



Local Government Insurance Trust

Comprehensive Annual Financial Report

for the fiscal years ended
June 30, 2013 and
June 30, 2012

*Our Mission Is Serving
Maryland Local Governments*





Local Government Insurance Trust
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Founding Organizations



MARYLAND
Association of
COUNTIES



THE
MARYLAND
MUNICIPAL
LEAGUE
Advancing Maryland Local Government



*Our Mission Is Serving
Maryland Local Governments*



Local Government Insurance Trust

Comprehensive Annual Financial Report

*for the fiscal years ended
June 30, 2013 and
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, 2013
is hereby respectfully submitted*

*Our Mission Is Serving
Maryland Local Governments*





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LETTER FROM THE CHAIR

Your Trust in FY 2013



The Local Government Insurance Trust (“the Trust”) is an insurance pool created in 1987 in response to the lack of available, affordable, insurance 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 through an elected Board of Trustees. Members can directly access the Board of Trustees, the Chairman of the Board and the Executive Director concerning their risk management and insurance issues.

In Fiscal year 2013 the Trust retained all its members from the previous year and the Trust welcomed two new members bringing total participation to 179. In fiscal year 2013, Trust membership includes 16 counties, 137 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 2013, the Trust provided 84 training and educational opportunities across the state, which were attended by 2,325 local government officials and employees.

In 2013, 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 Maryland 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 sponsorship 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, during fiscal year 2013 member equity was reduced by \$2,900,000 by returning \$3,273,000 to the membership in the form of premium credits for the year, \$2,813,000 was returned to the members of the Primary Liability Pool (PLP), \$160,000 to the members of the Property Pool and \$300,000 to members of the Excess Pool. We also anticipate returning an additional \$2,735,000 of credits in the coming fiscal year 2014. Overall, the Trust continues to maintain a very healthy reserve and is in excellent financial condition with over \$45,000,000 of net assets. More information regarding the rate stabilization credit program can be found in Note 7 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 its 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 black ink that reads "David J. Deutsch".

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

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www.lgit.org • 7225 Parkway Drive • Hanover, MD 21076
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October 30, 2013

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, 2013 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 2012 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, 2013, 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 12 voting members governs the Trust. The Board is comprised of five municipal and five county officials 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 2013, Trust membership continues to grow with the addition of two new members and 100% retention from fiscal year 2012. The Trust welcomed the historic Town of Trappe, on the eastern shore of Maryland and the City of Cumberland, the county seat of Allegany County, Maryland. Services provided by the Trust, such as specialized underwriting, claims handling, in-house legal, loss control, training seminars, training grants, employment law hotline and other value added services, not typically provided by commercial insurance companies, secures member loyalty.

Current economic indicators point to a stable liability insurance market for the remainder of calendar year 2013 and for fiscal year 2014. Moderate increases in the cost of reinsurance are predicted for fiscal year 2015. The fiscal year 2014 surplus for the Excess pool is expected to be large enough to support the first layer of \$1,000,000 in coverage at no charge to members.

For the Property pool, reinsurance prices are expected to increase by approximately 8% for fiscal year 2014 compared to fiscal year 2013. The economic indicators point toward price increases for the future, particularly for catastrophe coverage such as flood and wind risks.

MAJOR INITIATIVES

For the Year

The following highlights some of the Trust's major accomplishments during fiscal year 2013:

- **INFORMATION TECHNOLOGY** – In fiscal year 2013, Phase 3 installation and configuration of the Risk 360 member portal for online incident reporting was completed. LGIT's Claims staff was formally trained to intake incident reports from the member portal. Member portal users have secure "read only" access to claim information and documents at various security levels.

In May 2013, fiscal year 2014 policies were renewed and made available through the member portal for LGIT members wishing to do their renewal online using the system's renewal wizard. Forty-nine members successfully submitted their completed renewal policies via the portal. Members who submitted their renewal policies online received a renewal confirmation package that included a summary of their coverages, limits and deductibles, and scheduled and non-scheduled exposures. LGIT's goal in 2014 is to have most if not all LGIT members submitting their renewal policy changes online using the member portal

- **TRAINING** – Member Services has trained staff at 113 LGIT member locations to use the member portal for service requests such as mid-term coverage and exposure changes and requesting certificates of insurance. Members have also been trained on the renewal wizard, reporting incidents, uploading and storing documents, and accessing their financial statement of account

In addition, training continues to be a primary focus of our risk management efforts to help Trust members reduce losses. In fiscal year 2013, the Trust provided 84 training and educational opportunities across the state attended by 2,325 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 2013. 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 2013, for the fifth 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 2013.
- **MEMBER SERVICES OUTREACH** – The Trust's staff visited over 100 members to market products and services. In addition we provided new quotes to 9 prospects. This effort produced 2 new members and also added additional lines of coverage to many current members.
- **LEGAL SERVICES** – The legal staff carries an average of 90 open assignments per month, approximately 63 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 numerous lawsuits and multiple charges of employment discrimination.
- **HEALTH COOPERATIVE** – The third year of the Health cooperative was completed consisting of 13 members. Checks totaling \$646,194 were returned in January 2013 to Cooperative members with good claim experience for FY12. It is currently estimated that approximately \$404,000 will be returned to Cooperative members with good claim experience.

For the Future

During Fiscal Year 2014, LGIT will finish the implementation of the Risk360 system with the completion of the integrated solution for ISO ClaimSearch, OFAC Compliance, and Medicare Secondary Payer reporting. This solution uses a common approach that involves the creation of a new module dedicated to data interchange between Risk360° and ISO. This new module will be designed with expansion in mind so that additional data interchanges such as positive pay can be added in the future. This new module, hereafter referred to as Risk360°/ISO, will initially have the following capabilities: 1. Asynchronous near real-time submission and response processing of ISO ClaimSearch; 2. Asynchronous near real-time submission and response processing of OFAC compliance; and, 3. Manual processing of CMS Eligibility response files.

The Legal staff in fiscal year 2013 will continue to publish its law enforcement targeted publication, the Roll Call Reporter, and its companion, corrections targeted publication, the Commander's Log. Both publications will continue to be supplemented by bulletins in the event of major changes in the law.

The Loss Control and Underwriting Department is researching the possibility of providing a Network Cyber Security & Privacy insurance program through an insurance broker/managing general agent.

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 unmodified opinion on the Trust's basic financial statements as of and for the fiscal years ended June 30, 2013 and 2012 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, 2012. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. FY2012 marks the 13th 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.

Continued from page 4

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,



Tim Ailsworth
Executive Director



J. Earle Beyer
Director, Financial and IT Services

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Government Finance Officers Association

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, 2012

A handwritten signature in black ink that reads "Jeffrey P. Evans". The signature is fluid and cursive, with "Jeffrey" on the top line and "P. Evans" on the bottom line.

Executive Director/CEO

Fiscal Year 2013 Membership

Aberdeen	College Park	Howard County Library	Poolesville
Accident	Colmar Manor	Howard County Mental Health Authority	Port Deposit
Annapolis	Cottage City	Hurlock	Preston
Baltimore County	Crisfield	Hyattsville	Princess Anne
Barclay	Cumberland	Indian Head	Queen Anne
Barnesville	Deer Park	Keedysville	Queen Anne's County
Barton	Denton	Kensington	Queenstown
Bel Air	District Heights	Kent County	Rising Sun
Berlin	Dorchester County	Kent County Public Library	Riverdale Park
Berwyn Heights	Eagle Harbor	Kitzmiller	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
Brooksville	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
Cambridge	Forest Heights	Marydel	Library System
Cambridge Municipal Utilities Commission	Friendsville	Maryland Association of Counties	Somerset County Sanitary District, Inc.
Capitol Heights	Frostburg	Maryland Municipal League	St. Clements Island and Piney Point Museums
Caroline County	Gaithersburg	Martin's Additions	St. Mary's County
Caroline County Humane Society	Galestown	Middletown	St. Mary's County
Caroline County Library	Garrett County	Mid-Shore Regional Council	Metropolitan Commission
Carroll Area Transit, Inc.	Garrett County Community Action Committee	Millington	St. Michaels
Carroll County	Garrett Park	Montgomery Municipal Cable	Sudlersville
The Humane Society of Carroll County, Inc.	Glen Echo	Morningside	Sykesville
Carroll County Public Library	Glenarden	Mount Airy	Takoma Park
Cecil County	Goldsboro	Mount Rainier	Talbot County
Cecilton	Grantsville	Myersville	Taneytown
Charles County	Greenbelt	New Carrollton	Trappe
Charlestown	Greensboro	New Market	Tri-County Council for the Lower Eastern Shore
Chesapeake Beach	Hagerstown	New Windsor	University Park
Chesapeake City	Hampstead	North Beach	Upper Marlboro
Chestertown	Hancock	North Brentwood	Vienna
Cheverly	Havre de Grace	North Chevy Chase	Walkersville
Chevy Chase	Hebron	North East	Washington County
Chevy Chase View	Henderson	Northeast Maryland Waste Disposal Authority	Washington Grove
Chevy Chase Village	Highland Beach	Oakland	Westernport
Section 3 of the Village of Chevy Chase	Hillsboro	Ocean City	Westminster
Chevy Chase Section 5	Howard Community College	Pittsville	Willards
Church Creek	Howard County	Pocomoke City	Williamsport
Church Hill	Howard County Economic Development Authority		Worcester County
Clear Spring	Howard County Housing Commission		Worcester County Library

