



Comprehensive Annual Financial Report

for the fiscal year ended
June 30, 2010

*Our Mission Is Serving
Maryland Local Governments*



Local Government Insurance Trust
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Founding Organizations



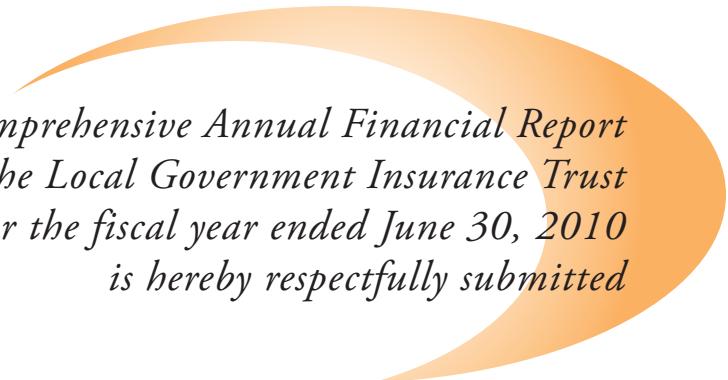
Local Government Insurance Trust

Comprehensive Annual Financial Report

for the fiscal year ended
June 30, 2010

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, 2010
is hereby respectfully submitted*



Table of Contents

Letter from the Chair	v
INTRODUCTORY SECTION - UNAUDITED	
Transmittal Letter.....	1
Certificate of Achievement for Excellence in Financial Reporting.....	7
Membership	8
Board of Trustees.....	9
LGIT Staff	10
LGIT Organizational Chart	12
FINANCIAL SECTION	
Independent Auditors' Report.....	15
Management's Discussion and Analysis	17
Basic Financial Statements	
Statements of Net Assets	21
Statements of Revenues, Expenses and Changes in Net Assets.....	22
Statements of Cash Flows	23
Notes to Financial Statements.....	25
Required Supplementary Information	
Explanation of Required Supplementary Information	35
Reconciliation of Claims Liabilities and Related Expenses by Pool 2010	36
Reconciliation of Claims Liabilities and Related Expenses by Pool 2009	37
Claims Development Information	38
Supplementary Combining Schedules	
Combining Schedule of Net Assets 2010	40
Combining Schedule of Net Assets 2009	41
Combining Schedule of Changes in Net Assets (Deficit) 2010.....	42
Combining Schedule of Changes in Net Assets (Deficit) 2009.....	43
Combining Schedule of Cash Flows 2010.....	44
Combining Schedule of Cash Flows 2009.....	45
Notes to Supplementary Combining Schedules	47
STATISTICAL SECTION - UNAUDITED	
Comparative Schedule of Revenues, Expenses and Changes in Net Assets	53
Member Growth Analysis.....	54
Loss History and Average Claim Costs	55
Reported Claim Activity.....	56
Loss Development.....	57

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LETTER FROM THE CHAIR

Your Trust in FY 2010



The Local Government Insurance Trust (Trust) is an insurance pool created in 1987 in response to the lack of an available, affordable, insurance market for Maryland's local governments. The purpose of the Trust is to work with our local governments to address their risk management and insurance needs. Local governments are not only clients, but owners as well, because unlike a typical "insurance company," the Trust is a non-profit organization, owned and operated by its member governments. Where else can local governments directly access the Board of Directors, the Chairman of the Board and the Executive Director concerning risk management and insurance issues? Because the Trust is local to Maryland and is owned and operated by Maryland's local governments, it is able to devote its full energy to resolving the risk management needs of its members.

Fiscal year 2010 was a very good one for the Trust both financially and in member retention. Membership remains at 174, consisting of 16 counties, 132 municipalities, 23 sponsored entities, the Maryland Municipal League (MML), the Maryland Association of Counties (MACo) and, of course, the Local Government Insurance Trust.

