal year 2013 renewal using the renewal wizard. The feedback received from the member pilot program participants was essential in identifying any technical problems and proposed system enhancements before launching the member portal to the rest of LGIT's members.

During fiscal year 2012, the Trust also unveiled a new website. The new website has enhanced our image, establishing a credible, professional representation of the Trust's vision. The improved functionality and fresh new design has increased awareness of our products and services and provides a more user-friendly experience. LGIT members have access to the recently launched member portal from a hot button on the home page.

- ❑ **TRAINING** – Training continues to be a primary focus of our risk management efforts to help Trust members reduce losses. In fiscal year 2012, the Trust provided 67 training and educational opportunities across the state attended by 1,327 local government officials and employees. The Trust provided a series of training programs, for both public official & employment liability, and Defensive Driving to address these loss control concerns. The Legal Department staff continued to present the important Workplace Harassment seminar throughout the State. This program includes a segment on "Bullying in the Workplace" and it has been well received by members throughout the state.

- ❑ **LOSS CONTROL CREDIT SURVEY** – The Board of Trustees, as part of a larger plan to return surplus from the PLP, elected to implement a loss control credit program. The intent was to reward those members who have engaged in exceptional loss control activities. Funding of \$300,000 was allocated to this effort for fiscal year 2011 and continued into fiscal year 2012. Members completed an online survey broken down into sets of questions appropriate to the individual lines of coverage offered by the pool. Depending upon their loss control score, qualifying members receive a credit of approximately 5% of premium.
- ❑ **RATE STABILIZATION CREDITS** – In fiscal year 2012, for the fourth year in a row, the Board of Trustees implemented a return of equity in the form of rate stabilization credits for the eligible members of the PLP. The equity return follows the policies concerning equity as stated in Article VIII, Section 8.03(b) of the Trust Agreement. Each member's share of the equity return was deposited into their respective rate stabilization accounts. Funds in the account are used by each member, at their discretion, as a credit or offset to their annual PLP premiums. The Board has limited the annual credit to 50% of the account balance. The remainder will be left in the account and can be available in subsequent years. The funds in the rate stabilization accounts can only be used by individual members as an offset against PLP premiums which will require a renewal of membership.
- ❑ **PROPERTY APPRAISAL PROGRAM** – A special property appraisal program was initiated in March of 2008 and continued throughout fiscal year 2012.
- ❑ **MEMBER SERVICES OUTREACH** – The Trust's staff visited over 90 members to market products and services. In addition we provided new quotes to 6 prospects. This effort produced 3 new members and also added additional lines of coverage to many current members.
- ❑ **LEGAL SERVICES** – The legal staff carries an average of 92 open assignments per month, approximately 65 of which are pending lawsuits with the remainder being administrative charges of employment discrimination. Over the past year, legal staff achieved successful outcomes for LGIT members in 34 lawsuits and 18 charges of employment discrimination.
- ❑ **HEALTH COOPERATIVE** – The second year of the Health cooperative was completed consisting of 9 members. It is currently estimated that approximately \$630,000 will be returned to Cooperative members with good claim experience.

For the Future

During fiscal year 2013, Phase 3 installation and configuration of the Risk 360 member portal for online claim submission is expected to be completed. Member portal pilot program participants will be trained at LGIT offices along with LGIT's Claims staff to submit and intake claims using the member portal. Member portal users will have secure "read only" access to claim information and documents at various security levels.

LGIT's goal in 2013 is to have a fully integrated system with the member portal, allowing for more efficient communication between all three operational functions of underwriting, claims and finance. By integrating all of these processes, maximum productivity will be achieved both by the Trust and by its members, saving valuable time and ultimately reducing claims costs resulting from inefficient processes.

The Legal staff in fiscal year 2013 is planning to produce a quick reference guide to Fourth Amendment search/seizure issues for use by police officers in the field.

FINANCIAL MANAGEMENT AND CONTROLS

The basic financial statements have been presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental entities, and necessarily include amounts based upon reliable estimates and judgments. The Trust's accounting records are maintained using an economic resources measurement focus and the accrual basis of accounting. A summary of the Trust's significant accounting policies is discussed in more detail in Management's Discussion and Analysis and also in the Notes to the Financial Statements found in the financial section of this report.

Internal Accounting Structure

Internal controls have been put in place to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in accordance with GAAP. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits derived from the control, and that the evaluation of costs and benefits requires reasonable business judgment by management. All internal control decisions are made within the above framework. Management believes the Trust's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary Control

A detailed annual budget is prepared prior to the start of each fiscal year and submitted to the Board for review and approval. Trust management is required by the Board to control expenditures and stay within its guidelines. The approved budget is also used as a management tool to aid in the evaluation of performance. Detailed reports comparing budget to actual are provided to the Board on a quarterly basis. The Trust's independent auditors do not audit these internal management reports.

Cash Management

The Department of Finance is responsible for daily cash management and monitoring the activities of the external investment managers. The Trust receives daily pricing of investment securities owned, a monthly reporting of all transactions and cash flows as well as quarterly performance reports. All securities are held in safekeeping with a third party custodian bank as designated by the Board.

Risk Management

The Trust continually seeks ways to manage the risks of each pool of coverage it offers. The Trust provides a number of programs to assist its members in controlling losses and managing risk including various seminars, training programs and property inspection services. Further, the Trust utilizes the services of an independent consulting actuary. The actuary performs regular reviews to assist the Trust in establishing appropriate loss reserves and contribution rates. The Trust has also purchased reinsurance to protect against unusually severe individual claim losses.

Independent Financial Audit

CliftonLarsonAllen LLP, an independent certified public accounting firm, provides an objective, independent examination of the Trust's basic financial statements. Its audit includes those auditing procedures that it deems necessary to express an opinion on the fairness, in all material respects, of the financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). CliftonLarsonAllen's unqualified opinion on the Trust's basic financial statements as of and for the fiscal years ended June 30, 2012 and 2011 is included in the financial section of this report.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the Trust for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. FY2011 marks the 12th year in a row that the Trust has received this significant award.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. The CAFR must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report conforms to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

This report reflects the combined efforts of the Board, the Finance/Audit Committee, the Trust's management and staff. We would like to express our sincere appreciation to each of the Trust's members, the Board, the various local government officials that serve on the Trust committees and the employees of each governmental unit for their commitment to risk management and intergovernmental risk pooling. Their support and commitment is the reason for the continued successful operation of the Local Government Insurance Trust.

Respectfully submitted,



A handwritten signature in black ink, appearing to read 'Tim Ailsworth'.

Tim Ailsworth
Executive Director



A handwritten signature in black ink, appearing to read 'J. Earle Beyer'.

J. Earle Beyer
Director, Financial and IT Services

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Local Government Insurance
Trust, Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Sandson

President

Jeffrey R. Emer

Executive Director

Fiscal Year 2012 Membership

Aberdeen	Clear Spring	Howard County Library	Poolesville
Accident	College Park	Howard County Mental Health Authority	Port Deposit
Annapolis	Colmar Manor	Hurlock	Preston
Baltimore County	Cottage City	Hyattsville	Princess Anne
Barclay	Crisfield	Indian Head	Queen Anne
Barnesville	Deer Park	Keedysville	Queen Anne's County
Barton	Denton	Kensington	Queensdown
Bel Air	District Heights	Kent County	Rising Sun
Berlin	Dorchester County	Kent County Public Library	Riverdale Park
Berwyn Heights	Eagle Harbor	Kitzmillers	Rosemont
Betterton	East New Market	La Plata	Rockville
Bladensburg	Eastern Shore	Landover Hills	Salisbury
Boonsboro	Entrepreneurship Center	Laurel	Seat Pleasant
Bowie	Easton	Laytonsville	Secretary
Brentwood	Edmonston	Leonardtown	Sharpsburg
Brookeville	Eldorado	Local Government Insurance Trust	Sharptown
Brookview	Elkton	Loch Lynn Heights	Smithsburg
Brunswick	Emmitsburg	Lonaconing	Snow Hill
Burkittsville	Fairmount Heights	Luke	Somerset County
Calvert County	Federalsburg	Mardela Springs	Somerset County Library System
Cambridge	Forest Heights	Marydel	Somerset County Sanitary District, Inc.
Cambridge Municipal Utilities Commission	Friendsville	Maryland Association of Counties	St. Clements Island and Piney Point Museums
Capitol Heights	Frostburg	Maryland Municipal League	St. Mary's County
Caroline County	Gaithersburg	Martin's Additions	St. Mary's County Metropolitan Commission
Caroline County Humane Society	Galestown	Middletown	St. Michaels
Caroline County Library	Garrett County	Mid-Shore Regional Council	Sudlersville
Carroll Area Transit, Inc.	Garrett County Community Action Committee	Millington	Sykesville
Carroll County	Garrett Park	Montgomery Municipal Cable	Takoma Park
The Humane Society of Carroll County, Inc.	Glen Echo	Morningside	Talbot County
Carroll County Public Library	Glenarden	Mount Airy	Taneytown
Cecil County	Goldsboro	Mount Rainier	Tri-County Council for the Lower Eastern Shore
Cecilton	Grantsville	Myersville	University Park
Charles County	Greenbelt	New Carrollton	Upper Marlboro
Charlestown	Greensboro	New Market	Vienna
Chesapeake Beach	Hagerstown	New Windsor	Walkersville
Chesapeake City	Hampstead	North Beach	Washington County
Chestertown	Hancock	North Brentwood	Washington Grove
Cheverly	Havre de Grace	North Chevy Chase	Westernport
Chevy Chase	Hebron	North East	Westminster
Chevy Chase View	Henderson	Northeast Maryland Waste Disposal Authority	Willards
Chevy Chase Village	Highland Beach	Oakland	Williamsport
Section 3 of the Village of Chevy Chase	Hillsboro	Ocean City	Worcester County
Chevy Chase Section 5	Howard Community College	Pittsville	Worcester County Library
Church Creek	Howard County Economic Development Authority	Pocomoke City	
Church Hill	Howard County Housing Commission		

Fiscal Year 2012 Board of Trustees



David J. Deutsch, Chairman
City Manager, City of Bowie



John E. Bloxom, Vice Chairman
County Attorney, Worcester County



David E. Carey, Secretary
Commissioner, Town of Bel Air



Michael J. Sanderson, Ex-Officio
*Executive Director,
Maryland Association of Counties*



Scott Hancock, Ex-Officio
*Executive Director,
Maryland Municipal League*



Grogan T. Crawford
*Commissioner,
Garrett County*



Stewart B. Cumbo
*Councilman,
Town of Chesapeake Beach*



Debra M. Davis
*Commissioner,
Charles County*



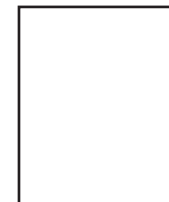
Susanne Hayman
*County Administrator,
Kent County*