Fiscal Year 2013 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*



Ernest Crofoot
*County Attorney & Administrator
Kent County*



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



Debra M. Davis
*Commissioner,
Charles County*



Barbara B. Matthews
*City Manager,
City of Rockville*



John D. Miller
*Burgess,
Town of Middletown*



Tari Moore
*County Executive,
Cecil County*



Theodore Zaleski, III
*Director of Management & Budget,
Carroll County*

Fiscal Year 2013 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 Consultant



Larry Bohlen
Member Services & Ed. Manager



Michelle Yannone
Staff Associate



Michele Keplinger
Member Services Associate

Fiscal Year 2013 Management and Staff

Claims Services



Sherri Butler
Director



Elisabeth Beekman
Manager/Litigation Analyst



Elizabeth Martinez
Litigation Analyst



Dorie Schwartz
Property Manager/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
Senior Attorney

Human Resources & Administrative Services



Marsha Carpenter
HR/Health Co-Op Account Manager

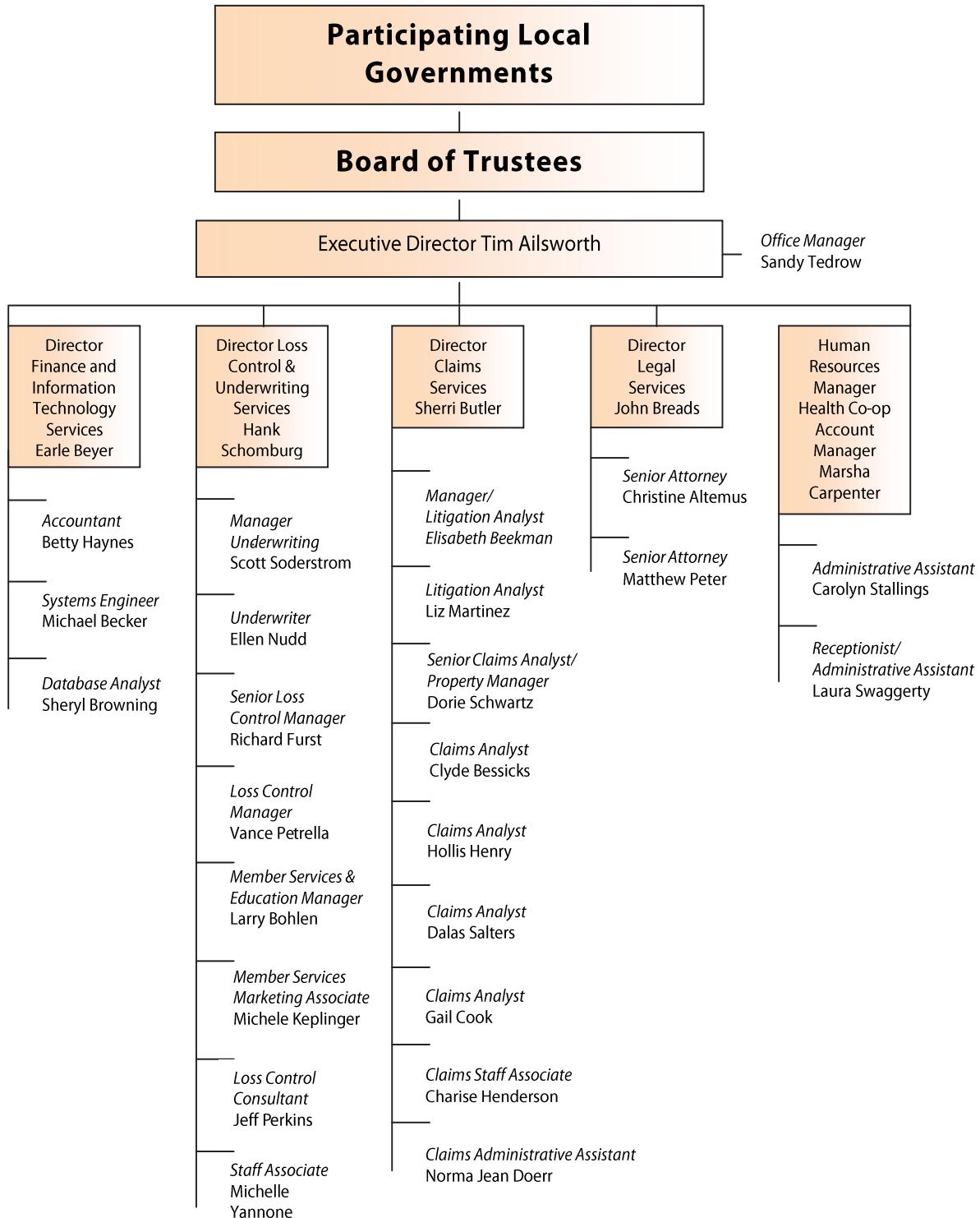


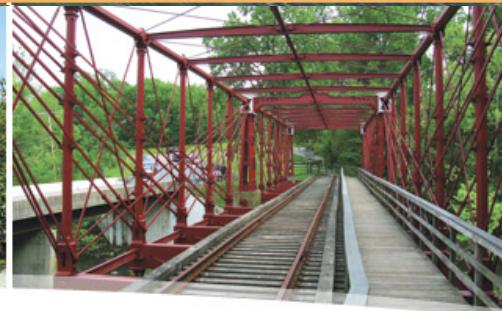
Carolyn Stallings
Administrative Assistant



Laura Scheiner
Receptionist/Administrative Assistant

Fiscal Year 2013 Organizational Chart





Financial Section

Independent Auditors' Report

Management's Discussion and Analysis

Statements of Net Position

Statements of Revenues, Expenses and Changes in Net Position

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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

Report on the Financial Statements

We have audited the accompanying statements of net position, revenues, expenses and changes in net assets, and cash flows of the Local Government Insurance Trust (the Trust) as of and for the years ended June 30, 2013 and 2012, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Trust's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013 and 2012, and its changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 36 through 37 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. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise The Trust's basic financial statements. The supplementary combining schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary combining schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary combining schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The letter from the Chair, introductory section, and statistical tables listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Baltimore, Maryland
October 18, 2013



Local Government Insurance Trust Management's Discussion and Analysis

Years Ended June 30, 2013 and 2012

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, 2013 and 2012. 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 POSITION — 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 POSITION — 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, 2013, 2012 and 2011, respectively.

Summary of Net Position

	2013	2012	2011
ASSETS			
Current assets	\$ 28,529,261	\$ 16,363,114	\$ 19,050,139
Noncurrent assets	32,382,472	46,097,000	46,116,343
Total Assets	60,911,733	62,460,114	65,166,482
LIABILITIES			
Current liabilities	7,683,724	6,228,340	4,260,981
Noncurrent liabilities	7,595,106	7,698,723	13,317,656
Total Liabilities	15,278,830	13,927,063	17,578,637
NET POSITION			
Net Investment in capital assets	3,796,074	3,958,929	412,314
Unrestricted	41,836,829	44,574,122	47,175,531
TOTAL NET POSITION	\$ 45,632,903	\$ 48,533,051	\$ 47,587,845

Total Assets

Total assets decreased by approximately \$1,548,000 between June 30, 2012 and 2013 with the major factors being a decrease in cash of approximately \$2,512,000 offset by an increase to other receivables related to the Health Cooperative of \$805,000.

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 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 2013 year end increased by approximately \$1,660,000 from year end 2012.

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, 2013, 2012 and 2011, respectively.

Summary of Revenues, Expenses and Changes in Net Position

	2013	2012	2011
Operating revenues	\$ 8,772,712	\$ 8,365,841	\$ 9,481,021
Operating expenses	12,647,504	9,517,725	9,962,316
Operating loss	(3,874,792)	(1,151,884)	(481,295)
Nonoperating income	974,644	2,097,090	4,346,496
Change in net assets	(2,900,148)	945,206	3,865,201
Net position, beginning of year	48,533,051	47,587,845	43,722,644
Net position end of year	\$ 45,632,903	\$ 48,533,051	\$ 47,587,845

RESULTS OF OPERATIONS

Revenues

Total operating revenues increased by approximately 5% or approximately \$407,000 for fiscal year 2013 compared to fiscal year 2012. The primary reason relates to a reduction of premium credits by approximately \$483,000 across all Trust pools.

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.

Expenses

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

The total operating expenses increased by approximately \$3,130,000 in fiscal year 2013 compared to fiscal year 2012 primarily caused by an increase in incurred claims and claim adjustment expenses of approximately \$2,831,000. A claim reserve of \$1,000,000 was established for one police liability claim of the PLP during fiscal year 2013 and other reserves of the PLP were increased by the actuary by approximately \$642,000. In addition, claim payments were higher by approximately \$800,000 in fiscal 2013 compared to fiscal year 2012. There was also an increase in the Trust's G&A expenses of approximately \$306,000.

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

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 \$1,280,000 lower in fiscal year 2013 compared to fiscal year 2012. This reduction was mainly due to poor returns from the Trust fixed income investments compared to the prior year (See chart below) and negative returns on the alternative investment strategies implemented in fiscal year 2013. For additional details concerning the investment portfolio and investment management, please see Note 4 of the Notes to Financial Statements.

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.