The Trust was honored by recognition from the following organizations during fiscal year 2010:

■ EXCELLENCE IN FINANCIAL REPORTING AWARD

For the eleventh year in a row the Trust was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for our Comprehensive Annual Financial Report (CAFR). This prestigious award is the highest form of recognition in governmental accounting and financial reporting.

■ AGRIP RECOGNITION

The Trust received recognition from the Association of Governmental Risk Pools for meeting their Advisory Standards for public entity pools.

We view these awards as extremely valuable to LGIT as they send an important message to our members that we strive for excellence in achieving our mission.

Training continues to be a primary focus of our risk management efforts, because the better trained employees are, the fewer losses they will incur. This, in turn enables our members to become more livable communities. In fiscal year 2010, the Trust provided 83 training and educational opportunities across the state, which were attended by 2,110 local government officials and employees.

In 2010, 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 Government Finance Officers Association, the Injured Worker's Insurance Fund, the Public Risk Insurance Management Association, the National League of Cities Risk Information Sharing Consortium, the National Association of Counties and of course, MACo and MML. The Trust continued its partnership with MACo, MML, and the Institute for Governmental Services at the University of Maryland, to implement the Academy for Excellence in Local Governance.

From a financial standpoint, the Trust had a very strong year and was able to increase member equity by approximately \$3,100,000. This increase was mainly driven by the returns on the investment portfolios. Overall, the Trust continues to maintain a very healthy reserve and is in excellent financial condition and in fact during fiscal year 2010, \$2,000,000 was returned to the members of the Primary Liability Pool (PLP) in the form of rate stabilization credits with further credits to come in fiscal year 2011 of \$3,000,000. The rate stabilization credits are funded out of PLP equity and directly reduce the premiums charged to membership. More information regarding the rate stabilization program can be found in Notes No. 7 of the Notes to the Financial Statements contained in this Comprehensive Annual Financial Report (CAFR).

Included in the CAFR are the Transmittal letter and Management's Discussion and Analysis, which go into more detail regarding the financial operations of the Trust. Also included are the basic financial statements that include the Notes to the financial statements, which are an integral part of the annual report and should be carefully read.

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, which have made the Trust what it is today. I also express my gratitude to the Board of Trustees 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 my dedicated fellow Board members and the highly professional staff for their hard work throughout the year. Their commitment and support to Maryland's local governments is what sets us apart from the competition.

Respectfully submitted,



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



Introductory Section

Transmittal Letter

Certificate of Achievement
for Excellence in
Financial Reporting

Membership

Board of Trustees

LGIT Staff

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October 7, 2010
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, 2010 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; and that all disclosures necessary to enable the reader to gain the maximum understanding of the Trust's financial affairs have been included.

The Comprehensive Annual Financial Report 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 2009 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 valuation. As of June 30, 2010, the Trust operates three pools of coverage as follows: the Primary Liability Pool (PLP), the Property Pool, and the Excess Liability Pool (ELP). The Trust also sponsors an Environmental Impairment Liability Pool. An outside insurance carrier holds the financial risk of the Environmental Impairment Liability Pool and its participants deal directly with the outside carrier. Membership in the Trust is limited to Maryland local governments that are members of the Maryland Association of Counties (MACo) or the Maryland Municipal League (MML).

A Board of Trustees (Board) consisting of 13 voting members governs the Trust. Twelve of the Trustees, comprised of six municipal and six county officials, are elected by the membership. The Board appoints one Trustee to represent a member of MACo or MML and both Executive Directors of MACo and MML serve as ex-officio Trustees on the Board. The Board elects a Chairman, Vice-Chairman and a Secretary from its members and Elected Trustees are eligible for re-election 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, the policy manual and as established by the Board.