John D. Miller
*Burgess,
Town of Middletown*



Tari Moore
*Commissioner,
Cecil County*



Vacant

Fiscal Year 2012 Management and Staff

Executive



Tim Ailsworth
Executive Director



Sandy Tedrow
Office Manager

Finance and Information Technology Services



J. Earle Beyer
Director



Betty Haynes
Accountant



Michael Becker
Systems Engineer



Sheryl Browning
Database Analyst

Loss Control & Underwriting Services



Herbert Schomburg
Director



Scott Soderstrom
Underwriting Manager



Ellen Nudd
Underwriter



Richard Furst
Senior Loss Control Manager



Vance Petrella
Loss Control Manager



Jeffrey Perkins
Loss Control Associate



Larry Bohlen
Member Services & Ed. Manager



Michele Keplinger
Member Services Associate



Michelle Yannone
Staff Associate



Latina Wilkinson
Loss Control Assistant

Fiscal Year 2012 Management and Staff

Claims Services



Sherri Butler
Director



Elisabeth Beekman
Manager/Litigation Analyst



Elizabeth Martinez
Litigation Analyst



Dorie Schwartz
Senior Claims Analyst



Clyde Bessicks
Claims Analyst



Gail Cook
Claims Analyst



Hollis Henry
Claims Analyst



Dalas Salters
Claims Analyst



Charise Henderson
Claims Staff Associate



Norma Jean Doerr
Claims Administrative Assistant

Legal Services



John F. Breads, Jr.
Director

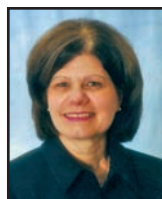


Christine Altemus
Senior Attorney



Matthew Peter
Attorney

Human Resources & Administrative Services



Marsha Carpenter
HR/Health Co-Op Account Manager

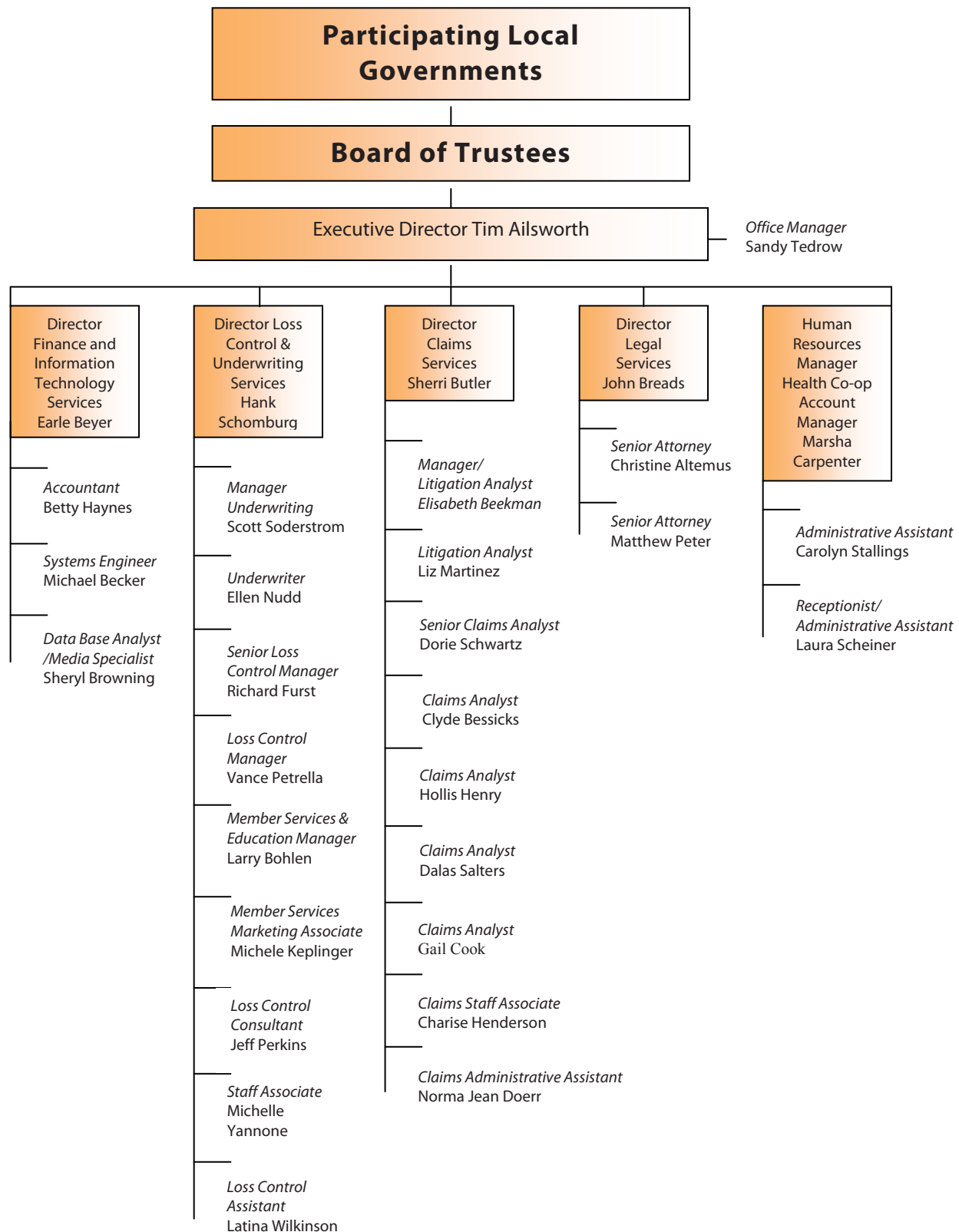


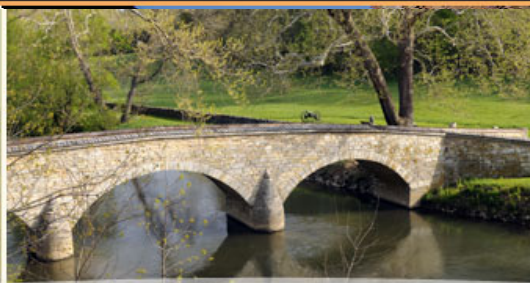
Carolyn Stallings
Administrative Assistant



Laura Scheiner
Receptionist/Administrative Assistant

Fiscal Year 2012 Organizational Chart





Financial Section

Independent Auditors' Report

Management's Discussion and Analysis

Statements of Net Assets

Statements of Revenues, Expenses and Changes in Net Assets

Statements of Cash Flows

Notes to Financial Statements

Explanation of Required Supplementary Information

Reconciliation of Claims Liabilities and Related Expenses by Pool

Claims Development Information

Supplementary Combining Schedules

*Our Mission Is Serving
Maryland Local Governments*





Independent Auditor's Report

Board of Trustees
Local Government Insurance Trust
Hanover, Maryland

We have audited the accompanying statements of net assets, revenues, expenses and changes in net assets, and cash flows of Local Government Insurance Trust (the Trust) as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Trust's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of June 30, 2012 and 2011, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 20 and the supplementary information on pages 37 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Local Government Insurance Trust's basic financial statements. The supplementary combining schedules listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such

information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The letter from the Chair, introductory section, and statistical tables listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

CliftonLarsonAllen LLP

Baltimore, Maryland
October 10, 2012



Local Government Insurance Trust

Management's Discussion and Analysis

Years Ended June 30, 2012 and 2011

This section of the Comprehensive Annual Financial Report presents a discussion and analysis of the financial performance of the Local Government Insurance Trust (Trust) as of and for the years ended June 30, 2012 and 2011. Please read it in conjunction with the financial statements, which follow this section.

The following is a brief description of the Trust's three basic financial statements:

STATEMENT OF NET ASSETS — This statement presents information reflecting the Trust's assets, liabilities and net assets. The statement of net assets categorizes assets and liabilities as current and noncurrent. For purposes of this financial statement, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or become due within twelve months of the statement date.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS — This statement reflects the operating revenues and expenses, as well as nonoperating revenues and expenses of the Trust. The Trust's major source of operating revenues is premium income with the major source of operating expenses being incurred claims and claims adjustment expenses. The change in net assets is similar to net profit or loss for any other insurance company.

STATEMENT OF CASH FLOWS — The statement of cash flows is presented on the direct method of reporting which reflects cash flows from operating, capital and related financing, noncapital and related financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase in cash and cash equivalents for the fiscal year. Due to timing differences associated with accrual accounting, the net cash provided by operating activities is different than the amount of operating loss reported on the statement of revenues, expenses and changes in net assets; therefore, a reconciliation is also provided.

FINANCIAL SUMMARY

The following table summarizes the financial position of the Trust at June 30, 2012, 2011 and 2010, respectively.

Summary of Net Assets

	2012	2011	2010
ASSETS			
Current assets	\$ 16,363,114	\$ 19,050,139	\$ 17,306,079
Noncurrent assets	46,097,000	46,116,343	43,725,972
Total Assets	62,460,114	65,166,482	61,032,051
LIABILITIES			
Current liabilities	6,228,340	4,260,981	4,429,822
Noncurrent liabilities	7,698,723	13,317,656	12,879,585
Total Liabilities	13,927,063	17,578,637	17,309,407
NET ASSETS			
Invested in capital assets, net of related debt	3,958,929	412,314	489,107
Unrestricted	44,574,122	47,175,531	43,233,537
TOTAL NET ASSETS	\$ 48,533,051	\$ 47,587,845	\$ 43,722,644

Total Assets

Total assets decreased by approximately \$2,706,000 between June 30, 2011 and 2012. This decrease is primarily caused by the payoff, or early retirement, of the Revenue Bonds, described in Note 7 of the Notes to the Financial Statements, totaling \$3,880,000.

Total assets increased by approximately \$4,134,000 between June 30, 2010 and 2011. This increase is generated primarily by approximately \$4,393,000 of investment income.

Total Liabilities

The most significant components of the Trust's liabilities are related to unpaid claims and claim adjustment expenses. Unpaid claims and claim adjustment expense is a liability calculated by the Trust's actuary for all pools. Unpaid claims and claims adjustment expense at 2012 year end decreased by approximately \$367,000 from year end 2011.

Total liabilities decreased by approximately \$3,652,000 between June 30, 2011 and 2012 primarily due to the \$3,880,000 payoff of the Revenue Bonds.

Total liabilities did grow by approximately \$269,000 during fiscal year 2011, generated primarily by the growth in the member rate stabilization fund of approximately \$443,000.

The following table summarizes the change in net assets for fiscal years ended June 30, 2012, 2011 and 2010, respectively.

Summary of Revenues, Expenses and Changes in Net Assets

	2012	2011	2010
Operating revenues	\$ 8,365,841	\$ 9,481,021	\$ 10,282,371
Operating expenses	9,517,725	9,962,316	10,711,185
Operating loss	(1,151,884)	(481,295)	(428,814)
Nonoperating income	2,097,090	4,346,496	3,527,459
Change in net assets	945,206	3,865,201	3,098,645
Net assets, beginning of year	47,587,845	43,722,644	40,623,999
Net assets, end of year	<u>\$ 48,533,051</u>	<u>\$ 47,587,845</u>	<u>\$ 43,722,644</u>

RESULTS OF OPERATIONS

Revenues

Total operating revenues decreased by approximately 12% or approximately \$1,115,000 for fiscal year 2012 compared to fiscal year 2011. This decrease was primarily due to the approximately \$458,000 increase in rate credits granted to members of the PLP during fiscal year 2012 compared to the amount granted in 2011, an increase of approximately \$398,000 of reinsurance costs for the Property Pool and other premium rate reductions resulting in gross premiums earned decreasing by approximately \$368,000.

Total operating revenues decreased by approximately 8% or approximately \$801,000 for fiscal year 2011 compared to fiscal year 2010. This was primarily due to the following three factors: a decrease in gross premiums billed by approximately \$951,000; a \$1,000,000 increase of rate stabilization credits granted to the members; offset by a reduction in property reinsurance of approximately \$1,138,000.

Expenses

Operating expenses are comprised of incurred claims and claim adjustment expenses (net of recoveries) and the Trust's general and administrative expenses.

The total operating expenses were essentially unchanged in fiscal year 2012 compared to fiscal year 2011.

The claim and claim adjustment expenses were approximately \$800,000 lower in fiscal year 2011 compared to fiscal year 2010 primarily due to a reduction in paid claims of approximately \$1,560,000. This was offset by the increase to the change in liability for unpaid claims of approximately \$761,000.

The Trust's general and administrative (G&A) expenses remained relatively unchanged in fiscal year 2011 compared to fiscal year 2010.

Nonoperating revenues

Nonoperating revenues consist of investment income and interest expense. Investment income was approximately \$2,138,000 lower in fiscal year 2012 compared to fiscal year 2011. This reduction was mainly due to the flat performance of the Trust's equity investments compared to the unusually high growth rate of 36% in fiscal year 2011.

Investment income was approximately \$815,000 higher in fiscal year 2011 compared to fiscal year 2010. The total return on LGIT's investment portfolio increased to approximately 9.9% during fiscal year 2011 compared to a 8.7% return for fiscal year 2010. This improved performance was driven mainly by the Trust's equity portfolio.

Both the fixed income and equity portfolios outperformed their respective benchmarks as established by the Board during fiscal year 2012 and 2011.

The annualized investment returns for fiscal years 2012, 2011 and 2010 are summarized by investment type as follows. This does not include any return or loss on the Trust's deposit with the reinsurance pool.

	2012	2011	2010
Fixed income portfolio	5.63%	3.95%	8.70%
Equity portfolio	.12%	36.00%	9.04%
Total LGIT investments	4.21%	9.89%	8.77%

The Trust's fixed income investments of its combined short-term and long-term portfolios represent approximately 79% of the Trust's entire investment portfolio as of June 30, 2012, and 78% as of June 30, 2011 and 81% as of June 30, 2010. The Trust's equity target percentage for its long-term portfolio has remained at 24% during the three year period.

This financial report is designed to provide Trust members with a general overview of the Trust's finances, and to demonstrate the Trust's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to J. Earle Beyer, Director of Finance/Information Technology, 7225 Parkway Drive, Hanover, Maryland 21076.