The annualized investment returns for fiscal years 2013, 2012 and 2011 are summarized by investment type as follows. This does not include any return or loss on the Trust's deposit with the reinsurance pool.

	2013	2012	2011
Fixed income portfolio	.14%	5.63%	3.95%
Equity portfolio	10.22%	.12%	36.00%
Alternative strategies	-3.1%	-	-
Total LGIT investments	1.47%	4.21%	9.89%

The Trust's portfolio allocations were 65% fixed income, 25% equity and 11% alternative strategies. The targeted allocation for the portfolio are 53% fixed income, 32% equity and 15% alternative strategies. The Trust is currently executing a 12-month dollar-cost-averaging plan through December of 2013 to arrive at the at intended allocation targets.

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. The Trust's equity target percentage for its long-term portfolio has remained at 24% during this two 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.

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LOCAL GOVERNMENT INSURANCE TRUST

Statements of Net Position

June 30, 2013 and 2012

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents (note 3)	\$ 4,535,857	\$ 2,023,573
Investments (note 4)	21,854,712	12,631,055
Premiums receivable	65,857	40,839
Interest income receivable	157,758	270,889
Reinsurance receivable (note 8)	947,984	1,237,853
Other	967,093	158,905
Total current assets	<u>28,529,261</u>	<u>16,363,114</u>
Noncurrent assets:		
Investments (note 4)	22,905,272	36,680,936
Capital assets (note 5)	3,796,074	3,958,929
Deposit with reinsurance pool (note 8)	<u>5,681,126</u>	<u>5,457,135</u>
Total noncurrent assets	<u>32,382,472</u>	<u>46,097,000</u>
Total assets	<u>60,911,733</u>	<u>62,460,114</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	42,404	31,635
Unpaid claims and claim adjustment expenses (note 6)	6,121,717	4,472,923
Health plan cooperative payable	497,409	608,294
Rate stabilization fund (note 7)	858,859	973,295
Other	163,335	142,193
Total current liabilities	<u>7,683,724</u>	<u>6,228,340</u>
Noncurrent liabilities:		
Unpaid claims and claim adjustment expenses (note 6)	6,734,607	6,723,788
Capitalization contributions	1,640	1,640
Rate stabilization fund (note 7)	<u>858,859</u>	<u>973,295</u>
Total noncurrent liabilities	<u>7,595,106</u>	<u>7,698,723</u>
Total liabilities	<u>15,278,830</u>	<u>13,927,063</u>
NET POSITION		
Net investment in capital assets	3,796,074	3,958,929
Unrestricted	<u>41,836,829</u>	<u>44,574,122</u>
Total net position	<u><u>\$ 45,632,903</u></u>	<u><u>\$ 48,533,051</u></u>

See accompanying notes to the financial statements.



LOCAL GOVERNMENT INSURANCE TRUST

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenues		
Gross premiums earned	\$ 15,764,047	\$ 15,628,087
Less: Premium credits	(3,272,437)	(3,754,792)
Ceded premiums	(3,811,719)	(3,653,712)
Net premiums earned	8,679,891	8,219,583
Other revenues	92,821	146,258
Total operating revenues	<u>8,772,712</u>	<u>8,365,841</u>
Operating Expenses		
Claims and claim adjustment expenses incurred (note 6)		
Paid, net of recoveries	6,210,849	5,405,580
Change in liability for unpaid claims and adjustment expenses	1,659,613	(366,551)
General and administrative expenses	4,565,644	4,260,318
Depreciation expense	211,398	218,378
Total operating expenses	<u>12,647,504</u>	<u>9,517,725</u>
Operating loss	<u>(3,874,792)</u>	<u>(1,151,884)</u>
Nonoperating Revenues (Expenses)		
Investment income	974,644	2,255,044
Interest expense	-	(157,954)
Total nonoperating revenues	<u>974,644</u>	<u>2,097,090</u>
Change in net position	<u>(2,900,148)</u>	<u>945,206</u>
Net position, beginning of year	<u>48,533,051</u>	<u>47,587,845</u>
Net position, end of year	<u>\$ 45,632,903</u>	<u>\$ 48,533,051</u>

See accompanying notes to the financial statements.



LOCAL GOVERNMENT INSURANCE TRUST

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Premiums collected	\$ 12,147,063	\$ 11,936,836
Other revenue collected	92,821	146,258
Recoveries of claims paid	3,073,277	1,775,723
Ceded premiums paid	(3,811,719)	(3,653,712)
Claims and claim adjustment expenses paid	(8,903,258)	(7,235,499)
General and administrative expenses paid	(4,539,000)	(4,256,744)
Net cash used in operating activities	<u>(1,940,816)</u>	<u>(1,287,138)</u>
Cash flows from noncapital financing activities:		
Member deposits	11,831,070	7,937,585
Health Cooperative payments	<u>(12,745,209)</u>	<u>(7,399,093)</u>
Net cash provided by (used in) noncapital financing activities	<u>(914,139)</u>	<u>538,492</u>
Cash flows from capital and related financing activities:		
Principal payments on notes	-	(3,880,000)
Interest expense paid	-	(22,773)
Purchase of capital assets	<u>(42,859)</u>	<u>(20,592)</u>
Net cash used in capital and related financing activities	<u>(42,859)</u>	<u>(3,923,365)</u>
Cash flows from investing activities:		
Purchase of investments	(64,884,697)	(21,026,263)
Proceeds from maturities of investments	69,021,366	19,490,280
Investment income received	<u>1,273,429</u>	<u>1,891,709</u>
Net cash provided by investing activities	<u>5,410,098</u>	<u>355,726</u>
Net change in cash and cash equivalents	2,512,284	(4,316,285)
Cash and cash equivalents, beginning of year	2,023,573	6,339,858
Cash and cash equivalents, end of year	<u>\$ 4,535,857</u>	<u>\$ 2,023,573</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities		
Operating loss	<u>\$ (3,874,792)</u>	<u>\$ (1,151,884)</u>
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	211,398	218,378
Effects of changes in operating assets and liabilities:		
Premiums receivable	(25,017)	13,383
Reinsurance receivable	289,869	(144,363)
Other assets	(4,934)	88,457
Accounts payable and accrued expenses	10,769	5,626
Unpaid claims and claim adjustment expenses	1,659,614	(366,550)
Other liabilities	(207,723)	49,815
Total adjustments	<u>1,933,976</u>	<u>(135,254)</u>
Net cash provided by (used in) operating activities	<u>\$ (1,940,816)</u>	<u>\$ (1,287,138)</u>
Noncash investing, capital and financing activities:		
Net unrealized gain (loss) in fair value of investments included in investment income	<u>\$ (4,697,137)</u>	<u>\$ 91,028</u>

See accompanying notes to the financial statements.

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Local Government Insurance Trust

Notes to Financial Statements

Years Ended June 30, 2013 and 2012

■ **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, 2013, 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, 2012 financial statements to be in conformity with the presentation in the June 30, 2013 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, 2013 and 2012.

Reinsurance

The Trust limits the maximum net loss that can arise from large risks by reinsuring (or ceding) certain levels of risk with 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, 2013 and 2012.

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.

Government Accounting Board (GASB) Pronouncement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

In June 2011, the GASB issued Statement No. 63. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and defined the residual of assets and deferred outflows less liabilities and deferred inflows as net position. The Trust has implemented the effects of this Statement for the reporting period ending June 30, 2013. The effect of this Statement on the Trust was a change in the format of the entity wide statements to include the concept of net position.

GASB Pending Pronouncement No. 65, Items Previously Reported as Assets and Liabilities

GASB routinely issues standards that will become effective in future years. GASB statement No. 65 is a standard that has been issued that management has determined may have an impact on future financial statements of the Trust. Management is currently evaluating the specific impact of this Standard. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement will become effective for the reporting period ending June 30, 2014.

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. Deposits in excess of the FDIC specified limits are collateralized with U.S Government securities at 102% of the cash value. 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 SIPC limits are uninsured. Total cash and temporary investments held by the bank and broker-dealers were \$4,868,358 and \$2,203,361 as of June 30, 2013 and 2012, respectively.

Cash and cash equivalents consisted of the following as of June 30, 2013 and 2012:

	2013	Percentage of	2012	Percentage of
Cash	\$ 52,349	89.4%	\$ 652,613	32.3%
Maryland Local Government Investment Pool (MLGIP)	129,860	2.7%	429,378	21.2%
Money Market Mutual Funds	4,353,648	7.9%	941,582	46.5%
Total Cash and Cash Equivalents	\$ 4,535,857	100.0%	\$ 2,023,573	100.0%

LGIT participates in the MLGIP which is an external investment pool that is not subject to regulation by the Securities and Exchange Commission (SEC). However, the pool is governed by Article 95 Section 22G of the Annotated Code of Maryland and under control of the State Treasurer, subject to oversight by the MLGIP Advisory Committee. All securities in the MLGIP are valued daily on an amortized cost basis, which approximates market value.

Credit Risk

The MLGIP and all money market mutual funds carry AAA ratings with the exception of the fund used by the external investment managers, which are not rated but possesses all the characteristics of an AAA rated fund.