Economic Outlook

We are now entering the sixth year of a soft insurance market across all lines. Pricing remains favorable for buyers of insurance and re-insurance. A soft market results in rate reductions as part of stiffening competition for business continues to heat up, thereby increasing the challenges for the Trust in retaining its current level of participation. Services provided by the Trust such as personalized claims handling, underwriting and loss control services, training opportunities, and other value added services typically not provided by commercial insurers, have engendered a level of loyalty which should minimize attrition to some degree. Innovation designed to broaden services and coverage may also serve to level the playing field with those commercial insurers who make efforts to "buy the business" with short-term rate reductions. Despite the increasing competition, the Trust continues to rely on responsible underwriting by funding the pools based on actuarial projections rather than gambling on underpriced risks.

While it is sometimes difficult to compete with multi-billion dollar global commercial insurers, the Trust was able to reduce members' net rates for fiscal 2010; Property by 3%, Boiler by 16% and Excess Liability by 9%. While the net of all Primary Liability rates decreased by 9%, Auto Physical Damage and Public Official Liability rates increased by 6% and 9%, respectively. The increases in Auto Physical Damage and Public Officials Liability were largely driven by claims costs and resources were shifted within loss control and training efforts in order to target these troublesome exposures. For the upcoming 2011 fiscal year, member rates will continue to decrease as the Trust continues to find more favorable pricing in the reinsurance market, particularly within the Property program.

MAJOR INITIATIVES

For the Year

The following highlights some of the Trust's major accomplishments during fiscal year 2010:

- ❑ **INFORMATION TECHNOLOGY** - In fiscal year 2010, the policy underwriting, invoicing, subsidiary accounting, and data warehouse modules of LGIT's new enterprise-wide, web-based system were implemented. This new system, called Risk 360, is a modular, integrated system designed to perform and manage the core processes of public entity risk pools.
- ❑ **TRAINING** – Training continues to be a primary focus of our risk management efforts to help Trust members reduce losses. In fiscal year 2010, the Trust provided 83 training and educational opportunities across the state attended by 2,110 local government officials and employees. The Trust provided a series of training programs, for both public official & employment liability, and Defensive Driver to address these loss control concerns. The Legal Department staff continued to present the important Workplace Harassment Seminar throughout the State. A "Bullying in the Workplace" component was added to the program.
- ❑ **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 2010 and continues into fiscal year 2011. Implementation, which began in the fall of 2008, involved 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 5% of premium.
- ❑ **RATE STABILIZATION CREDITS** – Beginning in fiscal year 2009, the Board of Trustees enacted 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 30% of the account balance. The limit will be increased to 40% in fiscal year 2011. The remainder will be left in the account and will earn interest equal to the rate earned on the Trust's short-term investment portfolio 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 years 2009 and 2010. The purpose was to determine and document accurate values for water and waste water treatment plants to ensure that the values reported to our reinsurers were justifiable, thereby strengthening the trust's reputation for reliability, while at the same guaranteeing collection of adequate premium fees for those risks. Fifty members' facilities were appraised in fiscal year 2010 and the program is expected to continue through early 2011.
- **CONSULTANT PROGRAM** – Fiscal year 2010 saw the introduction of the use of consultants in assisting loss control efforts to reduce loss costs for specialized risks. The focus for the first project was sewer backup loss prevention which has resulted in more frequent and enhanced training programs as well as the ground work for a sewer backup "toolkit", a reference containing everything you need to know on the subject which will be introduced in fiscal year 2011. Also in fiscal 2010, an attorney who specializes in Law Enforcement issues was retained in an effort to curtail our loss costs. This attorney is widely recognized as an expert on the subject and will be presenting a comprehensive overview of the Maryland Law Enforcement Officers' Bill of Rights (LEOBR) for our members' police officers.

For the Future

During fiscal year 2011, the installation and configuration of the Risk 360 claims system and member portal is expected to be completed. The fully integrated system will allow for more efficient communication between all three operational functions of underwriting, claims and finance. In addition to the benefits of a more efficient administrative system, Risk 360 will provide our membership with on-line browser-based services such as policy renewal, schedule changes, claim submission, and rating and reporting tools. By integrating all of these processes, maximum productivity will be achieved both by the Trust and by its membership, saving valuable time and ultimately reducing claims costs resulting from inefficient processes.