LOCAL GOVERNMENT INSURANCE TRUST

Statements of Net Assets

June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents (note 3)	\$ 2,023,573	\$ 6,339,858
Investments (note 4)	12,631,055	11,003,915
Premiums receivable	40,839	145,222
Interest income receivable	270,889	312,753
Reinsurance receivable (note 9)	1,237,853	1,093,490
Other	158,905	154,901
Total current assets	16,363,114	19,050,139
Noncurrent assets:		
Investments (note 4)	36,680,936	36,601,900
Capital assets (note 5)	3,958,929	4,156,715
Deposit with reinsurance pool (note 9)	5,457,135	5,222,129
Other	-	135,599
Total noncurrent assets	46,097,000	46,116,343
Total assets	62,460,114	65,166,482
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	31,635	26,009
Unpaid claims and claim adjustment expenses (note 6)	4,472,923	3,050,101
Health plan cooperative payable	608,294	68,341
Interest payable	-	418
Rate stabilization fund (note 8)	973,295	853,245
Notes payable (note 7)	-	120,000
Other	142,193	142,867
Total current liabilities	6,228,340	4,260,981
Noncurrent liabilities:		
Unpaid claims and claim adjustment expenses (note 6)	6,723,788	8,513,160
Capitalization contributions	1,640	1,640
Rate stabilization fund (note 8)	973,295	1,042,856
Notes payable (note 7)	-	3,760,000
Total noncurrent liabilities	7,698,723	13,317,656
Total liabilities	13,927,063	17,578,637
NET ASSETS		
Invested in capital assets, net of related debt	3,958,929	412,314
Unrestricted	44,574,122	47,175,531
Total net assets	\$ 48,533,051	\$ 47,587,845

See accompanying notes to the financial statements.



LOCAL GOVERNMENT INSURANCE TRUST

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenues		
Gross premiums earned	\$ 15,628,087	\$ 15,996,348
Less: Premium credits	(3,754,792)	(3,297,332)
Ceded premiums	(3,653,712)	(3,256,478)
Net premiums earned	8,219,583	9,442,538
Other revenues	146,258	38,483
Total operating revenues	<u>8,365,841</u>	<u>9,481,021</u>
Operating Expenses		
Claims and claim adjustment expenses incurred (note 6)		
Paid, net of recoveries	5,405,580	5,309,105
Change in liability for unpaid claims and adjustment expenses	(366,551)	119,569
General and administrative expenses	4,260,318	4,312,647
Depreciation expense	218,378	220,995
Total operating expenses	<u>9,517,725</u>	<u>9,962,316</u>
Operating loss	<u>(1,151,884)</u>	<u>(481,295)</u>
Nonoperating Revenues (Expenses)		
Investment income	2,255,044	4,393,470
Interest expense	(157,954)	(46,974)
Total nonoperating revenues	<u>2,097,090</u>	<u>4,346,496</u>
Change in net assets	945,206	3,865,201
Net assets, beginning of year	<u>47,587,845</u>	<u>43,722,644</u>
Net assets, end of year	<u><u>\$ 48,533,051</u></u>	<u><u>\$ 47,587,845</u></u>

See accompanying notes to the financial statements.



LOCAL GOVERNMENT INSURANCE TRUST

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Premiums collected	\$ 11,936,836	\$ 13,160,969
Other revenue collected	146,258	38,483
Recoveries of claims paid	1,775,723	2,468,861
Ceded premiums paid	(3,653,712)	(3,494,990)
Claims and claim adjustment expenses paid	(7,235,499)	(7,131,964)
General and administrative expenses paid	(4,256,744)	(4,305,070)
Net cash provided by (used in) operating activities	<u>(1,287,138)</u>	<u>736,289</u>
Cash flows from noncapital financing activities:		
Member deposits	7,937,585	3,062,123
Health Cooperative payments	(7,399,093)	(3,084,773)
Net cash provided by noncapital financing activities	<u>538,492</u>	<u>(22,650)</u>
Cash flows from capital and related financing activities:		
Principal payments on notes	(3,880,000)	(115,000)
Interest expense paid	(22,773)	(41,064)
Purchase of capital assets	(20,592)	(35,659)
Net cash used in capital and related financing activities	<u>(3,923,365)</u>	<u>(191,723)</u>
Cash flows from investing activities:		
Purchase of investments	(21,026,263)	(21,430,981)
Proceeds from maturities of investments	19,490,280	22,076,283
Investment income received	1,891,709	2,436,345
Net cash provided by investing activities	<u>355,726</u>	<u>3,081,647</u>
Net change in cash and cash equivalents	(4,316,285)	3,603,563
Cash and cash equivalents, beginning of year	<u>6,339,858</u>	<u>2,736,295</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,023,573</u></u>	<u><u>\$ 6,339,858</u></u>
Reconciliation of operating loss to net cash provided by (used in) operating activities		
Operating loss	\$ (1,151,884)	\$ (481,295)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	218,378	220,995
Effects of changes in operating assets and liabilities:		
Premiums receivable	13,383	18,560
Reinsurance receivable	(144,363)	635,507
Other assets	88,457	26,095
Accounts payable and accrued expenses	5,626	(50,130)
Unpaid claims and claim adjustment expenses	(366,550)	119,569
Other liabilities	49,815	246,988
Total adjustments	<u>(135,254)</u>	<u>1,217,584</u>
Net cash provided by (used in) operating activities	<u><u>\$ (1,287,138)</u></u>	<u><u>\$ 736,289</u></u>
Noncash investing, capital and financing activities:		
Net unrealized gain in fair value of investments included in investment income	<u><u>\$ 91,028</u></u>	<u><u>\$ 1,593,895</u></u>

See accompanying notes to the financial statements.

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Local Government Insurance Trust Notes to Financial Statements

Years Ended June 30, 2012 and 2011

NOTE 1 — ORGANIZATION AND PURPOSE

The Local Government Insurance Trust (Trust) is a joint association of Maryland local governments established in 1987 to provide an alternative to the diminishing availability of insurance coverages to the public sector and the increasing premium costs in the municipal insurance market. The Trust strives to provide coverage and risk management services at stable and competitive rates. The Trust is owned and directed by the local governments that subscribe to its coverages and operates under the terms of the eighth amended and restated Trust Agreement effective July 1, 2004.

The Trust's Board of Trustees (Board) is empowered to establish pools to provide coverage for any class of casualty, health, life or property related risks. As of June 30, 2012, the currently active pools are the following: the Primary Liability Pool (168 participants), the Property Pool (143 participants), and the Excess Liability Pool (131 participants). Membership in the pools is limited to local governments that are members of the Maryland Municipal League (MML) or Maryland Association of Counties (MACo). A participating local government may also sponsor a public entity within its district for participation in a pool. Each member agrees to comply with a plan of risk management as determined by the Trust. In the event a pool reports an operating deficit, the Trust may either assess the pool participants to cover the deficit or increase premiums.

The Primary Liability Pool (PLP) provides coverage for commercial general liability, police legal liability, public official's legal liability, and business automobile coverage. The maximum limit of liability to the PLP may not exceed \$1,000,000 for any one claim or occurrence per participant. The Property Pool provides coverage for property based on the determined insured values of the property. The Excess Liability Pool (ELP) has a maximum limit of \$5,000,000 for each occurrence and in the aggregate for occurrence-based coverage; and \$5,000,000 for each occurrence, and in the aggregate, for claims-made coverage. Participants in the ELP must either self-insure retention of \$1,000,000 or purchase primary liability coverage from the Trust. The Trust will not insure coverages over other commercial insurance companies. The financial statements include these pools as well as a general Operating Account and an Escrow Deposit Account.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to public entity risk pools and enterprise funds as prescribed by the Governmental Accounting Standards Board (GASB). In preparing its financial statements, the Trust has applied all applicable GASB pronouncements as well as certain Financial Accounting Standards Board and Accounting Principles Board pronouncements. The Trust distinguishes operating revenues and expenses from nonoperating items. The principal operating revenues of the Trust are premiums charged to members for insurance coverage including special assessments, if any. Premiums are reflected net of reinsurance. Operating expenses include claims and claim adjustment expenses and general and administrative expenses. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The Trust is not subject to statutory reporting requirements for insurance companies. Certain accounts have been reclassified in the June 30, 2011 financial statements to be in conformity with the presentation in the June 30, 2012 financial statements; however, this did not affect net assets or the changes therein.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates.

Cash and Cash Equivalents

The Trust considers demand deposits, money market funds and other investments with an original maturity of three months or less at the date of acquisition to be cash and cash equivalents.

Investments

Debt securities with an original maturity of over one year at date of acquisition and equity securities are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. Investments that have a remaining maturity at time of purchase of one year or less are reported at amortized cost.

Recognition of Premium Revenues

Annual property and liability premiums are written with an effective date of July 1 and are generally recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums. Special premium assessments and credits, if any, are recorded in the period in which they are approved by the Board. The Trust had no unearned premiums as of June 30, 2012 and 2011.

Reinsurance

The Trust limits the maximum net loss that can arise from large risks by reinsuring (or ceding) certain levels of risk with the reinsurers under various reinsurance treaties. Ceded reinsurance is treated as the risk and liability of the reinsuring companies. Premiums and recoveries related to ceded business are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Ceded premiums are recorded as reductions of premiums earned and related claim recoveries are recorded as reductions of incurred claims and claim adjustment expenses.

Deferred Policy Acquisition Costs

Salaries and other costs of acquiring insurance that vary with and are primarily related to the production of new and renewal business are deferred and amortized over the terms of the policies or reinsurance treaties to which they relate. Deferred acquisition costs are reviewed periodically to determine if they are recoverable from future income, including investment income. If the deferred costs are not recoverable, they are charged to expense in the period of the review. The Trust had no deferred policy acquisition costs as of June 30, 2012 and 2011.

Capital Assets

All capital assets are carried at cost. All acquisitions of capital assets in excess of \$1,000 with a useful life in excess of one year and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Electronic data processing equipment and software (EDP) are depreciated over three years. Furniture and equipment are depreciated over five years and the building is depreciated over forty years.

Insurance Liabilities

The Trust 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. Estimated amounts of salvage, subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims and claim adjustment expenses. The Trust does not discount the liabilities for unpaid claims or claim adjustment expenses. Because actual claim 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, particularly for coverages such as general liability. 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 social 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 the Trust is exempt from federal taxation under §115 of the Internal Revenue Code.

■ **NOTE 3 — CASH AND CASH EQUIVALENTS**

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Trust's deposits may not be returned. The Trust does not have a formal custodial credit risk policy for deposits. Cash and temporary investments are maintained in one commercial bank and two broker-dealers located in Baltimore, Maryland. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Cash and temporary investments held by broker-dealers are insured by the Securities Investor Protection Corporation (SIPC) up to specified limits. Balances in excess of FDIC and SIPC limits are uninsured. Total cash and temporary investments held by the bank and broker-dealers were \$2,203,361 and \$6,503,101 as of June 30, 2012 and 2011, respectively.

Cash and cash equivalents consisted of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>Percentage of</u>	<u>2011</u>	<u>Percentage of</u>
Cash	\$ 652,613	32.3%	\$ 411,331	6.5%
Maryland Local Government Investment Pool	429,378	21.2%	5,324,457	84.0%
Money Market Mutual Funds	941,582	46.5%	604,070	9.5%
Total Cash and Cash Equivalents	<u><u>\$ 2,023,573</u></u>	<u><u>100.0%</u></u>	<u><u>\$ 6,339,858</u></u>	<u><u>100.0%</u></u>

Credit Risk

The Maryland Local Government Investment Pool and all money market mutual funds carry AAA ratings with the exception of the fund used by the external investment managers, which is not rated but possesses all the characteristics of an AAA rated fund.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments that will adversely affect the fair value of an investment. Information about the exposure of the Trust's cash equivalents to this risk, using the segmented time distribution model is as follows:

	<u>Maryland Local Government Investment Pool</u>	<u>Money Market Mutual Funds</u>
June 30, 2012		
Less Than 1 Year	\$ 429,378	\$ 941,582
Total	<u><u>\$ 429,378</u></u>	<u><u>\$ 941,582</u></u>
June 30, 2011		
Less Than 1 Year	\$ 5,324,457	\$ 604,070
Total	<u><u>\$ 5,324,457</u></u>	<u><u>\$ 604,070</u></u>

■ NOTE 4 — INVESTMENTS

The Trust's investments are held in an internally managed short-term portfolio and an externally managed long-term portfolio. There are no legal restrictions on the Trust's investments.

The Trust's Board approved investment policy includes formal guidelines and practices for managing risks for its investments. In accordance with this policy, permitted investments include, but are not limited to, U.S. Government and agency securities, corporate securities, and equity securities. Investments are registered and held by the Trust's custodian bank in the name of the Trust.

The Trust's investment policy for the long-term portfolio includes asset allocation targets of 76% for debt securities and 24% for equity securities. The targets also include a minimum percentage of 75% and a maximum percentage of 95% for debt securities and a 5% minimum and a 25% maximum for equity securities. The allocation policy for the short-term portfolio stipulates 100% fixed income securities. The carrying values of the Trust's investments as of June 30, 2012 and 2011 are summarized in the table below. Investments in any one issuer that represent five percent or more of total investments have been disclosed separately.