Interest Rate Risk

Interest rate risk is the risk 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:

	MLGIP	Money Market Mutual Funds
June 30, 2013		
Less Than 1 Year	\$ 129,860	\$ 4,353,648
Total	\$ 129,860	\$ 4,353,648
June 30, 2012		
Less Than 1 Year	\$ 429,378	\$ 941,582
Total	\$ 429,378	\$ 941,582

NOTE 4—INVESTMENTS

The Trust's investments are held in an externally managed portfolio. There are no legal restrictions on the Trust's investments.

The Trust's Board of Trustees approved a new investment policy for the Long-term Investment Account on December 13, 2012. While it continues to include formal guidelines and practices for managing risks for its investments, the permitted investment guidelines were changed from the previous Board approved policy. In accordance with the new policy, permitted investments include, but are not limited to, U.S. Government and agency securities, corporate securities, international/emerging market securities, high yield bonds, equity securities and other alternative securities to include Real Estate Investment Trusts and other liquid alternatives. Investments are registered and held by the Trust's custodian bank in the name of the Trust. The allocation policy for the short-term portfolio containing the Trust operating cash stipulates 100% cash equivalents.

It is the policy of the Board of Trustees to invest that portion of the portfolio allocated to the Long-term Investment Account pursuant to the following allocation parameters for fixed income, equities and alternative strategies:

	Minimum	Maximum
Cash Equivalents	0%	25%
Fixed Income	35%	95%
Equities	5%	50%
Alternative Strategies	0%	25%

For fiscal year 2012, the Trust's Board approved investment policy permitted investments included, but were not limited to, U.S. Government and agency securities, corporate securities, and equity securities.

For fiscal year 2012, 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, 2013 and 2012 are summarized in the table below. Investments in any one issuer that represent five percent or more of total investments have been disclosed separately.

	2013	Percentage of	2012	Percentage of
Debt Securities:				
U.S. Government Securities	\$ 9,424,840	21.1%	\$ 9,639,917	19.5%
U.S. Government Agencies				
Federal Farm Credit Bank	—	-	1,142,621	2.3%
Federal Home Loan Bank	—	-	2,000,000	4.1%
Government National Mortgage Association	944,472	2.1%	4,341,643	8.8%
Federal National Mortgage Association	2,444,354	5.5%	709,855	1.4%
Federal Home Loan Mortgage Corporation	564,703	1.3%	3,927,749	8.0%
Preferred Securities	13,763		—	—
Mutual & Exchange Traded Corporate Bonds	9,547,029	21.3%	—	—
Corporate Bonds	10,608,579	20.6%	15,305,824	31.0%
Municipal Bonds	621,925	1.4%	1,613,327	3.3%
Equity Securities	8,200,790	18.3%	10,631,055	21.6%
Other	2,389,529	5.3%	—	—
Total Investments	\$ 44,759,984	100.0%	\$ 49,311,991	100.0%

The "Other" investment category reported above is a mutual fund that has a flexible investment mandate and does not restrict itself to debt securities thus it is classified as "Other."

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 depreciation of \$4,697,137 and a net appreciation of \$91,028 for the years ended June 30, 2013 and 2012, 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. The Trust does not own one investment that exceeds 5% of the total value of the investment portfolio.

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 various Trust banks located in the United States of America. 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 Trust banks and in mutual funds were \$44,759,984 and \$49,311,991, as of June 30, 2013 and 2012, 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 for fiscal years 2013 and 2012 stipulate 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, 2013			
AAA	\$ 3,953,529	\$ 1,582,237	\$ -
AA	-	1,141,567	395,610
A	-	6,253,799	226,315
BBB	-	1,630,976	-
Total	\$ 3,953,529	\$ 10,608,579	\$ 621,925
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

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 two years of the Barclay's Intermediate Government Credit Index (3.9 years as of June 30, 2013 and 4.0 years as of 2012. 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:

Continued from page 30.

	U.S. Government Securities	U.S. Government Agencies	Corporate Bonds	Municipal Bonds
June 30, 2013				
Less Than 1 Year	\$ 1,172,063	\$ -	\$ 531,539	\$ 132,245
1 to 5 Years	3,061,100	489,564	6,132,269	246,838
6 to 10 Years	5,077,620	38,360	3,673,647	242,842
Over 10 Years	114,057	3,425,605	271,124	-
Total	\$ 9,424,840	\$ 3,953,529	\$ 10,608,579	\$ 621,925
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

The Trust invests in loan-backed securities which totaled \$4,872,635 and \$9,463,485 as of June 30, 2013 and 2012, respectively. U.S. Government Agency Securities reported above include \$3,463,965 and \$6,225,813 of loan-backed securities as of June 30, 2013 and 2012, respectively. Corporate securities reported above included \$1,408,670 and \$3,237,672 of loan-backed securities as of June 30, 2013 and 2012, 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 Depository 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, 2013 and 2012. The Trust has no formal policy concerning foreign currency risk.

	2013	2012
United Kingdom	\$ 185,316	\$ 193,613
Japan	88,409	185,151
Australia	23,833	14,539
Netherlands	48,800	31,887
Spain	-	34,230
France	38,166	148,682
Germany	58,971	75,897
Canada	234,113	18,046
Singapore	25,961	21,434
Switzerland	153,954	106,338
Other	507,926	174,436
Total	\$ 1,365,449	\$ 1,018,436

■ **NOTE 5 — CHANGE IN CAPITAL ASSETS**

	Beginning Balance	Additions and Transfers	Deletions and Transfers	Ending Balance
2013				
Capital assets being depreciated:				
Building	\$ 3,947,564	\$ -	\$ -	\$ 3,947,564
EDP	1,254,831	31,585	(8,414)	1,278,002
Furniture & Equipment	240,892	11,274	(2,544)	249,622
Total capital assets - depreciated	<u>5,443,287</u>	<u>42,859</u>	<u>(10,958)</u>	<u>5,475,188</u>
Capital assets - not depreciated:				
Land	252,408	-	-	252,408
Work in Process	20,000	-	(20,000)	-
Total capital assets not depreciated	<u>272,408</u>	<u>-</u>	<u>(20,000)</u>	<u>252,408</u>
Total capital assets	<u>5,715,695</u>	<u>42,859</u>	<u>(30,958)</u>	<u>5,727,596</u>
Accumulated Depreciation:				
Building	(485,221)	(98,689)	-	(583,910)
EDP	(1,044,246)	(95,631)	8,414	(1,131,463)
Furniture & Equipment	(227,299)	(17,078)	28,228	(216,149)
Total accumulated depreciation	<u>(1,756,766)</u>	<u>(211,398)</u>	<u>36,642</u>	<u>(1,931,522)</u>
Net Balance - Capital Assets	<u>\$ 3,958,929</u>	<u>\$ (168,539)</u>	<u>\$ 5,684</u>	<u>\$ 3,796,074</u>

	Beginning Balance	Additions and Transfers	Deletions and Transfers	Ending Balance
2012				
Capital assets being 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 capital assets - depreciated	<u>5,486,500</u>	<u>20,592</u>	<u>(63,803)</u>	<u>5,443,289</u>
Capital assets - not depreciated:				
Land	252,408	-	-	252,408
Work in Process	20,000	-	-	20,000
Total capital assets not depreciated	<u>272,408</u>	<u>-</u>	<u>-</u>	<u>272,408</u>
Total capital assets	<u>5,758,908</u>	<u>20,592</u>	<u>(63,803)</u>	<u>5,715,697</u>
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	<u>(1,602,193)</u>	<u>(218,378)</u>	<u>63,803</u>	<u>(1,756,768)</u>
Net Balance - Capital Assets	<u>\$ 4,156,715</u>	<u>\$ (197,786)</u>	<u>\$ -</u>	<u>\$ 3,958,929</u>

■ 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:

	2013	2012
Balance at beginning of year	<u>\$ 11,196,711</u>	<u>\$ 11,563,261</u>
Incurred related to:		
Current year	8,528,249	7,216,031
Prior years	(657,787)	(2,177,002)
Total incurred	<u>7,870,462</u>	<u>5,039,029</u>
Paid related to:		
Current year	2,555,929	2,716,683
Prior years	3,654,920	2,688,896
Total paid	<u>6,210,849</u>	<u>5,405,579</u>
Balance at end of year	<u>\$ 12,856,324</u>	<u>\$ 11,196,711</u>

Incurred claims and claim adjustment expenses related to prior years decreased by approximately \$658,716 and \$2,177,002 in fiscal years 2013 and 2012, 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 \$2,006,799 and \$192,254 as of June 30, 2013, and 2012, respectively.

■ NOTE 7—RATE STABILIZATION FUND

The Board approved a return of capital from the PLP of \$1,500,000 and \$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, 2013 and 2012, respectively. Rate stabilization credits of \$1,728,541 and \$1,899,118 were applied and shown as an offset to annual premiums on member invoices in fiscal years 2013 and 2012, 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, 2013 and 2012:

	2013	2012
Current	\$ 858,859	\$ 973,295
Noncurrent	858,859	973,295
Total	<u>\$ 1,717,718</u>	<u>\$ 1,946,590</u>

■ NOTE 8—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, 2013 and 2012. 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 \$5,681,126 and \$5,457,135 as of June 30, 2013 and 2012, respectively.

The Trust did not purchase reinsurance for the standard coverages offered in the PLP for the years ended June 30, 2013 and 2012 and retained the entire \$1,000,000 per occurrence coverage limit. Coverage was provided by NLC for 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 \$2,954,783 and \$1,430,107 as of June 30, 2013 and 2012, 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, 2013 and 2012, respectively. There were no ceded unearned premiums as of both June 30, 2013 and 2012.

The amount of recoveries related to the reinsurance contracts that were deducted from losses incurred for the years ended June 30, 2013 and 2012 were \$3,774,646 and \$(534,932), respectively.

■ **NOTE 9 — 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 \$342,308 and \$329,341 for the years ended June 30, 2013 and 2012, 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 \$7,275 and \$31,945 for the years ended June 30, 2013 and 2012, respectively. Management fees earned by the Trust totaled \$49,736 and \$31,893 for the years ended June 30, 2013 and 2012, respectively. The Trust was owed \$91,000 for initial funding provided to the Cooperative as of June 30, 2013 and 2012, respectively. Amounts remitted by the Trust from the Cooperative toward medical claims not yet reimbursed by Cooperative members totaled \$804,715 and \$0 as of June 30, 2013 and 2012. Amounts collected by the Trust from Cooperative members, but not yet remitted toward member reimbursements totaled \$401,958 and \$606,833 as of June 30, 2013 and 2012, respectively.

■ **NOTE 10 — 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 11 — SUBSEQUENT EVENT**

Management evaluated subsequent events through October 18, 2013, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2013, but prior to October 18, 2013 that provided additional evidence about conditions that existed at June 30, 2013, have been recognized in the financial statements for the year ended June 30, 2013. Events or transactions that provided evidence about conditions that did not exist at June 30, 2013 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, 2013.

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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 schedule on page 36 represents 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 (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, 2013 and 2012

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	COMBINED TOTAL
2013				
Balance at beginning of the year	\$ 10,728,734	\$ 467,977	\$ -	\$ 11,196,711
Incurred related to:				
Current year	7,284,662	1,243,587	-	8,528,249
Prior year	(614,933)	(42,854)	-	(657,787)
Total incurred	<u>6,669,729</u>	<u>1,200,733</u>	<u>-</u>	<u>7,870,462</u>
Paid related to:				
Current year	1,733,998	821,931	-	2,555,929
Prior year	3,294,135	360,785	-	3,654,920
Total paid	<u>5,028,133</u>	<u>1,182,716</u>	<u>-</u>	<u>6,210,849</u>
Balance at end of year	<u>\$ 12,370,330</u>	<u>\$ 485,994</u>	<u>\$ -</u>	<u>\$ 12,856,324</u>
2012				
Balance at beginning of the year	\$ 11,051,541	\$ 511,720	\$ -	\$ 11,563,261
Incurred 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>

See explanation of required supplementary information on page 37.



LOCAL GOVERNMENT INSURANCE TRUST

Required Supplementary Information

Claims Development Information

Ten Years Ended June 30, 2004 through June 30, 2013

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Premiums and investment revenue:										
Earned,	13,466,254	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
Ceded	(3,811,719)	(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
Net earned	9,654,535	10,474,627	13,831,692	10,020,715	12,448,878	13,838,407	11,101,895	11,930,798	13,604,984	35,486,495
Allocated and unallocated expenses	4,777,042	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
Estimated claims and allocated expenses, end of policy year:										
Incurred	9,270,313	7,683,984	7,107,229	9,927,517	7,801,951	7,543,834	7,598,176	6,751,529	5,333,038	12,797,178
Ceded	742,064	467,953	7,585	2,823,882	302,136	178,702	496,889	411,413	150,583	1,703,126
Net incurred	8,528,249	7,216,031	7,099,644	7,103,635	7,499,815	7,365,132	7,101,287	6,340,116	5,182,455	11,094,052
Net paid claims (cumulative) as of:										
End of policy year	2,555,929	2,716,683	2,281,860	2,210,347	2,400,779	2,103,746	2,010,184	2,103,543	1,559,387	5,087,295
One year later		4,315,814	3,713,673	3,542,066	4,494,349	3,649,363	2,988,446	3,018,102	2,319,523	7,126,964
Two years later			4,716,102	4,041,910	5,221,188	5,014,956	3,318,761	3,710,553	2,682,366	7,648,129
Three years later				4,756,403	5,628,783	5,602,310	3,893,576	4,206,352	3,532,969	8,001,346
Four years later					5,881,355	5,890,845	4,168,834	4,486,146	3,995,160	8,379,974
Five years later						5,902,224	4,269,094	4,563,711	4,143,150	8,539,635
Six years later							4,318,949	4,588,849	4,163,353	8,636,773
Seven years later								4,600,612	4,179,643	8,647,475
Eight years later									4,191,364	9,133,919
Nine years later										9,127,342
Reestimated ceded claims and expenses	742,064	467,953	7,585	2,823,882	302,136	178,702	496,889	411,413	150,583	1,703,126
Reestimated net incurred claims and allocated expenses:										
End of policy year	8,528,249	7,216,031	7,099,644	7,103,635	7,499,815	7,365,132	7,101,287	6,340,116	5,182,455	11,094,052
One year later		6,887,651	6,648,854	5,777,078	7,171,802	6,953,322	5,253,496	5,973,426	4,320,135	9,287,706
Two years later			6,330,868	5,331,063	7,161,862	7,140,433	4,771,776	5,445,069	4,489,095	8,838,555
Three years later				5,689,365	7,256,167	6,638,146	4,718,975	5,150,922	4,881,659	9,031,202
Four years later					7,420,166	6,090,679	4,868,463	5,050,256	4,673,400	8,781,572
Five years later						5,957,142	4,499,562	5,134,699	4,298,532	8,734,786
Six years later							4,314,686	4,834,942	4,303,663	8,710,099
Seven years later								4,750,996	4,318,588	8,702,610
Eight years later									4,230,271	9,212,285
Nine years later										9,173,978
Decrease in estimated net incurred claims and allocated expenses from end of policy year	(328,380)	(768,776)	(1,414,270)	(79,649)	(1,407,990)	(2,786,601)	(1,589,120)	(952,184)	(1,920,074)	

See explanation of required supplementary information on page 37.



LOCAL GOVERNMENT INSURANCE TRUST
Combining Schedule of Net Position

June 30, 2013

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	OPERATING ACCOUNT	HEALTH COOPERATIVE	ESCROW DEPOSIT ACCOUNT	COMBINED TOTAL
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 40,561,798	\$ 6,921,815	\$ 9,840,870	\$ (52,482,960)	\$ (307,306)	\$ 1,640	\$ 4,535,857
Investments	-	-	-	21,854,712	-	-	21,854,712
Premiums receivable	15,372	50,342	143	-	-	-	65,857
Interest income receivable	-	-	-	157,758	-	-	157,758
Reinsurance receivables	-	947,984	-	-	-	-	947,984
Due from (to) other pools/accounts	(3,031,691)	(671,546)	(230,340)	3,933,577	-	-	-
Other	121,405	-	-	40,973	804,715	-	967,093
Total current assets	<u>37,666,884</u>	<u>7,248,595</u>	<u>9,610,673</u>	<u>(26,495,940)</u>	<u>497,409</u>	<u>1,640</u>	<u>28,529,261</u>
Noncurrent assets:							
Investments	-	-	-	22,905,272	-	-	22,905,272
Capital assets	-	-	-	3,796,074	-	-	3,796,074
Deposit with reinsurance pool	3,044,403	1,487,739	1,148,984	-	-	-	5,681,126
Other assets	-	-	-	-	-	-	-
Total noncurrent assets	<u>3,044,403</u>	<u>1,487,739</u>	<u>1,148,984</u>	<u>26,701,346</u>	<u>-</u>	<u>-</u>	<u>32,382,472</u>
Total assets	<u>40,711,287</u>	<u>8,736,334</u>	<u>10,759,657</u>	<u>205,406</u>	<u>497,409</u>	<u>1,640</u>	<u>60,911,733</u>
LIABILITIES							
Current Liabilities:							
Accounts payable and accrued expenses	-	-	-	42,404	-	-	42,404
Unpaid claims and claims adjustment exp.	5,764,083	357,634	-	-	-	-	6,121,717
Notes payable	-	-	-	-	-	-	-
Health plan payable cooperative	-	-	-	-	497,409	-	497,409
Interest payable	-	-	-	-	-	-	-
Rate stabilization fund	858,859	-	-	-	-	-	858,859
Other liabilities	333	-	-	163,002	-	-	163,335
Total current liabilities	<u>6,623,275</u>	<u>357,634</u>	<u>-</u>	<u>205,406</u>	<u>497,409</u>	<u>-</u>	<u>7,683,724</u>
Noncurrent liabilities:							
Unpaid claims and claims adjustment exp.	6,606,247	128,360	-	-	-	-	6,734,607
Capitalization contributions	-	-	-	-	-	1,640	1,640
Rate stabilization fund	858,859	-	-	-	-	-	858,859
Notes Payable	-	-	-	-	-	-	-
Total noncurrent liabilities	<u>7,465,106</u>	<u>128,360</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,640</u>	<u>7,595,106</u>
Total liabilities	<u>14,088,381</u>	<u>485,994</u>	<u>-</u>	<u>205,406</u>	<u>497,409</u>	<u>1,640</u>	<u>15,278,830</u>
NET POSITION							
Net investment in capital assets,	-	-	-	3,796,074	-	-	3,796,074
Unrestricted, net position	26,622,906	8,250,340	10,759,657	(3,796,074)	-	-	41,836,829
Total net position	<u>\$ 26,622,906</u>	<u>\$ 8,250,340</u>	<u>\$ 10,759,657</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,632,903</u>

See accompanying notes to supplementary combining schedules.