	2012	Percentage of	2011	Percentage of
Debt Securities:				
U.S. Government Securities	\$ 9,639,917	19.5%	\$ 7,321,091	15.4%
U.S. Government Agencies				
Federal Farm Credit Bank	1,142,621	2.3%	3,099,728	6.5%
Federal Home Loan Bank	2,000,000	4.1%	266,830	.6%
Government National				
Mortgage Association	4,341,643	8.8%	3,605,437	7.6%
Federal National Mortgage				
Association	709,855	1.4%	2,045,395	4.3%
Federal Home Loan				
Mortgage Corporation	3,927,749	8.0%	5,635,625	11.8%
Corporate Bonds	15,305,824	31.0%	13,437,468	28.2%
Municipal Bonds	1,613,327	3.3%	1,472,451	3.1%
Equity Securities	10,631,055	21.6%	10,721,790	22.5%
Total Investments	\$ 49,311,991	100.0%	\$ 47,605,815	100.0%

Investments are reported at their fair values with changes in values included in investment income. The net unrealized change in the fair value of the investments included in investment income was a net appreciation of \$91,028 and \$1,593,895 for the years ended June 30, 2012 and 2011, respectively.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Trust places no limit on the amount invested in any one issuer.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Trust will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Trust does not have a formal custodial credit risk policy for investments. Investments are held in the Trust's name by two broker-dealers located in Baltimore, Maryland. Securities are insured by the Securities Investor Protection Corporation (SIPC) up to specified limits. Balances in excess of SIPC limits are uninsured. Total securities held by the broker-dealers were \$49,311,991 and \$47,605,815, as of June 30, 2012 and 2011, respectively.

Credit Risk

Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. Government securities or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk exposure. Issuer obligations of U.S. Government Agencies and loan-backed securities of the Government National Mortgage Association (GNMA) and Department of Veterans Affairs (VA) have the explicit backing of the U.S. Government. Loan-backed securities of Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Federal Agricultural Mortgage Corporation (FAMC) have the implicit backing of the U.S. Government.

The Trust's investment policy stipulates that the overall average quality of the portfolio should be at least "A" or better, as measured by Standard & Poor's or Moody's Investor Service. Presented below is the minimum rating granted for each type of investment.

	U.S. Government Agencies	Corporate Bonds	Municipal Bonds
June 30, 2012			
AAA	\$ 12,121,868	\$ 3,237,673	\$ 388,769
AA	-	1,382,924	785,462
A	-	7,014,982	439,096
BBB	-	3,670,245	-
Total	\$ 12,121,868	\$ 15,305,824	\$ 1,613,327
June 30, 2011			
AAA	\$ 14,653,015	\$ 2,333,357	\$ -
AA	-	915,987	968,393
A	-	5,667,952	504,058
BBB	-	4,520,172	-
Total	\$ 14,653,015	\$ 13,437,468	\$ 1,472,451

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value. Balances invested in the short-term portfolio are intended to fund the operating activities of the Trust for a one year period and cash is invested accordingly to meet cash flow requirements. The Trust's investment policy for the long-term portfolio stipulates that the duration of the fixed income portion of the portfolio should remain in the range of plus or minus one year of the Barclay's Intermediate Government Credit Index (4.0 years as of June 30, 2012 and 3.9 years as of 2011). The maximum maturity of any fixed income investment is thirty years. The Trust uses the due date for purposes of determining segmented time distributions. Information about the exposure of the Trust's debt type investments to this risk, using the segmented time distribution model is as follows:

	U.S. Government Securities	U.S. Government Agencies	Corporate Bonds	Municipal Bonds
June 30, 2012				
Less Than 1 Year	\$ -	\$ 2,000,000	\$ -	\$ -
1 to 5 Years	1,612,407	2,043,793	10,706,423	987,921
6 to 10 Years	8,027,510	1,971,870	4,599,401	625,406
Over 10 Years	-	6,106,205	-	-
Total	\$ 9,639,917	\$ 12,121,868	\$ 15,305,824	\$ 1,613,327
June 30, 2011				
Less Than 1 Year	\$ -	\$ -	\$ 282,125	\$ -
1 to 5 Years	2,379,378	5,539,649	7,159,238	505,074
6 to 10 Years	4,941,713	2,975,371	5,914,813	967,377
Over 10 Years	-	6,137,995	81,292	-
Total	\$ 7,321,091	\$ 14,653,015	\$ 13,437,468	\$ 1,472,451

The Trust invests in loan-backed securities which totaled \$9,463,485 and \$8,675,737 as of June 30, 2012 and 2011, respectively. U.S. Government Agency Securities reported above include \$6,225,813 and \$6,342,378 of loan-backed securities as of June 30, 2012 and 2011, respectively. Corporate securities reported above included \$3,237,672 and \$2,333,359 of loan-backed securities as of June 30, 2012 and 2011, respectively. Loan-backed securities are based on cash flows from the underlying assets, therefore making them sensitive to prepayments that may result from a decline in interest rates. The Trust's investment policy limits the amount invested in loan-backed securities to no more than 50% of the fixed income portfolio.

Foreign Currency Risk:

Foreign currency risk is the risk that changes in the exchange rate of investments will adversely affect the fair value of an investment. The Trust's exposure to foreign currency risk derives from its positions in American Depositary Receipts (ADR) of foreign common stocks. ADRs are paper securities issued by U.S. banks that evidence the ownership of actual shares of foreign stocks held in the bank's foreign branches or with a foreign correspondent on behalf of the ADR holder. The Trust's investment balances in ADRs by country are shown in the following table as of June 30, 2012 and 2011. The Trust has no formal policy concerning foreign currency risk.

	2012	2011
United Kingdom	\$ 193,613	\$ 281,788
Japan	185,151	279,067
Australia	14,539	58,851
Netherlands	31,887	138,452
Spain	34,230	107,881
France	148,682	217,970
Germany	75,897	63,830
Canada	18,046	-
Singapore	21,434	58,851
Switzerland	106,338	83,033
Other	174,436	91,471
Total	\$ 1,018,436	\$ 1,408,034

■ NOTE 5 — CHANGE IN CAPITAL ASSETS

	Beginning Balance	Additions and Transfers	Deletions and Transfers	Ending Balance
2012				
Assets depreciated:				
Building	\$ 3,947,564	\$ -	\$ -	\$ 3,947,564
EDP	1,299,063	19,242	(63,473)	1,254,832
Furniture & Equipment	239,873	1,350	(330)	240,893
Total assets - depreciated	5,486,500	20,592	(63,803)	5,443,289
Assets - not depreciated:				
Land	252,408	-	-	252,408
Work in Process	20,000	-	-	20,000
Total assets not depreciated	272,408	-	-	272,408
Total capital assets	5,758,908	20,592	(63,803)	5,715,697
Accumulated Depreciation:				
Building	(386,532)	(98,689)	-	(485,221)
EDP	(1,010,195)	(97,523)	63,473	(1,044,245)
Furniture & Equipment	(205,466)	(22,166)	330	(227,302)
Total accumulated depreciation	(1,602,193)	(218,378)	63,803	(1,756,768)
Net Balance - Capital Assets	\$ 4,156,715	\$ (197,786)	\$ -	\$ 3,958,929

	Beginning Balance	Additions and Transfers	Deletions and Transfers	Ending Balance
2011				
Assets depreciated:				
Building	\$ 3,947,564	\$ -	\$ -	\$ 3,947,564
EDP	1,283,404	15,659	-	1,299,063
Furniture & Equipment	239,873	-	-	239,873
Total assets - depreciated	5,470,841	15,659	-	5,486,500
Assets - not depreciated:				
Land	252,408	-	-	252,408
Work in Process	-	20,000	-	20,000
Total assets not depreciated	252,408	20,000	-	272,408
Total capital assets	5,723,249	35,659	-	5,758,908
Accumulated Depreciation:				
Building	(287,843)	(98,689)	-	(386,532)
EDP	(910,401)	(99,794)	-	(1,010,195)
Furniture & Equipment	(182,954)	(22,512)	-	(205,466)
Total accumulated depreciation	(1,381,198)	(220,995)	-	(1,602,193)
Net Balance - Capital Assets	\$ 4,342,051	\$ (185,336)	\$ -	\$ 4,156,715

NOTE 6— UNPAID CLAIMS LIABILITIES AND RELATED EXPENSES

The Trust establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of claims and claim adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities for the Trust during the past two fiscal years:

	2012	2011
Balance at beginning of year	\$ 11,563,261	\$ 11,443,693
Incurred related to:		
Current year	7,216,031	7,099,644
Prior years	(2,177,002)	(1,670,970)
Total incurred	5,039,029	5,428,674
Paid related to:		
Current year	2,716,683	2,281,862
Prior years	2,688,896	3,027,244
Total paid	5,405,579	5,309,106
Balance at end of year	\$11,196,711	\$ 11,563,261

Incurred claims and claim adjustment expenses related to prior years decreased by approximately \$2,177,000 and \$1,671,000 in fiscal years 2012 and 2011, respectively, as a result of changes in estimates of claims and claim adjustment expenses. Changes in estimates are generally the result of ongoing analysis of loss development trends. Original estimates are adjusted as additional information becomes known regarding individual claims.

The liabilities for claims and claim adjustment expenses are net of reinsurance recoverable of \$192,254 and \$1,955,673 as of June 30, 2012, and 2011, respectively.

NOTE 7 — NOTES PAYABLE

Revenue bonds totaling \$4,260,000 were issued through the Maryland Economic Development Corporation on behalf of the Trust on April 5, 2007. The bonds covered the purchase price and estimated renovation costs of the office building the Trust uses as its operating facility. The bonds were originally intended to mature on June 1, 2032 and bear interest at a variable rate that was reset weekly. The bonds were redeemed in full at the remaining balance of \$3,880,000 on June 1, 2012. The variable rate was .11% at June 30, 2010. The Manufacturers and Traders Trust Company (M&T) provided a five year letter of credit to secure the payment of the principal and interest of the bonds which also expired on June 1, 2012. M&T served as the remarketing agent.

The variable rate was equal to the minimum rate that, in the judgment of the remarketing agent, took into account prevailing market conditions and enabled the remarketing agent to sell all of the bonds at a price equal to the principal amount thereof, plus accrued interest, if any thereon. The variable rate could not exceed 10% per annum.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Repayments</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
June 30, 2012	3,880,000	-	3,880,000	-	-
June 30, 2011	3,995,000	-	115,000	3,880,000	120,000

■ NOTE 8 — RATE STABILIZATION FUND

The Board approved a return of capital from the PLP of \$2,000,000 for fiscal years 2012 and 2011, respectively. The return of capital is in the form of premium credits to be used by pool members of good standing as of June 30, 2012 and 2011, respectively. Rate stabilization credits of \$1,899,118 and \$1,557,377 were applied and shown as an offset to annual premiums on member invoices in fiscal years 2012 and 2011, respectively. The credit can be used by members each year up to a specified percentage of their annual premium, as approved by the Board. Balances remaining in the rate stabilization fund were as follows as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Current	\$ 973,295	\$ 853,245
Noncurrent	973,295	1,042,856
Total	\$ 1,946,590	\$ 1,896,101

■ NOTE 9 — REINSURANCE

The Trust uses reinsurance agreements to reduce its exposure to certain large losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Trust as direct insurer of the risks reinsured. The Trust reduces liabilities related to reinsured risks unless it is probable that those risks will not be covered by reinsurers. No allowances were considered necessary as of June 30, 2012 and 2011. The Trust does not generally require collateral to secure reinsurance recoveries, but periodically 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 exposures to significant losses from reinsurer insolvency.

The Trust is a member of NLC Mutual Insurance Company (NLC), a captive reinsurance pool whose members consist of certain state self-insurance pools. Each member is required to maintain deposits with NLC based on certain prescribed levels. These balances are reflected in the statements of net assets as “deposit with reinsurance pool” and totaled \$5,457,135 and \$5,222,129 as of June 30, 2012 and 2011, respectively.

The Trust did not purchase reinsurance for the standard coverages offered in the PLP for the years ended June 30, 2012 and 2011 and retained the entire \$1,000,000 per occurrence coverage limit. Coverage was provided by NLC for ninety percent of the Trust’s ELP exposure, which insures all losses over the PLP’s coverage of \$1,000,000 with a maximum limit of liability of \$5,000,000. In addition, the Trust purchased reinsurance for the Property Pool from private reinsurance companies that covered claims in excess of \$100,000.

Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsurance policy. Net reinsurance recoveries and prepaid expenses amounted to \$1,430,107 and \$3,049,163 as of June 30, 2012 and 2011, respectively. Over the last three years, incurred and paid claims have not exceeded insurance coverage. There were no ceded reinsurance premiums payable as of June 30, 2012 and 2011, respectively. There were no ceded unearned premiums as of both June 30, 2012 and 2011.