LOCAL GOVERNMENT INSURANCE TRUST
Combining Schedule of Net Position

June 30, 2012

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	OPERATING ACCOUNT	HEALTH COOPERATIVE	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	<u>38,495,338</u>	<u>7,592,278</u>	<u>10,131,601</u>	<u>(40,466,037)</u>	<u>608,294</u>	<u>1,640</u>	<u>16,363,114</u>
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	<u>2,924,412</u>	<u>1,428,739</u>	<u>1,103,984</u>	<u>40,639,865</u>	<u>-</u>	<u>-</u>	<u>46,097,000</u>
Total assets	<u>41,419,750</u>	<u>9,021,017</u>	<u>11,235,585</u>	<u>173,828</u>	<u>608,294</u>	<u>1,640</u>	<u>62,460,114</u>
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	<u>5,095,783</u>	<u>350,435</u>	<u>-</u>	<u>173,828</u>	<u>608,294</u>	<u>-</u>	<u>6,228,340</u>
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	<u>7,579,542</u>	<u>117,541</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,640</u>	<u>7,698,723</u>
Total liabilities	<u>12,675,325</u>	<u>467,976</u>	<u>-</u>	<u>173,828</u>	<u>608,294</u>	<u>1,640</u>	<u>13,927,063</u>
NET POSITION							
Net Investment in capital assets,	-	-	-	3,958,929	-	-	3,958,929
Unrestricted, net position	28,744,425	8,553,041	11,235,585	(3,958,929)	-	-	44,574,122
Total net position	<u>\$ 28,744,425</u>	<u>\$ 8,553,041</u>	<u>\$ 11,235,585</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,533,051</u>

See accompanying notes to supplementary combining schedules.



LOCAL GOVERNMENT INSURANCE TRUST

Combining Schedule of Revenues, Expenses and
Changes in Net Position

Year Ended June 30, 2013

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	OPERATING ACCOUNT	ESCROW DEPOSIT ACCOUNT	COMBINED TOTAL
OPERATING REVENUES						
Gross premiums earned	\$ 10,273,122	\$ 4,818,989	\$ 671,936	\$ -	\$ -	\$ 15,764,047
Less: premium credits	(2,813,220)	(159,621)	(299,596)	-	-	(3,272,437)
ceded premiums	-	(3,148,790)	(662,929)	-	-	(3,811,719)
Net premiums earned	7,459,902	1,510,578	(290,589)	-	-	8,679,891
Other Revenues	-	-	-	92,821	-	92,821
Total operating revenues	7,459,902	1,510,578	(290,589)	92,821	-	8,772,712
OPERATING EXPENSES						
Incurred claims and claim adjustment expenses:						
Paid (net of recoveries)	5,028,133	1,182,716	-	-	-	6,210,849
Change in liability for unpaid claims and claim adjustment expenses	1,641,596	18,017	-	-	-	1,659,613
General and administrative expenses	-	-	-	4,565,644	-	4,565,644
Depreciation expense	-	-	-	211,398	-	211,398
Total operating expenses	6,669,729	1,200,733	-	4,777,042	-	12,647,504
Operating income (loss)	790,173	309,845	(290,589)	(4,684,221)	-	(3,874,792)
NONOPERATING REVENUES (EXPENSES)						
Investment income	120,000	59,000	45,000	750,644	-	974,644
Interest expense	-	-	-	-	-	-
Allocations of operating account revenues (note 2)	598,860	92,781	151,824	(843,465)	-	-
Allocations of operating account expenses (note 2)	(3,630,552)	(764,327)	(382,163)	4,777,042	-	-
Total nonoperating revenues (expenses)	(2,911,692)	(612,546)	(185,339)	4,684,221	-	974,644
Change in net position	(2,121,519)	(302,701)	(475,928)	-	-	(2,900,148)
Net position, beginning of year	28,744,425	8,553,041	11,235,585	-	-	48,533,051
Net position, end of year	\$ 26,622,906	\$ 8,250,340	\$ 10,759,657	\$ -	\$ -	\$ 45,632,903

See accompanying notes to supplementary combining schedules.



LOCAL GOVERNMENT INSURANCE TRUST

Combining Schedule of Revenues, Expenses and
Changes in Net Position

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 position	414,231	903,206	(372,231)	-	-	945,206
Net position, beginning of year	28,330,194	7,649,835	11,607,816	-	-	47,587,845
Net position, 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 Cash Flows

Year Ended June 30, 2013

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	OPERATING ACCOUNT	HEALTH COOPERATIVE	ESCROW DEPOSIT ACCOUNT	COMBINED TOTAL
Cash flows from operating activities:							
Premiums collected	\$ 7,143,509	\$ 4,631,077	\$ 372,477	\$ -	\$ -	\$ -	\$ 12,147,063
Other revenue collected	-	-	-	92,821	-	-	92,821
Recoveries of claims paid	795,505	2,277,772	-	-	-	-	3,073,277
Ceded premiums paid	-	(3,148,790)	(662,929)	-	-	-	(3,811,719)
Claims and claim adjustment expenses paid	(5,732,638)	(3,170,620)	-	-	-	-	(8,903,258)
General and administrative expenses paid	-	-	-	(4,539,000)	-	-	(4,539,000)
Net cash provided by (used in) operating activities	2,206,376	589,439	(290,452)	(4,446,179)	-	-	(1,940,816)
Cash flows from noncapital financing activities:							
Transfers from (to) other pools/accounts	(1,951,627)	(539,189)	20,471	2,470,345	-	-	-
Member deposits	-	-	-	-	11,831,070	-	11,831,070
Health Cooperative payments	-	-	-	-	(12,745,209)	-	(12,745,209)
Net cash provided by (used in) noncapital financing activities	(1,951,627)	(539,189)	20,471	2,470,345	(914,139)	-	(914,139)
Cash flows from capital and related financing activities:							
Principal payments on notes	-	-	-	-	-	-	-
Interest expense paid	-	-	-	-	-	-	-
Purchase of capital assets	-	-	-	(42,859)	-	-	(42,859)
Net cash flows used in capital and related financing activities	-	-	-	(42,859)	-	-	(42,859)
Cash flows from investing activities:							
Purchase of investments	-	-	-	(64,884,697)	-	-	(64,884,697)
Proceeds from maturities of investments	-	-	-	69,021,366	-	-	69,021,366
Investment income received	-	-	-	1,273,429	-	-	1,273,429
Net cash provided by investing activities	-	-	-	5,410,098	-	-	5,410,098
Net change in cash and cash equivalents	254,749	50,250	(269,981)	3,391,405	(914,139)	-	2,512,284
Cash and cash equivalents, beginning of year	40,307,049	6,871,565	10,110,851	(55,874,365)	606,833	1,640	2,023,573
Cash and cash equivalents, end of year	\$ 40,561,798	\$ 6,921,815	\$ 9,840,870	\$ (52,482,960)	\$ (307,306)	\$ 1,640	\$ 4,535,857
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	\$ 790,173	\$ 309,845	\$ (290,589)	\$ (4,684,221)	\$ -	\$ -	\$ (3,874,792)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation expense	-	-	-	211,398	-	-	211,398
Effects of changes in operating assets and liabilities:							
Premiums receivable	3,139	(28,293)	137	-	-	-	(25,017)
Reinsurance receivables	-	289,869	-	-	-	-	289,869
Deposit with reinsurance pool	-	-	-	-	-	-	-
Other assets	-	-	-	(4,934)	-	-	(4,934)
Operating accounts payable and accrued expenses	-	-	-	10,769	-	-	10,769
Unpaid claims and claim adjustment expenses	1,641,596	18,018	-	-	-	-	1,659,614
Other liabilities	(228,532)	-	-	20,809	-	-	(207,723)
Total adjustments	1,416,203	279,594	137	238,042	-	-	1,933,976
Net cash provided by (used in) operating activities	\$ 2,206,376	\$ 589,439	\$ (290,452)	\$ (4,446,179)	\$ -	\$ -	\$ (1,940,816)

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 COOPERATIVE	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	<u>1,988,736</u>	<u>1,222,750</u>	<u>(388,138)</u>	<u>(4,110,486)</u>	<u>-</u>	<u>-</u>	<u>(1,287,138)</u>
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	<u>(445,200)</u>	<u>(341,520)</u>	<u>389,376</u>	<u>397,344</u>	<u>538,492</u>	<u>-</u>	<u>538,492</u>
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	<u>\$ 40,307,049</u>	<u>\$ 6,871,565</u>	<u>\$ 10,110,851</u>	<u>\$ (55,874,365)</u>	<u>\$ 606,833</u>	<u>\$ 1,640</u>	<u>\$ 2,023,573</u>
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	<u>(203,650)</u>	<u>(158,120)</u>	<u>4,564</u>	<u>221,952</u>	<u>-</u>	<u>-</u>	<u>(135,254)</u>
Net cash provided by (used in) operating activities	<u>\$ 1,988,736</u>	<u>\$ 1,222,750</u>	<u>\$ (388,138)</u>	<u>\$ (4,110,486)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,287,138)</u>

See accompanying notes to supplementary combining schedules.