The amount of recoveries related to the reinsurance contracts that were deducted from losses incurred for the years ended June 30, 2012 and 2011 were \$(534,932) and \$914,027, respectively.

■ **NOTE 10 — HEALTH PLAN COOPERATIVE**

In fiscal year 2011, the Trust established the Maryland Local Government Health Cooperative (Cooperative), a self insurance alliance between member governments. The Cooperative was established as a self-insured health plan for the purpose of providing group health benefits to its members' employees and eligible dependents. The plan was designed by and is administered by Benecon Group, Inc. (Benecon) through June 30, 2014. Automatic one year renewals are provided under the agreement with Benecon unless written notice of termination is provided by February 1 of the year in which the agreement will terminate. Benecon is responsible for designing the benefit structure for each member, performing the underwriting function, selecting and negotiating rates with a stop-loss carrier, determining member funding levels, selecting and negotiating an agreement with a claims administrator, preparing quotations for prospective members, and performing other administrative functions. The Trust is responsible for governance, serving as the treasurer and depository for all cash flowing through the Cooperative, and establishing qualifications for membership. Each Cooperative member pays a management fee based on the number of enrolled employees for administrative services performed. The Trust is entitled to 25 percent of the management fee and Benecon is entitled to the remaining 75 percent.

The Trust paid premiums to the Cooperative totaling \$329,341 and \$309,269 for the years ended June 30, 2012 and 2011, respectively. These premiums represented the Trust's maximum exposure for health care claims incurred during the year. Claims rebates received by the Trust from the Cooperative based on prior year actual medical claim activity totaled \$31,945 and \$0 for the years ended June 30, 2012 and 2011, respectively. Management fees earned by the Trust totaled \$31,893 and \$14,542 for the years ended June 30, 2012 and 2011, respectively. The Trust was owed \$91,000 for initial funding provided to the Cooperative as of June 30, 2012 and 2011, respectively. Amounts collected by the Trust from Cooperative members, but not yet remitted toward medical claims or toward member reimbursements totaled \$606,833 and \$68,341 as of June 30, 2012 and 2011, respectively.

■ **NOTE 11 — RISK MANAGEMENT**

The Trust is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Trust participates in the property and primary liability pools offered by the Trust and carries commercial insurance for all other risks of loss, including worker's compensation and errors and omissions.

■ **NOTE 12 — SUBSEQUENT EVENT**

In September 2012, the Trust received a favorable verdict in a lawsuit with an Excess reinsurance provider over coverage amounts for an outstanding Property claim. The award was approximately \$1,076,000 and it has been included as part of reinsurance receivables on the Statements of Net Assets as of June 30, 2012.

Management evaluated subsequent events through October 10, 2012, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012, but prior to October 11, 2012 that provided additional evidence about conditions that existed at June 30, 2012, have been recognized in the financial statements for the year ended June 30, 2012. Events or transactions that provided evidence about conditions that did not exist at June 30, 2012 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2012.



Local Government Insurance Trust

Explanation of Required Supplementary Information

Unaudited – See Accompanying Independent Auditors' Report

This section of the Financial Statements provides the reader with a broader understanding of the Trust's operations and its financial trends and conditions than is provided in the Basic Financial Statements. A reconciliation of claims liability by pool for the past two years, as well as claims development information for the last ten years are provided.

Reconciliation of Claims Liabilities and Related Expenses by Pool

The schedules on page 36 represent the changes in claims liabilities for the past two years for each of the Trust's pools.

Claims Development Information

The table on page 37 illustrates how the Trust's earned revenue (net of reinsurance) and investment income compare to related costs of claims (net of losses assumed by reinsurers) and other expenses assumed by the Trust as of the end of each of the past 10 fiscal years. The columns of the table show data for successive policy years. The rows of the table are defined as follows:

Premiums and investment revenue

Amount of reported gross premium and investment revenue, amount of premium revenue ceded and investment revenue.

Unallocated expenses

Amount of reported unallocated claim adjustment expenses and other costs that cannot be associated directly with specific claims.

Estimated claims and allocated expenses, end of policy year

Amount of gross incurred claims and allocated claim adjustment expense, loss assumed by reinsurers, and net amount of incurred claims and allocated claim adjustment expense s(both paid and accrued) as originally reported at the end of the year in which the events that triggered coverage under the policy.

Net paid cumulative) as of

Cumulative amount paid (net of recoveries) as of each succeeding year.

Reestimated ceded claims and allocated expenses

Reestimated amount for losses assumed by reinsurers as of the end of the current year.

Reestimated net incurred claims and allocated expenses

Reestimated amount for net incurred claims and claim adjusted expenses as of each succeeding year.

Increase (decrease) in estimated net incurred claims and allocated expenses from end of policy year

The change in net incurred claims and claim adjustment expenses from the original estimate based on the difference between the latest reestimated amount and the original net incurred claims and claim adjustment amounts reported.



LOCAL GOVERNMENT INSURANCE TRUST

Required Supplementary Information

Reconciliation of Claims Liabilities and Related Expenses by Pool

Years Ended June 30, 2012 and 2011

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	COMBINED TOTAL
2012				
Balance at beginning of the year	\$ 11,051,541	\$ 511,720	\$ -	\$ 11,563,261
Incurring related to:				
Current year	5,876,374	1,339,657	-	7,216,031
Prior year	(1,344,461)	(832,541)	-	(2,177,002)
Total incurred	<u>4,531,913</u>	<u>507,116</u>	<u>-</u>	<u>5,039,029</u>
Paid related to:				
Current year	1,775,170	941,513	-	2,716,683
Prior year	3,079,550	(390,654)	-	2,688,896
Total paid	<u>4,854,720</u>	<u>550,859</u>	<u>-</u>	<u>5,405,579</u>
Balance at end of year	<u>\$ 10,728,734</u>	<u>\$ 467,977</u>	<u>\$ -</u>	<u>\$ 11,196,711</u>
	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	COMBINED TOTAL
2011				
Balance at beginning of the year	\$ 10,699,040	\$ 744,653	\$ -	\$ 11,443,693
Incurring related to:				
Current year	6,411,298	688,346	-	7,099,644
Prior year	(1,395,421)	(275,549)	-	(1,670,970)
Total incurred	<u>5,015,877</u>	<u>412,797</u>	<u>-</u>	<u>5,428,674</u>
Paid related to:				
Current year	1,930,191	351,671	-	2,281,862
Prior year	2,733,185	294,059	-	3,027,244
Total paid	<u>4,663,376</u>	<u>645,730</u>	<u>-</u>	<u>5,309,106</u>
Balance at end of year	<u>\$ 11,051,541</u>	<u>\$ 511,720</u>	<u>\$ -</u>	<u>\$ 11,563,261</u>

See explanation of required supplementary information on page 37.



LOCAL GOVERNMENT INSURANCE TRUST

Required Supplementary Information

Claims Development Information

Ten Years Ended June 30, 2003 through June 30, 2012

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Premiums and investment revenue:										
Earned,	14,128,339	18,226,498	14,466,938	17,268,023	19,063,656	15,736,454	16,427,551	18,200,277	30,808,418	22,341,158
Ceded	(3,653,712)	(4,394,806)	(4,446,223)	(4,819,145)	(5,225,249)	(4,634,559)	(4,496,753)	(4,595,293)	4,678,077	1,902,873
Net earned	10,474,627	13,831,692	10,020,715	12,448,878	13,838,407	11,101,895	11,930,798	13,604,984	26,130,341	20,438,285
Allocated and unallocated expenses	4,636,650	4,580,616	4,412,519	4,301,347	4,018,944	3,727,726	3,862,037	4,057,678	4,207,488	4,243,746
Estimated claims and allocated expenses, end of policy year:										
Incurred	7,227,318	7,107,229	9,924,240	7,801,951	7,543,834	7,598,176	6,751,529	5,333,038	13,332,178	32,302,846
Ceded	11,287	7,585	2,820,605	302,136	178,702	496,889	411,413	150,583	1,703,126	8,684,770
Net incurred	7,216,031	7,099,644	7,103,635	7,499,815	7,365,132	7,101,287	6,340,116	5,182,455	11,629,052	23,618,076
Net paid claims (cumulative) as of:										
End of policy year	2,716,682	2,281,860	2,210,347	2,400,780	2,103,746	2,010,184	2,103,543	1,559,387	5,087,295	16,691,195
One year later		3,713,673	3,542,066	4,494,349	3,649,363	2,988,446	3,018,101	2,319,523	7,126,964	19,613,664
Two years later			4,041,910	5,221,188	5,014,956	3,318,761	3,710,554	2,682,366	7,648,130	19,931,841
Three years later				5,628,783	5,602,309	3,893,577	4,206,352	3,532,969	8,001,345	20,272,760
Four years later					5,890,844	4,168,834	4,486,146	3,995,160	8,379,975	20,838,046
Five years later						4,269,094	4,563,711	4,143,150	8,539,635	21,909,603
Six years later							4,588,849	4,163,353	8,636,773	22,357,870
Seven years later								4,179,643	8,647,475	22,456,594
Eight years later									9,133,919	22,466,760
Nine years later										21,902,544
Reestimated ceded claims and expenses	11,287	7,585	2,820,605	302,136	178,702	496,889	411,413	150,583	1,703,126	8,684,770
Reestimated net incurred claims and allocated expenses:										
End of policy year	7,216,031	7,099,644	7,103,635	7,499,815	7,365,132	7,101,287	6,340,116	5,182,455	11,629,052	23,618,076
One year later		6,648,854	5,777,079	7,171,802	6,953,322	5,253,496	5,973,424	4,320,134	9,287,706	21,611,259
Two years later			5,331,064	7,161,862	7,140,433	4,771,776	5,445,069	4,489,094	8,838,556	21,267,724
Three years later				7,256,167	6,638,146	4,718,975	5,150,922	4,881,659	9,031,203	21,594,258
Four years later					6,090,679	4,868,463	5,050,256	4,673,400	8,781,572	21,360,855
Five years later						4,499,562	5,134,699	4,298,532	8,734,786	22,454,671
Six years later							4,834,942	4,303,663	8,710,099	22,663,538
Seven years later								4,318,588	8,702,610	22,756,262
Eight years later									9,212,285	22,706,645
Nine years later										22,028,198
Decrease in estimated net incurred claims and allocated expenses from end of policy year	-	(450,790)	(1,772,571)	(243,648)	(1,274,453)	(2,601,725)	(1,505,174)	(863,867)	(2,416,767)	1,589,878

See explanation of required supplementary information on page 37.



LOCAL GOVERNMENT INSURANCE TRUST **Combining Schedule of Net Assets**

June 30, 2012

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	OPERATING ACCOUNT	HEALTH POOL	ESCROW DEPOSIT ACCOUNT	COMBINED TOTAL
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 40,307,049	\$ 6,871,565	\$ 10,110,851	\$ (55,874,365)	\$ 606,833	\$ 1,640	\$ 2,023,573
Investments	-	-	-	12,631,055	-	-	12,631,055
Premiums receivable	18,511	22,049	279	-	-	-	40,839
Interest income receivable	-	-	-	270,889	-	-	270,889
Reinsurance receivables	-	1,237,853	-	-	-	-	1,237,853
Due from (to) other pools/accounts	(1,951,627)	(539,189)	20,471	2,470,345	-	-	-
Other	121,405	-	-	36,039	1,461	-	158,905
Total current assets	38,495,338	7,592,278	10,131,601	(40,466,037)	608,294	1,640	16,363,114
Noncurrent assets:							
Investments	-	-	-	36,680,936	-	-	36,680,936
Capital assets	-	-	-	3,958,929	-	-	3,958,929
Deposit with reinsurance pool	2,924,412	1,428,739	1,103,984	-	-	-	5,457,135
Other assets	-	-	-	-	-	-	-
Total noncurrent assets	2,924,412	1,428,739	1,103,984	40,639,865	-	-	46,097,000
Total assets	41,419,750	9,021,017	11,235,585	173,828	608,294	1,640	62,460,114
LIABILITIES							
Current Liabilities:							
Accounts payable and accrued expenses	-	-	-	31,635	-	-	31,635
Unpaid claims and claims adjustment exp.	4,122,488	350,435	-	-	-	-	4,472,923
Notes payable	-	-	-	-	-	-	-
Health plan payable cooperative	-	-	-	-	608,294	-	608,294
Interest payable	-	-	-	-	-	-	-
Rate stabilization fund	973,295	-	-	-	-	-	973,295
Other liabilities	-	-	-	142,193	-	-	142,193
Total current liabilities	5,095,783	350,435	-	173,828	608,294	-	6,228,340
Noncurrent liabilities:							
Unpaid claims and claims adjustment exp.	6,606,247	117,541	-	-	-	-	6,723,788
Capitalization contributions	-	-	-	-	-	1,640	1,640
Rate stabilization fund	973,295	-	-	-	-	-	973,295
Notes Payable	-	-	-	-	-	-	-
Total noncurrent liabilities	7,579,542	117,541	-	-	-	1,640	7,698,723
Total liabilities	12,675,325	467,976	-	173,828	608,294	1,640	13,927,063
NET ASSETS							
Invested in capital assets, net of related debt	-	-	-	3,958,929	-	-	3,958,929
Unrestricted, net assets	28,744,425	8,553,041	11,235,585	(3,958,929)	-	-	44,574,122
Total net assets	\$ 28,744,425	\$ 8,553,041	\$ 11,235,585	\$ -	\$ -	\$ -	\$ 48,533,051

See accompanying notes to supplementary combining schedules.



LOCAL GOVERNMENT INSURANCE TRUST
Combining Schedule of Net Assets

June 30, 2011

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	OPERATING ACCOUNT	HEALTH POOL	ESCROW DEPOSIT ACCOUNT	COMBINED TOTAL
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 38,763,513	\$ 5,990,335	\$ 10,109,613	\$ (48,593,584)	\$ 68,341	\$ 1,640	\$ 6,339,858
Investments	-	-	-	11,003,915	-	-	11,003,915
Premiums receivable	88,343	52,036	4,843	-	-	-	145,222
Interest income receivable	-	-	-	312,753	-	-	312,753
Reinsurance receivables	-	1,093,490	-	-	-	-	1,093,490
Due from (to) other pools/accounts	(445,191)	(341,520)	389,376	397,335	-	-	-
Other	120,571	-	-	34,330	-	-	154,901
Total current assets	38,527,236	6,794,341	10,503,832	(36,845,251)	68,341	1,640	19,050,139
Noncurrent assets:							
Investments	-	-	-	36,601,900	-	-	36,601,900
Capital assets	-	-	-	4,156,715	-	-	4,156,715
Deposit with reinsurance pool	2,750,931	1,367,214	1,103,984	-	-	-	5,222,129
Other assets	-	-	-	135,599	-	-	135,599
Total noncurrent assets	2,750,931	1,367,214	1,103,984	40,894,214	-	-	46,116,343
Total assets	41,278,167	8,161,555	11,607,816	4,048,963	68,341	1,640	65,166,482
LIABILITIES							
Current Liabilities:							
Accounts payable and accrued expenses	-	-	-	26,009	-	-	26,009
Unpaid claims and claims adjustment exp.	2,666,741	383,360	-	-	-	-	3,050,101
Notes payable	-	-	-	120,000	-	-	120,000
Health plan payable cooperative	-	-	-	-	68,341	-	68,341
Interest payable	-	-	-	418	-	-	418
Rate stabilization fund	853,245	-	-	-	-	-	853,245
Other liabilities	331	-	-	142,536	-	-	142,867
Total current liabilities	3,520,317	383,360	-	288,963	68,341	-	4,260,981
Noncurrent liabilities:							
Unpaid claims and claims adjustment exp.	8,384,800	128,360	-	-	-	-	8,513,160
Capitalization contributions	-	-	-	-	-	1,640	1,640
Rate stabilization fund	1,042,856	-	-	-	-	-	1,042,856
Notes Payable	-	-	-	3,760,000	-	-	3,760,000
Total noncurrent liabilities	9,427,656	128,360	-	3,760,000	-	1,640	13,317,656
Total liabilities	12,947,973	511,720	-	4,048,963	68,341	1,640	17,578,637
NET ASSETS							
Invested in capital assets, net of related debt	-	-	-	412,314	-	-	412,314
Unrestricted, net assets	28,330,194	7,649,835	11,607,816	(412,314)	-	-	47,175,531
Total net assets	\$ 28,330,194	\$ 7,649,835	\$ 11,607,816	\$ -	\$ -	\$ -	\$ 47,587,445

See accompanying notes to supplementary combining schedules.



LOCAL GOVERNMENT INSURANCE TRUST

Combining Schedule of Revenues, Expenses and
Changes in Net Assets

Year Ended June 30, 2012

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	OPERATING ACCOUNT	ESCROW DEPOSIT ACCOUNT	COMBINED TOTAL
OPERATING REVENUES						
Gross premiums earned	\$ 10,075,371	\$ 4,678,645	\$ 874,071	\$ -	\$ -	\$ 15,628,087
Less: premium credits	(3,351,072)	-	(403,720)	-	-	(3,754,792)
ceded premiums	-	(2,790,659)	(863,053)	-	-	(3,653,712)
Net premiums earned	6,724,299	1,887,986	(392,702)	-	-	8,219,583
Other Revenues	-	-	-	146,258	-	146,258
Total operating revenues	6,724,299	1,887,986	(392,702)	146,258	-	8,365,841
OPERATING EXPENSES						
Incurred claims and claim adjustment expenses:						
Paid (net of recoveries)	4,854,721	550,859	-	-	-	5,405,580
Change in liability for unpaid claims						
and claim adjustment expenses	(322,808)	(43,743)	-	-	-	(366,551)
General and administrative expenses	-	-	-	4,260,318	-	4,260,318
Depreciation expense	-	-	-	218,378	-	218,378
Total operating expenses	4,531,913	507,116	-	4,478,696	-	9,517,725
Operating income (loss)	2,192,386	1,380,870	(392,702)	(4,332,438)	-	(1,151,884)
NONOPERATING REVENUES (EXPENSES)						
Investment income	173,472	61,525	-	2,020,047	-	2,255,044
Interest expense	-	-	-	(157,954)	-	(157,954)
Allocations of operating account revenues (note 2)	1,572,227	202,675	391,403	(2,166,305)	-	-
Allocations of operating account expenses (note 2)	(3,523,854)	(741,864)	(370,932)	4,636,650	-	-
Total nonoperating revenues (expenses)	(1,778,155)	(477,664)	20,471	4,332,438	-	2,097,090
Change in net assets	414,231	903,206	(372,231)	-	-	945,206
Net assets, beginning of year	28,330,194	7,649,835	11,607,816	-	-	47,587,845
Net assets, end of year	\$ 28,744,425	\$ 8,553,041	\$ 11,235,585	\$ -	\$ -	\$ 48,533,051

See accompanying notes to supplementary combining schedules.



LOCAL GOVERNMENT INSURANCE TRUST

Combining Schedule of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2011

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	OPERATING ACCOUNT	ESCROW DEPOSIT ACCOUNT	COMBINED TOTAL
OPERATING REVENUES						
Gross premiums earned	\$ 10,336,096	\$ 4,792,170	\$ 868,082	\$ -	\$ -	\$ 15,996,348
Less: premium credits	(3,297,332)	-	-	-	-	(3,297,332)
ceded premiums	-	(2,437,923)	(818,555)	-	-	(3,256,478)
Net premiums earned	7,038,764	2,354,247	49,527	-	-	9,442,538
Other Revenues	-	-	-	38,483	-	38,483
Total operating revenues	7,038,764	2,354,247	49,527	38,483	-	9,481,021
OPERATING EXPENSES						
Incurred claims and claim adjustment expenses:						
Paid (net of recoveries)	4,663,374	645,731	-	-	-	5,309,105
Change in liability for unpaid claims						
and claim adjustment expenses	352,503	(232,934)	-	-	-	119,569
General and administrative expenses	-	-	-	4,312,647	-	4,312,647
Depreciation expense	-	-	-	220,995	-	220,995
Total operating expenses	5,015,877	412,797	-	4,533,642	-	9,962,316
Operating income (loss)	2,022,887	1,941,450	49,527	(4,495,159)	-	(481,295)
NONOPERATING REVENUES (EXPENSES)						
Investment income	127,279	68,869	52,524	4,144,798	-	4,393,470
Interest expense	-	-	-	(46,974)	-	(46,974)
Allocations of operating account revenues (note 2)	3,036,077	391,379	755,825	(4,183,281)	-	-
Allocations of operating account expenses (note 2)	(3,481,268)	(732,899)	(366,449)	4,580,616	-	-
Total nonoperating revenues (expenses)	(317,912)	(272,651)	441,900	4,495,159	-	4,346,496
Change in net assets	1,704,975	1,668,799	491,427	-	-	3,865,201
Net assets, beginning of year	26,625,219	5,981,036	11,116,389	-	-	43,722,644
Net assets, end of year	\$ 28,330,194	\$ 7,649,835	\$ 11,607,816	\$ -	\$ -	\$ 47,587,845

See accompanying notes to supplementary combining schedules.



LOCAL GOVERNMENT INSURANCE TRUST **Combining Schedule of Cash Flows**

Year Ended June 30, 2012

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	OPERATING ACCOUNT	HEALTH POOL	ESCROW DEPOSIT ACCOUNT	COMBINED TOTAL
Cash flows from operating activities:							
Premiums collected	\$ 6,753,289	\$ 4,708,632	\$ 474,915	\$ -	\$ -	\$ -	\$ 11,936,836
Other revenue collected	-	-	-	146,258	-	-	146,258
Recoveries of claims paid	649,068	1,126,655	-	-	-	-	1,775,723
Ceded premiums paid	-	(2,790,659)	(863,053)	-	-	-	(3,653,712)
Claims and claim adjustment expenses paid	(5,413,621)	(1,821,878)	-	-	-	-	(7,235,499)
General and administrative expenses paid	-	-	-	(4,256,744)	-	-	(4,256,744)
Net cash provided by (used in) operating activities	1,988,736	1,222,750	(388,138)	(4,110,486)	-	-	(1,287,138)
Cash flows from noncapital financing activities:							
Transfers from (to) other pools/accounts	(445,200)	(341,520)	389,376	397,344	-	-	-
Member deposits	-	-	-	-	7,937,585	-	7,937,585
Health Cooperative payments	-	-	-	-	(7,399,093)	-	(7,399,093)
Net cash provided by (used in) noncapital financing activities	(445,200)	(341,520)	389,376	397,344	538,492	-	538,492
Cash flows from capital and related financing activities:							
Principal payments on notes	-	-	-	(3,880,000)	-	-	(3,880,000)
Interest expense paid	-	-	-	(22,773)	-	-	(22,773)
Purchase of capital assets	-	-	-	(20,592)	-	-	(20,592)
Net cash flows used in capital and related financing activities	-	-	-	(3,923,365)	-	-	(3,923,365)
Cash flows from investing activities:							
Purchase of investments	-	-	-	(21,026,263)	-	-	(21,026,263)
Proceeds from maturities of investments	-	-	-	19,490,280	-	-	19,490,280
Investment income received	-	-	-	1,891,709	-	-	1,891,709
Net cash provided by in investing activities	-	-	-	355,726	-	-	355,726
Net change in cash and cash equivalents	1,543,536	881,230	1,238	(7,280,781)	538,492	-	(4,316,285)
Cash and cash equivalents, beginning of year	38,763,513	5,990,335	10,109,613	(48,593,584)	68,341	1,640	6,339,858
Cash and cash equivalents, end of year	\$ 40,307,049	\$ 6,871,565	\$ 10,110,851	\$ (55,874,365)	\$ 606,833	\$ 1,640	\$ 2,023,573
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	\$ 2,192,386	\$ 1,380,870	\$ (392,702)	\$ (4,332,438)	\$ -	\$ -	\$ (1,151,884)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation expense	-	-	-	218,378	-	-	218,378
Effects of changes in operating assets and liabilities:							
Premiums receivable	(21,168)	29,987	4,564	-	-	-	13,383
Reinsurance receivables	-	(144,363)	-	-	-	-	(144,363)
Deposit with reinsurance pool	-	-	-	-	-	-	-
Other assets	90,166	-	-	(1,709)	-	-	88,457
Operating accounts payable and accrued expenses	-	-	-	5,626	-	-	5,626
Unpaid claims and claim adjustment expenses	(322,806)	(43,744)	-	-	-	-	(366,550)
Other liabilities	50,158	-	-	(343)	-	-	49,815
Total adjustments	(203,650)	(158,120)	4,564	221,952	-	-	(135,254)
Net cash provided by (used in) operating activities	\$ 1,988,736	\$ 1,222,750	\$ (388,138)	\$ (4,110,486)	\$ -	\$ -	\$ (1,287,138)

See accompanying notes to supplementary combining schedules.