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Local Government Insurance Trust

Notes to Supplementary Combining Schedules

Years Ended June 30, 2013 and 2012

■ 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 2013 and 2012.

	POOL TOTALS		COUNTIES		MUNICPALITIES		OTHER	
	2013	2012	2013	2012	2013	2012	2013	2012
Primary	169	168	13	13	134	133	22	22
Property	147	143	15	15	118	114	14	14
Excess	132	131	14	14	98	97	20	20

■ NOTE 2—DESCRIPTION OF ACCOUNTS

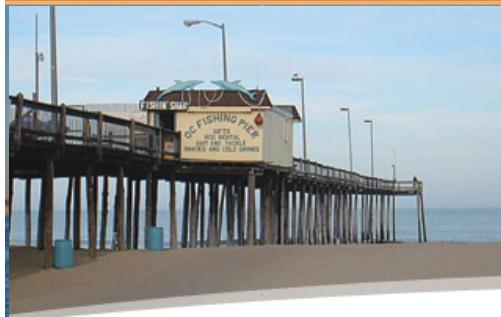
Operating Account

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 2012 amounts have been reclassified to conform to fiscal year 2013 presentations. The reclassification had no effect on net position or changes therein.



Statistical Section

Comparative Schedule of Revenues, Expenses and Changes in Net Position

Member Growth Analysis

Loss History and Average Claim Costs

Reported Claim Activity

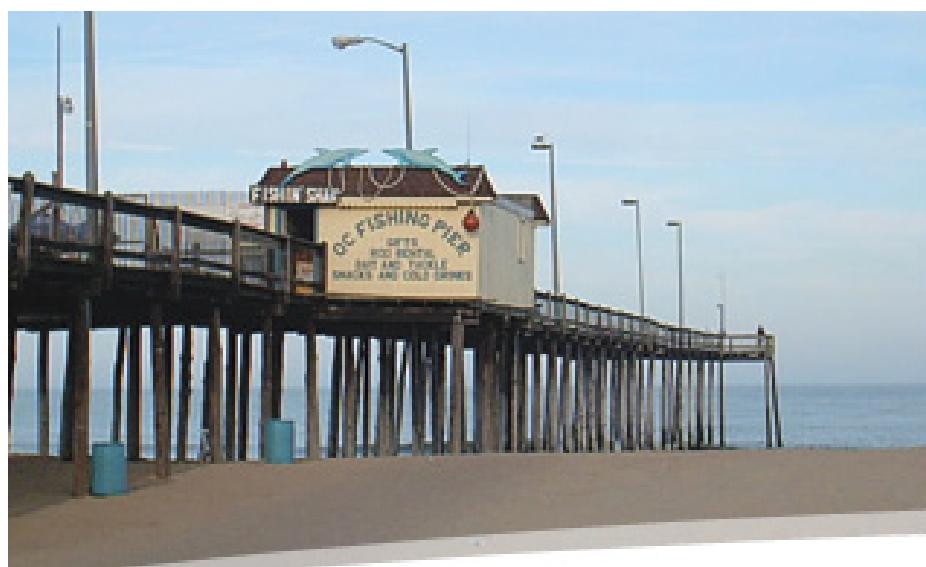
Loss Development

State of Maryland Demographic and Economic Statistics

Ten Largest Employers State of Maryland

*Our Mission Is Serving
Maryland Local Governments*







LOCAL GOVERNMENT INSURANCE TRUST

Comparative Schedule of Revenues, Expenses and Changes in Net Position

Ten Years Ended June 30, 2004 through June 30, 2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
REVENUES										
Gross premiums earned (1)	\$ 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	\$ 15,764,047
Less: premium credits ceded premiums	- (4,595,293)	(3,000,000) (4,496,753)	- (4,634,559)	- (5,225,249)	- (4,819,145)	- (2,000,000) (4,446,223)	- (2,300,000) (4,394,806)	- (3,297,332) (3,256,478)	- (3,754,792) (3,653,712)	- (3,272,437) (3,811,719)
Net premiums earned	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	8,679,891
Other	29,982	11,155	139,664	28,080	18,790	30,631	29,436	38,483	146,258	92,821
Total operating revenues	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	8,772,712
Operating Expenses										
Incurred claims and claim adjustment expenses: (1)										
Paid (net of recoveries)	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	6,210,849
Change in liability for unpaid claims and claim adjustment exp.	148,561	(2,845,277)	664,342	3,117,010	(1,208,238)	419,498	(641,155)	119,569	(366,551)	1,659,613
General and administrative	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	4,777,042
Total operating expenses	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	12,647,504
Operating income	(852,322)	502,702	875,478	(995,600)	(207,273)	(1,473,222)	(428,814)	(481,295)	(1,151,884)	(3,874,792)
NONOPERATING REVENUES (EXPENSES)										
Investment income	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	974,644
Interest expense	-	-	-	-	(132,081)	(96,715)	(51,298)	(46,974)	(157,954)	-
Total nonoperating revenues (expenses)	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	974,644
Change in net assets	528,305	2,735,697	2,082,090	2,434,724	1,486,157	(778,272)	3,098,645	3,865,201	945,206	(2,900,148)
Total net assets beginning 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
Total net assets end of year	\$ 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	\$ 45,632,903

(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, 2004 through June 30, 2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total number of members	178	168	171	175	175	175	174	176	177	179
Total employees	35	34	34	33	33	32	32	32	32	31
Total annual payroll	\$ 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	\$ 2,672,691
Total net premiums earned	\$ 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	\$ 8,679,891
Total number of claims	1,760	1,474	1,538	1,563	1,544	1,517	1,878	1,588	1,592	1,441
Total reported losses	\$ 9,127,342	\$ 4,201,814	\$ 4,700,714	\$ 4,318,950	\$ 5,934,340	\$ 6,893,683	\$ 5,326,670	\$ 5,458,853	\$ 5,362,929	\$ 5,120,564

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, 2004 through June 30, 2013

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Auto Liability	\$1,499,967	\$1,089,344	\$1,271,577	\$1,041,324	\$1,619,903	\$1,271,110	\$1,282,513	\$1,064,707	\$645,531	\$790,746
Auto Physical	753,020	745,113	778,992	925,033	1,089,572	1,068,104	1,082,428	996,555	895,559	876,160
General Liability	2,411,664	1,932,458	1,950,113	1,440,673	2,417,132	3,938,676	2,219,296	2,837,600	2,521,010	2,351,666
Property	1,096,538	434,899	700,032	911,920	807,733	615,793	742,433	559,991	1,300,829	1,101,992
Excess	-	-	-	-	-	-	-	-	-	-
Health	3,366,153	-	-	-	-	-	-	-	-	-
Total	\$9,127,342	\$4,201,814	\$4,700,714	\$4,318,950	\$5,934,340	\$6,893,683	\$5,326,670	\$5,458,853	\$5,362,929	\$5,120,564

Average Cost per Claim

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Auto Liability	\$3,826	\$3,112	\$3,140	\$2,684	\$4,512	\$3,218	\$2,397	\$2,949	\$2,188	\$2,551
Auto Physical	1,864	1,659	1,982	2,007	2,348	2,158	2,090	2,318	2,003	2,247
General Liability	3,331	3,426	3,135	2,545	4,218	7,560	3,742	4,242	4,309	4,849
Property	4,747	4,530	7,778	6,805	5,770	6,348	3,344	4,706	5,042	4,390
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, 2004 through June 30, 2013

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Auto Liability	392	350	405	388	359	395	535	361	295	310
Auto Physical	404	449	393	461	464	495	518	430	447	390
General Liability	724	564	622	566	573	521	593	669	585	485
Property	231	96	90	134	140	97	222	119	258	251
Excess	9	15	28	14	8	9	10	9	7	5
Total	1,760	1,474	1,538	1,563	1,544	1,517	1,878	1,588	1,592	1,441
<hr/>										
Closed Claims	1,298	1,056	1,080	852	1,076	1,118	1,362	1,127	1,149	908
Open Claims	462	418	458	711	468	399	516	461	443	533
Total	1,760	1,474	1,538	1,563	1,544	1,517	1,878	1,588	1,592	1,441
<hr/>										
Prior year claims closed	663	576	624	967	787	397	610	858	783	768
Current year claims closed	1,298	1,056	1,080	852	1,076	1,118	1,362	1,127	1,149	908
Total claims closed during year	1,961	1,632	1,704	1,819	1,863	1,515	1,972	1,985	1,932	1,676
<hr/>										
Number of Members	178	168	171	175	175	174	174	176	177	179

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, 2004 through June 30, 2013

Paid Losses as of June 30

CLAIM YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
2004	5,087,295	7,126,964	7,648,130	8,001,346	8,379,974	8,539,635	8,636,773	8,647,475	9,133,919	9,127,342
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	4,191,364
2006	-	-	2,103,543	3,018,102	3,710,553	4,206,352	4,486,146	4,563,711	4,588,849	4,600,612
2007	-	-	-	2,010,184	2,988,446	3,318,761	3,893,576	4,168,834	4,269,094	4,318,949
2008	-	-	-	-	2,103,746	3,649,363	5,014,956	5,602,310	5,890,845	5,902,224
2009	-	-	-	-	-	2,400,779	4,494,349	5,221,188	5,628,783	5,881,355
2010							2,210,347	3,542,066	4,041,910	4,756,403
2011								2,281,860	3,713,673	4,716,102
2012									2,716,683	4,315,814
2013										2,555,929
Total	<u>\$ 5,087,295</u>	<u>\$ 8,686,351</u>	<u>\$ 12,071,196</u>	<u>\$ 15,711,998</u>	<u>\$ 20,715,688</u>	<u>\$ 26,110,050</u>	<u>\$ 32,879,297</u>	<u>\$ 38,190,797</u>	<u>\$ 44,163,399</u>	<u>\$ 50,366,094</u>