LOCAL GOVERNMENT INSURANCE TRUST Combining Schedule of Cash Flows

Year Ended June 30, 2011

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	OPERATING ACCOUNT	HEALTH POOL	ESCROW DEPOSIT ACCOUNT	COMBINED TOTAL
Cash flows from operating activities:							
Premiums collected	\$ 7,410,136	\$ 4,887,413	\$ 863,420	\$ -	\$ -	\$ -	\$ 13,160,969
Other revenue collected	-	-	-	38,483	-	-	38,483
Recoveries of claims paid	611,269	1,857,592	-	-	-	-	2,468,861
Ceded premiums paid	-	(2,665,313)	(829,677)	-	-	-	(3,494,990)
Claims and claim adjustment expenses paid	(5,263,378)	(1,868,586)	-	-	-	-	(7,131,964)
General and administrative expenses paid	-	-	-	(4,305,070)	-	-	(4,305,070)
Net cash provided by (used in) operating activities	2,758,027	2,211,106	33,743	(4,266,587)	-	-	736,289
Cash flows from noncapital financing activities:							
Transfers from (to) other pools/accounts	(804,249)	(382,183)	190,760	995,672	-	-	-
Member deposits	-	-	-	-	3,062,123	-	3,062,123
External transfers out	-	-	-	-	(3,084,773)	-	(3,084,773)
Net cash provided by (used in) noncapital financing activities	(804,249)	(382,183)	190,760	995,672	(22,650)	-	(22,650)
Cash flows from capital and related financing activities:							
Principal payments on notes	-	-	-	(115,000)	-	-	(115,000)
Interest expense paid	-	-	-	(41,064)	-	-	(41,064)
Purchase of capital assets	-	-	-	(35,659)	-	-	(35,659)
Loan from Primary Liability Pool	(91,000)	-	-	-	91,000	-	-
Net cash flows used in capital and related financing activities	(91,000)	-	-	(191,723)	91,000	-	(191,723)
Cash flows from investing activities:							
Purchase of investments	-	-	-	(21,430,981)	-	-	(21,430,981)
Proceeds from maturities of investments	-	-	-	22,076,283	-	-	22,076,283
Investment income received	-	-	-	2,436,345	-	-	2,436,345
Net cash provided by in investing activities	-	-	-	3,081,647	-	-	3,081,647
Net change in cash and cash equivalents	1,862,778	1,828,923	224,503	(380,991)	68,350	-	3,603,563
Cash and cash equivalents, beginning of year	36,900,736	4,161,412	9,885,110	(48,212,603)	-	1,640	2,736,295
Cash and cash equivalents, end of year	\$ 38,763,514	\$ 5,990,335	\$ 10,109,613	\$ (48,593,594)	\$ 68,350	\$ 1,640	\$ 6,339,858
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	\$ 2,022,887	\$ 1,941,450	\$ 49,527	\$ (4,495,159)	\$ -	\$ -	\$ (481,295)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation expense	-	-	-	220,995	-	-	220,995
Effects of changes in operating assets and liabilities:							
Premiums receivable	(71,250)	94,472	(4,662)	-	-	-	18,560
Reinsurance receivables	-	635,507	-	-	-	-	635,507
Deposit with reinsurance pool	-	-	-	-	-	-	-
Other assets	11,265	-	-	14,830	-	-	26,095
Operating accounts payable and accrued expenses	-	-	-	(50,130)	-	-	(50,130)
Unpaid claims and claim adjustment expenses	352,502	(232,933)	-	-	-	-	119,569
Other liabilities	442,623	(227,390)	(11,122)	42,877	-	-	246,988
Total adjustments	735,140	269,656	(15,784)	228,572	-	-	1,217,584
Net cash provided by (used in) operating activities	\$ 2,758,027	\$ 2,211,106	\$ 33,743	\$ (4,266,587)	\$ -	\$ -	\$ 736,289

See accompanying notes to supplementary combining schedules.

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Local Government Insurance Trust

Notes to Supplementary Combining Schedules

Years Ended June 30, 2012 and 2011

■ NOTE 1 — DESCRIPTION OF POOL COVERAGES

The pools provide insurance coverage in the following areas up to the indicated limits:

Primary Liability Pool Coverage

POOL COVERAGE	COVERAGE LIMITS		
Commercial general liability			
Bodily injury; property damage and personal injury	\$	2,000,000	annual aggregate
Medical payments	\$	5,000	each person
Fire legal liability	\$	1,000,000	per occurrence
Products and completed operations per participant	\$	1,000,000	annual aggregate
Police legal liability	\$	1,000,000	each wrongful act and annual aggregate
Public officials legal liability	\$	1,000,000	each error or omission act and annual aggregate
Business automobile coverage			
Liability insurance	\$	1,000,000	per occurrence
Garage keepers			
Comprehensive	\$	1,000,000	per occurrence
Collision	\$	1,000,000	per occurrence

The public officials legal liability and police legal liability coverages are on a claims made basis with limited coverage for unknown acts prior to July 1, 1987 and provide for coverage under an extended discovery period in the event of participant cancellation.

The maximum limit of liability to the Primary Liability Pool (PLP) may not exceed \$1,000,000 for any one claim or occurrence per participant, regardless of any applicable primary liability coverage.

Property Pool Coverage

The pool shall not be liable for more than the insured value of the property covered with limits not to exceed the blanket values declared per entity in any one occurrence, except:

- A. \$5,000,000 per entity per occurrence and annual aggregate with respect to the peril of flood
- B. \$5,000,000 per entity per occurrence and annual aggregate with respect to the peril of earthquake

The Trust also offers Boiler and Machinery coverage with limits not to exceed the blanket building and contents limit. The Trust reinsures 100% of the related risk.

Excess Liability Pool Coverage

The maximum limit of liability to the Excess Liability Pool (ELP) is \$5,000,000 for each occurrence and in the aggregate for occurrence-based coverage; and \$5,000,000 for each occurrence, and in the aggregate, for claims-made coverage. Participants in the ELP must either self-insure retention of \$1,000,000 or purchase primary liability coverages from the Trust. The Trust will not insure coverages over other commercial insurance companies.

Pool Membership and Demographic Information

Membership in each pool consists of counties, municipalities, and others, which include sponsored entities as well as the founders of the Trust, the Maryland Municipal League, and the Maryland Association of Counties. The following represents the participants for fiscal year 2012 and 2011.

	POOL TOTALS		COUNTIES		MUNICIPALITIES		OTHER	
	2012	2011	2012	2011	2012	2011	2012	2011
Primary	168	166	13	13	133	131	22	22
Property	143	141	15	15	114	112	14	14
Excess	131	129	14	14	97	95	20	20

State of Maryland Demographic and Economic Statistics:

	2012	2011
Population (1)	5,773,572	5,773,572
Approximate total personal income (thousands of dollars) (2)	\$282,926,000	\$282,926,000
Estimated total per-capita personal income (3)	\$49,025	\$49,025
Unemployment rate (4)	7.20%	7.20%
Land area – 2,000 square miles		

(1) U.S. Census Bureau, as of July 1, 2010 and 2009, respectively

(2) U.S. Department of Commerce, Bureau of Economic Analysis, as of December 31, 2009 and 2008, respectively

(3) Total personal income divided by population

(4) U.S. Department of Labor, Bureau of Labor Statistics, as of June 30, 2011 and 2010, respectively

■ NOTE 2 — DESCRIPTION OF ACCOUNTS

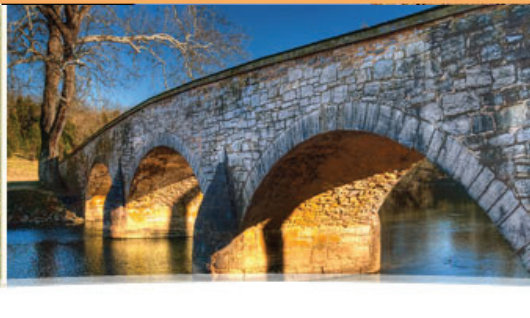
Operating Account

The pools have been established to account for all premiums, claims and administrative costs attributable to the particular coverages. Administrative costs not specifically identified with a particular pool, investments, investment income and other undesignated income are accounted for in the operating account. Under the Trust Agreement, amounts necessary to fund operating expenses are transferred from the various pools to the operating account.

To accomplish this, each pool was allocated a portion of the revenues and expenses accumulated within the operating account for fiscal years 2012 and 2011. The expense amounts allocated to each pool were determined based on a time study among Trust personnel and related judgments considered by management to be relevant under the circumstances. Additionally, the revenue amounts allocated to each pool were in proportion to the pools share of cash and investments.

■ NOTE 3 — RECLASSIFICATIONS

Certain fiscal year 2011 amounts have been reclassified to conform to fiscal year 2012 presentations.



Statistical Section

Comparative Schedule of
Revenues, Expenses and
Changes in Net Assets

Member Growth Analysis

Loss History and Average Claim
Costs

Reported Claim Activity

Loss Development

*Our Mission Is Serving
Maryland Local Governments*







LOCAL GOVERNMENT INSURANCE TRUST

Comparative Schedule of Revenues, Expenses and Changes in Net Assets

Ten Years Ended June 30, 2003 through June 30, 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
REVENUES										
Gross premiums earned (1)	\$ 28,357,692	\$ 16,819,650	\$ 14,194,556	\$ 14,529,842	\$ 15,633,332	\$ 15,442,512	\$ 15,675,273	\$ 16,947,741	\$ 15,996,348	\$ 15,628,087
Less: premium credits	-	-	(3,000,000)	-	-	-	(2,000,000)	(2,300,000)	(3,297,332)	(3,754,792)
ceded premiums	(4,678,077)	(4,595,293)	(4,496,753)	(4,634,559)	(5,225,249)	(4,819,145)	(4,446,223)	(4,394,806)	(3,256,478)	(3,653,712)
Net premiums earned	23,679,615	12,224,357	6,697,803	9,895,283	10,408,083	10,623,367	9,229,050	10,252,935	9,442,538	8,219,583
Other	81,176	29,982	11,155	139,664	28,080	18,790	30,631	29,436	38,483	146,258
Total operating revenues	23,760,791	12,254,339	6,708,958	10,034,947	10,436,163	10,642,157	9,259,681	10,282,371	9,481,021	8,365,841
Operating Expenses										
Incurring claims and										
claim adjustment expenses: (1)										
Paid (net of recoveries)	20,286,604	8,900,422	5,189,496	4,767,401	4,295,809	7,756,321	5,900,886	6,869,405	5,309,105	5,405,580
Change in liability for unpaid										
claims and claim adjustment exp.	(105,304)	148,561	(2,845,277)	664,342	3,117,010	(1,208,238)	419,498	(641,155)	119,569	(366,551)
General and administrative	4,152,180	4,057,678	3,862,037	3,727,726	4,018,944	4,301,347	4,412,519	4,482,935	4,533,642	4,478,696
Total operating expenses	24,333,480	13,106,661	6,206,256	9,159,469	11,431,763	10,849,430	10,732,903	10,711,185	9,962,316	9,517,725
Operating income	(572,689)	(852,322)	502,702	875,478	(995,600)	(207,273)	(1,473,222)	(428,814)	(481,295)	(1,151,884)
NONOPERATING REVENUES										
(EXPENSES)										
Investment income	2,450,726	1,380,627	2,232,995	1,206,612	3,430,324	1,825,511	791,665	3,578,757	4,393,470	2,255,044
Interest expense	(55,308)	-	-	-	-	(132,081)	(96,715)	(51,298)	(46,974)	(157,954)
Total nonoperating revenues										
(expenses)	2,395,418	1,380,627	2,232,995	1,206,612	3,430,324	1,693,430	694,950	3,527,459	4,346,496	2,097,090
Change in net assets	1,822,729	528,305	2,735,697	2,082,090	2,434,724	1,486,157	(778,272)	3,098,645	3,865,201	945,206
Total net assets beginning of year	30,312,569	32,135,298	32,663,603	35,399,300	37,481,390	39,916,114	41,402,271	40,623,999	43,722,644	47,587,845
Total net assets end of year	\$ 32,135,298	\$ 32,663,603	\$ 35,399,300	\$ 37,481,390	\$ 39,916,114	\$ 41,402,271	\$ 40,623,999	\$ 43,722,644	\$ 47,587,845	\$ 48,533,051

(1) The Health Pool was closed as of June 30, 2004 causing the significant reduction in premiums earned and loss adjustment expenses in the following year.



LOCAL GOVERNMENT INSURANCE TRUST

Member Growth Analysis

Ten Years Ended June 30, 2003 through June 30, 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total number of members	190	178	168	171	175	175	175	174	176	177
Total employees	37	35	34	34	33	33	32	32	32	32
Total annual payroll	\$ 2,015,206	\$ 2,127,280	\$ 2,011,348	\$ 2,092,382	\$ 2,184,271	\$2,299,309	\$ 2,360,333	\$ 2,442,281	\$ 2,502,173	\$ 2,558,615
Total net premiums earned	\$ 23,679,615	\$ 12,224,357	\$ 9,697,803	\$ 9,895,283	\$ 10,408,083	\$10,622,867	\$ 9,229,050	\$ 10,252,935	\$ 9,442,538	\$ 8,219,583
Total number of claims	1,723	1,760	1,474	1,538	1,563	1,544	1,517	1,878	1,588	1,592
Total reported losses	\$ 21,925,808	\$ 9,153,892	\$ 4,235,912	\$ 4,691,483	\$ 4,352,515	\$ 5,963,678	\$ 6,426,467	\$ 4,621,571	\$ 4,802,355	\$ 3,797,358

Total reported losses represent paid losses plus case base reserves.