Loss Payments During the Year Ended

CLAIM YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
2004	5,085,291	2,039,669	521,166	353,216	378,628	159,661	97,138	10,702	486,444	(6,577)
2005	-	1,559,387	760,136	362,843	850,603	462,191	147,990	20,203	16,290	11,721
2006	-	-	2,103,543	914,559	692,451	495,799	279,794	77,565	25,138	11,763
2007	-	-	-	2,010,184	978,262	330,315	574,815	275,258	100,260	49,855
2008	-	-	-	-	2,103,746	1,545,617	1,365,593	587,354	288,535	11,379
2009	-	-	-	-	-	2,400,779	2,093,570	726,839	407,595	252,572
2010							2,210,347	1,331,719	499,844	714,493
2011								2,281,860	1,431,813	1,002,429
2012									2,716,683	1,599,131
2013										2,555,929
Sub-total	<u>\$ 5,085,291</u>	<u>\$ 3,599,056</u>	<u>\$ 3,384,845</u>	<u>\$ 3,640,802</u>	<u>\$ 5,003,690</u>	<u>\$ 5,394,362</u>	<u>\$ 6,769,247</u>	<u>\$ 5,311,500</u>	<u>\$ 5,972,602</u>	<u>\$ 6,202,695</u>

Losses Paid for

Years Prior to 2003	<u>3,815,131</u>	<u>1,590,440</u>	<u>1,382,556</u>	<u>655,007</u>	<u>2,752,631</u>	<u>506,524</u>	<u>100,158</u>	<u>(2,397)</u>	<u>(567,022)</u>	<u>8,154</u>
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Total Losses per Statements of Revenues, Expenses and Changes in Net Assets

	<u>\$8,900,422</u>	<u>\$5,189,496</u>	<u>\$4,767,401</u>	<u>\$4,295,809</u>	<u>\$7,756,321</u>	<u>\$5,900,886</u>	<u>\$6,869,405</u>	<u>\$5,309,103</u>	<u>\$5,405,580</u>	<u>\$6,210,849</u>
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LOCAL GOVERNMENT INSURANCE TRUST
Loss Development

Ten Years Ended June 30, 2004 through June 30, 2013

Case Reserves as of June 30

CLAIM YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
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	10,450
2006	-	-	1,129,902	1,774,564	948,878	545,541	244,809	136,444	102,634	100,102
2007	-	-	-	1,807,231	979,708	754,577	477,635	360,967	83,421	1
2008	-	-	-	-	1,645,625	1,535,212	960,022	555,337	72,834	32,116
2009	-	-	-	-	-	1,874,880	798,809	831,737	797,684	1,012,328
2010							1,553,528	831,585	579,661	570,267
2011								1,386,016	1,088,682	742,751
2012									1,080,676	1,047,115
2013										2,564,635
Total	<u>\$ 1,946,379</u>	<u>\$ 1,656,530</u>	<u>\$ 2,351,190</u>	<u>\$ 5,847,996</u>	<u>\$ 4,604,660</u>	<u>\$ 5,125,834</u>	<u>\$ 4,100,335</u>	<u>\$ 4,171,121</u>	<u>\$ 3,881,834</u>	<u>\$ 6,079,764</u>

Change in Case Reserves During the Year Ended

CLAIM YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
2004	1,946,379	(1,200,145)	(383,474)	418,143	(586,432)	(111,855)	(70,973)	(5,172)	13,502	(19,973)
2005	-	910,296	(51,768)	626,770	(649,320)	(502,969)	(279,119)	8,675	(6,296)	(45,819)
2006	-	-	1,129,902	644,662	(825,686)	(403,337)	(300,732)	(108,364)	(33,811)	(2,531)
2007	-	-	-	1,807,231	(827,523)	(225,131)	(276,942)	(116,668)	(277,546)	(83,420)
2008	-	-	-	-	1,645,625	(110,413)	(575,189)	(404,686)	(482,503)	(40,718)
2009	-	-	-	-	-	1,874,880	(1,076,071)	32,928	(34,053)	214,644
2010							1,553,528	(721,942)	(251,925)	(9,394)
2011								1,386,016	(297,334)	(345,931)
2012									1,080,676	(33,561)
2013										2,564,635
Total	<u>\$ 1,946,379</u>	<u>\$ (289,849)</u>	<u>\$ 694,660</u>	<u>\$ 3,496,806</u>	<u>\$ (1,243,336)</u>	<u>\$ 521,174</u>	<u>\$ (1,025,499)</u>	<u>\$ 70,787</u>	<u>\$ 289,288</u>	<u>\$ 2,197,931</u>



LOCAL GOVERNMENT INSURANCE TRUST
Loss Development

Ten Years Ended June 30, 2004 through June 30, 2013

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

CLAIM YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
2004	7,033,674	7,873,198	8,010,890	8,782,249	8,574,445	8,622,251	8,648,416	8,653,946	9,153,892	9,127,342
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	4,201,814
2006	-	-	3,233,445	4,792,666	4,659,431	4,751,893	4,730,955	4,700,155	4,691,483	4,700,714
2007	-	-	-	3,817,415	3,968,154	4,073,338	4,371,211	4,529,801	4,352,515	4,318,950
2008	-	-	-	-	3,749,371	5,184,575	5,974,978	6,157,647	5,963,679	5,934,340
2009	-	-	-	-	-	4,275,659	5,293,158	6,052,925	6,426,467	6,893,683
2010	-	-	-	-	-	-	3,763,875	4,373,651	4,621,571	5,326,670
2011	-	-	-	-	-	-	-	3,667,876	4,802,355	5,458,853
2012	-	-	-	-	-	-	-	-	3,797,359	5,362,929
2013	-	-	-	-	-	-	-	-	-	5,120,564
Total	<u>\$ 7,033,674</u>	<u>\$ 10,342,881</u>	<u>\$ 14,422,386</u>	<u>\$ 21,559,994</u>	<u>\$ 25,320,348</u>	<u>\$ 31,235,884</u>	<u>\$ 36,979,632</u>	<u>\$ 42,361,918</u>	<u>\$ 48,045,233</u>	<u>\$ 56,445,859</u>

Incremental Losses Reported During the Year Ended

CLAIM YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
2004	7,033,674	839,524	137,692	771,358	(207,803)	47,805	26,165	5,530	499,946	(26,550)
2005	-	2,469,683	708,368	989,613	201,282	(40,778)	(131,129)	28,878	9,994	(34,098)
2006	-	-	3,233,445	1,559,220	(133,234)	92,462	(20,938)	(30,799)	(8,673)	9,232
2007	-	-	-	3,817,415	150,738	105,184	297,873	158,590	(177,286)	(33,565)
2008	-	-	-	-	3,749,371	1,435,204	790,404	182,668	(193,968)	(29,339)
2009	-	-	-	-	-	4,275,660	1,017,499	759,767	373,542	467,216
2010	-	-	-	-	-	-	3,763,875	609,777	247,919	705,099
2011	-	-	-	-	-	-	-	3,667,876	1,134,479	656,498
2012	-	-	-	-	-	-	-	-	3,797,359	1,565,570
2013	-	-	-	-	-	-	-	-	-	5,120,564
Total	<u>7,033,674</u>	<u>3,309,207</u>	<u>4,079,505</u>	<u>7,137,606</u>	<u>3,760,356</u>	<u>5,915,537</u>	<u>5,743,748</u>	<u>5,382,286</u>	<u>5,683,314</u>	<u>8,400,627</u>

State of Maryland Demographic and Economic Statistics:

	2013	2012
Population (1)	5,884,563	5,773,572
Approximate total personal income (thousands of dollars) (2)	\$255,268,000	\$249,914,000
Unemployment rate (4)	7.50%	7.20%
Land area – 12,406 square miles		

- (1) U.S. Census Bureau, as of July 1, 2012 and 2010, respectively
- (2) U.S. Department of Commerce, Bureau of Economic Analysis, as of December 31, 2010 and 2009 , respectively
- (3) U.S. Department of Labor, Bureau of Labor Statistics, as of June 30, 2013 and 2012, respectively

Ten Largest Employers State of Maryland (1)

Fort George G. Meade	56,700	Military installation/intelligence
University System of Maryland	36,800	Higher education
Johns Hopkins University	27,000	Higher education
Johns Hopkins Hospital & Health System	21,620	Hospitals; health services
Walmart	17,680	Consumer goods
National Institutes of Health	17,660	Federal agency
Aberdeen Proving Ground	15,580	Military installation
MedStar Health	15,520	Hospitals; health services
University of Maryland Medical System	15,000	Hospitals; health services
Joint Base Andrews Naval Air Facility	13,500	Military installation

- (1) Source: MD Department of Business and Economic Development, 2010



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by its Maryland local government members.*

*Our Mission Is Serving
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for the fiscal years ended
June 30, 2013 and
June 30, 2012

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