The Health Pool was closed as of June 30, 2004 causing the reduction of the number of members and reported losses.



LOCAL GOVERNMENT INSURANCE TRUST
Loss History and Average Claims Costs
 Ten Years Ended June 30, 2003 through June 30, 2012

During the last ten years, the Trust has incurred the following reported losses (paid claims plus case reserves) resulting from claims incurred by pool members. These figures do not include incurred but not reported claims.

Total Reported Losses

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Auto Liability	\$1,073,987	\$1,499,967	\$1,089,344	\$1,271,577	\$1,041,324	\$1,610,327	\$1,268,330	\$1,207,243	\$995,306	\$512,607
Auto Physical	851,369	754,054	745,758	778,992	926,486	1,089,572	1,069,073	1,087,201	1,024,000	975,039
General Liability	1,481,612	2,437,181	1,965,910	1,940,881	1,471,785	2,456,046	3,467,315	1,596,135	2,228,464	1,096,507
Property	2,114,341	1,096,537	434,900	700,033	912,920	807,733	621,749	730,993	554,585	1,213,205
Excess	-	-	-	-	-	-	-	-	-	-
Health	16,404,499	3,366,153	-	-	-	-	-	-	-	-
Total	\$21,925,808	\$9,153,892	\$4,235,912	\$4,691,483	\$4,352,515	\$5,963,678	\$6,426,467	\$4,621,571	\$4,802,355	\$3,797,358

Average Cost per Claim

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Auto Liability	\$2,397	\$3,826	\$3,112	\$3,140	\$2,684	\$4,486	\$3,211	\$2,257	\$2,757	\$1,738
Auto Physical	2,145	1,866	1,661	1,982	2,010	2,348	2,160	2,099	2,381	2,181
General Liability	2,035	3,366	3,486	3,120	2,600	4,286	6,655	2,692	3,331	1,874
Property	17,051	4,747	4,530	7,778	6,813	5,770	6,410	3,293	4,660	4,702
Excess	-	-	-	-	-	-	-	-	-	-

Note: Since the Health Benefits Pool began in 1991, the plans offered have been administered by various outside contractors. As such, the claims count data is unavailable for the Health Benefits Pool.



LOCAL GOVERNMENT INSURANCE TRUST

Reported Claim Activity

Ten Years Ended June 30, 2003 through June 30, 2012

The Trust has incurred the following number of reported claims during the last ten years.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Auto Liability	448	392	350	405	388	359	395	535	361	295
Auto Physical	397	404	449	393	461	464	495	518	430	447
General Liability	728	724	564	622	566	573	521	593	669	585
Property	124	231	96	90	134	140	97	222	119	258
Excess	26	9	15	28	14	8	9	10	9	7
Total	1,723	1,760	1,474	1,538	1,563	1,544	1,517	1,878	1,588	1,592
Closed Claims	1,316	1,298	1,056	1,080	852	1,076	1,118	1,362	1,127	1,149
Open Claims	407	462	418	458	711	468	399	516	461	443
Total	1,723	1,760	1,474	1,538	1,563	1,544	1,517	1,878	1,588	1,592
Prior year claims closed	573	663	576	624	967	787	397	610	858	783
Current year claims closed	1,316	1,298	1,056	1,080	852	1,076	1,118	1,362	1,127	1,149
Total claims closed during year	1,889	1,961	1,632	1,704	1,819	1,863	1,515	1,972	1,985	1,932
Number of Members	190	178	168	171	175	175	174	174	176	177

Note: Since the Health Benefits Pool began in 1991, the plans offered have been administered by various outside contractors. As such, the claims count data is unavailable for the Health Benefits Pool.



LOCAL GOVERNMENT INSURANCE TRUST

Loss Development

Ten Years Ended June 30, 2003 through June 30, 2012

Paid Losses as of June 30

CLAIM YEAR	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
2003	\$ 16,691,195	\$ 19,613,664	\$ 19,931,841	\$ 20,272,760	\$ 20,838,046	\$ 21,909,603	\$ 22,357,870	\$ 22,456,594	\$ 22,466,760	\$ 21,902,544
2004		5,087,295	7,126,964	7,648,130	8,001,345	8,379,974	8,539,635	8,636,773	8,647,475	9,133,919
2005			1,559,387	2,319,523	2,682,366	3,532,969	3,995,160	4,143,150	4,163,353	4,179,643
2006				2,103,543	3,018,101	3,710,554	4,206,352	4,486,146	4,563,711	4,588,849
2007					2,010,184	2,988,446	3,318,761	3,893,577	4,168,834	4,269,094
2008						2,103,746	3,649,363	5,014,956	5,602,309	5,890,844
2009							2,400,780	4,494,349	5,221,188	5,628,783
2010								2,210,347	3,542,066	4,041,910
2011									2,281,860	3,713,673
2012										2,716,682
Total	\$ 16,691,195	\$ 24,700,959	\$ 28,618,192	\$ 32,343,956	\$ 36,550,042	\$ 42,625,293	\$ 48,467,921	\$ 55,335,892	\$ 60,657,556	\$ 66,065,941

Loss Payments During the Year Ended

CLAIM YEAR	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
2003	\$ 16,691,195	\$ 2,922,469	\$ 318,177	\$ 340,919	\$ 565,286	\$ 1,071,557	\$ 448,267	\$ 98,724	\$ 10,166	\$ (564,216)
2004	-	5,087,295	2,039,669	521,166	353,215	378,629	159,661	97,138	10,702	486,444
2005	-	-	1,559,387	760,136	362,843	850,602	462,192	147,990	20,203	16,290
2006	-	-	-	2,103,543	914,558	692,452	495,799	279,794	77,565	25,138
2007	-	-	-	-	2,010,184	978,262	330,315	574,816	275,257	100,260
2008	-	-	-	-	-	2,103,746	1,545,617	1,365,593	587,353	288,535
2009	-	-	-	-	-	-	2,400,780	2,093,569	726,839	407,595
2010								2,210,347	1,331,719	499,844
2011									2,281,860	1,431,813
2012										2,716,682
Sub-total	\$ 16,691,195	\$ 8,009,764	\$ 3,917,233	\$ 3,725,764	\$ 4,206,086	\$ 6,075,249	\$ 5,842,630	\$ 6,867,971	\$ 5,321,664	\$ 5,408,385
Losses Paid for Years Prior to 2003	3,595,409	890,658	1,272,263	1,041,637	89,723	1,681,072	58,256	1,434	(12,561)	(2,805)
Total Losses per Statements of Revenues, Expenses and Changes in Net Assets	\$20,286,604	\$8,900,422	\$5,189,496	\$4,767,401	\$4,295,809	\$7,756,321	\$5,900,886	\$6,869,405	\$5,309,105	\$5,405,580



LOCAL GOVERNMENT INSURANCE TRUST

Loss Development

Ten Years Ended June 30, 2003 through June 30, 2012

Case Reserves as of June 30

CLAIM YEAR	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
2003	\$ 2,682,993	\$ 758,912	\$ 673,012	\$ 738,784	\$ 531,252	\$ 304,504	\$ 146,744	\$ 168,987	\$ 120,318	\$ 23,264
2004	-	1,946,379	746,234	362,760	780,903	194,471	82,616	11,643	6,471	19,973
2005	-	-	910,296	858,528	1,485,298	835,978	333,009	53,889	62,565	56,269
2006	-	-	-	1,129,902	1,774,564	948,878	545,541	244,809	136,444	102,634
2007	-	-	-	-	1,807,231	979,708	754,577	477,635	360,967	83,421
2008	-	-	-	-	-	1,645,625	1,535,212	960,022	555,337	72,834
2009	-	-	-	-	-	-	1,874,880	798,809	831,737	797,684
2010								1,553,528	831,585	579,661
2011									1,386,016	1,088,682
2012										1,080,676
Total	<u>\$2,682,993</u>	<u>\$2,705,291</u>	<u>\$2,329,542</u>	<u>\$3,089,974</u>	<u>\$6,379,248</u>	<u>\$4,909,164</u>	<u>\$5,272,578</u>	<u>\$4,269,322</u>	<u>\$4,291,440</u>	<u>\$3,905,098</u>

Change in Case Reserves During the Year Ended

CLAIM YEAR	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
2003	\$ 2,682,993	\$ (1,924,081)	\$ (85,900)	\$ 65,772	\$ (207,532)	\$ (226,748)	\$ (157,760)	\$ 22,243	\$ (48,669)	\$ (97,054)
2004	-	1,946,379	(1,200,145)	(383,474)	418,143	(586,432)	(111,855)	(70,973)	(5,172)	13,502
2005	-	-	910,296	(51,768)	626,770	(649,320)	(502,969)	(279,119)	8,675	(6,296)
2006	-	-	-	1,129,902	644,662	(825,686)	(403,337)	(300,732)	(108,364)	(33,811)
2007	-	-	-	-	1,807,231	(827,523)	(225,131)	(276,942)	(116,668)	(277,546)
2008	-	-	-	-	-	1,645,625	(110,413)	(575,189)	(404,686)	(482,503)
2009	-	-	-	-	-	-	1,874,880	(1,076,071)	32,928	(34,053)
2010								1,553,528	(721,942)	(251,925)
2011									1,386,016	(297,334)
2012										1,080,676
Total	<u>\$2,682,993</u>	<u>\$22,298</u>	<u>(\$375,749)</u>	<u>\$760,432</u>	<u>\$3,289,274</u>	<u>(\$1,470,085)</u>	<u>\$363,414</u>	<u>(\$1,003,256)</u>	<u>\$22,117</u>	<u>(\$386,342)</u>



LOCAL GOVERNMENT INSURANCE TRUST

Loss Development

Ten Years Ended June 30, 2003 through June 30, 2012

Reported Losses (Paid Losses Plus Case Reserves) as of June 30

CLAIM YEAR	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
2003	\$ 19,374,188	\$ 20,372,576	\$ 20,604,853	\$ 21,011,544	\$ 21,369,298	\$ 22,214,107	\$ 22,504,614	\$ 22,625,581	\$ 22,587,078	\$ 21,925,808
2004	-	7,033,674	7,873,198	8,010,890	8,782,248	8,574,445	8,622,251	8,648,416	8,653,946	9,153,892
2005	-	-	2,469,683	3,178,051	4,167,664	4,368,947	4,328,169	4,197,039	4,225,918	4,235,912
2006	-	-	-	3,233,445	4,792,665	4,659,432	4,751,893	4,730,955	4,700,155	4,691,483
2007	-	-	-	-	3,817,415	3,968,154	4,073,338	4,371,212	4,529,801	4,352,515
2008	-	-	-	-	-	3,749,371	5,184,575	5,974,978	6,157,646	5,963,678
2009	-	-	-	-	-	-	4,275,660	5,293,158	6,052,925	6,426,467
2010	-	-	-	-	-	-	-	3,763,875	4,373,651	4,621,571
2011	-	-	-	-	-	-	-	-	3,667,876	4,802,355
2012	-	-	-	-	-	-	-	-	-	3,797,358
Total	\$19,374,188	\$27,406,250	\$30,947,734	\$35,433,930	\$42,929,290	\$47,534,457	\$53,740,499	\$59,605,214	\$64,948,996	\$ 69,971,039

Incremental Losses Reported During the Year Ended

CLAIM YEAR	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
2003	\$ 19,374,188	\$ 998,388	\$ 232,277	\$ 406,691	\$ 357,754	\$ 844,809	\$ 290,506	\$ 120,967	\$ (38,503)	\$ (661,270)
2004	-	7,033,674	839,524	137,692	771,358	(207,803)	47,805	26,165	5,530	499,946
2005	-	-	2,469,683	708,368	989,613	201,282	(40,778)	(131,129)	28,878	9,994
2006	-	-	-	3,233,445	1,559,220	(133,234)	92,462	(20,938)	(30,799)	(8,673)
2007	-	-	-	-	3,817,415	150,738	105,184	297,874	158,589	(177,286)
2008	-	-	-	-	-	3,749,371	1,435,204	790,404	182,667	(193,968)
2009	-	-	-	-	-	-	4,275,660	1,017,498	759,767	373,542
2010	-	-	-	-	-	-	-	3,763,875	609,777	247,919
2011	-	-	-	-	-	-	-	-	3,667,876	1,134,479
2012	-	-	-	-	-	-	-	-	-	3,797,358
Total	\$19,374,188	\$8,032,062	\$3,541,484	\$4,486,196	\$7,495,360	\$4,605,165	\$6,206,044	\$5,864,715	\$5,343,781	\$ 5,022,043

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for the fiscal year ended
June 30, 2012

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