The Trust has entered into a partnership with Benecon, a benefits and consulting group specializing in establishing and managing employee health benefits purchasing groups. Benecon has been successfully employing their self-insurance model with municipal groups throughout Pennsylvania for the last nineteen years. Benecon's track record has produced very positive results. Benecon's first municipal cooperative started in 1991 and their retention rate since inception is at 99.9%. The Trust believes that Benecon's program will be safe and secure for the participating Maryland governments. Benecon's record has shown that for most years surplus funds have been returned to members without any assessments or surcharges. The Trust's primary roles in the partnership are to serve as the group Treasurer and to assist with marketing. The Trust will incur no financial risk and will essentially serve as a financial pass through between the Maryland governmental groups that participate and the insurance entities that provide coverage.

The goal of this new partnership is for Benecon and the Trust to work together to create similar health benefit purchasing group(s) in the state of Maryland. This goal will be accomplished early in fiscal year 2011, when the Trust commences operation of the new "Health Benefits Cooperative" consisting of five governmental members covering approximately 540 Maryland governmental employees. Initial responses from all the Maryland governments surveyed have been positive and hopefully additional member groups will be added throughout fiscal year 2011 and for years to come.

In fiscal year 2011, loss control and the training staff will continue to provide trainings geared toward specific exposures with high dollar loss experience. Beginning in September of 2010, the Trust's legal staff will present Fourth Amendment (Traffic Stop and Street Encounters) training to law enforcement officers throughout the State.

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

Clifton Gunderson 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). Clifton Gunderson's unqualified opinion on the Trust's basic financial statements as of and for the fiscal years ended June 30, 2010 and 2009 is included in the financial section of this report.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) 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, 2009. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

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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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, 2009

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



President

Executive Director

Local Government Insurance Trust

Fiscal Year 2010 Membership

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

Local Government Insurance Trust Fiscal Year 2010 Board of Trustees



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



Roger L. Fink, Vice-Chairman
County Attorney, Charles 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*



John E. Bloxom
*County Attorney,
Worcester County*



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



Sharon Greisz
*Director, Office of Finance,
Howard County*



Susanne Hayman
*County Administrator,
Kent County*



Susan M. Keller
*Commissioner of
Public Works,
City of Frostburg*



John D. Miller Burgess,
Town of Middletown



F. Gary Mullich
*Director,
General Services,
Garrett County*



Wilson H. Parran
*President,
Board of Commissioners,
Calvert County*

Local Government Insurance Trust

Fiscal Year 2010 Management and Staff

Executive



Tim Ailsworth
Executive Director



Marsha Carpenter
Human Resources Manager



Sandy Tedrow
Executive Secretary

Finance and Information Technology Services



J. Earle Beyer
Director



Betty Haynes
Accountant



Michael Becker
Systems Engineer



Sheryl Browning
*Database Analyst/
Media Specialist*

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



Larry Bohlen
Loss Control Training Coordinator



Michelle Yannone
Staff Associate



Jeffrey Perkins
Loss Control Associate



Latina Wilkinson
Loss Control Assistant

Local Government Insurance Trust

Fiscal Year 2010 Management and Staff

Claims Services



Sherri Butler
Director



Elisabeth Beekman
Manager/Litigation Analyst



Elizabeth Martinez
Litigation Analyst



Katie Adams
Subrogation/Litigation Specialist



Dorie Schwartz
Claims Analyst



Hollis Henry
Claims Analyst



Sharonda Clark
Claims Analyst



Dalas Salters
Claims Analyst



Pat Olson
Claims & Legal Staff Associate



Charise Henderson
Claims Administrative Assistant

Legal Services



John F. Breads, Jr.
Director



Christine Altemus
Senior Attorney



Matthew Peter
Attorney

Support Services



Arlene Courtney
Manager



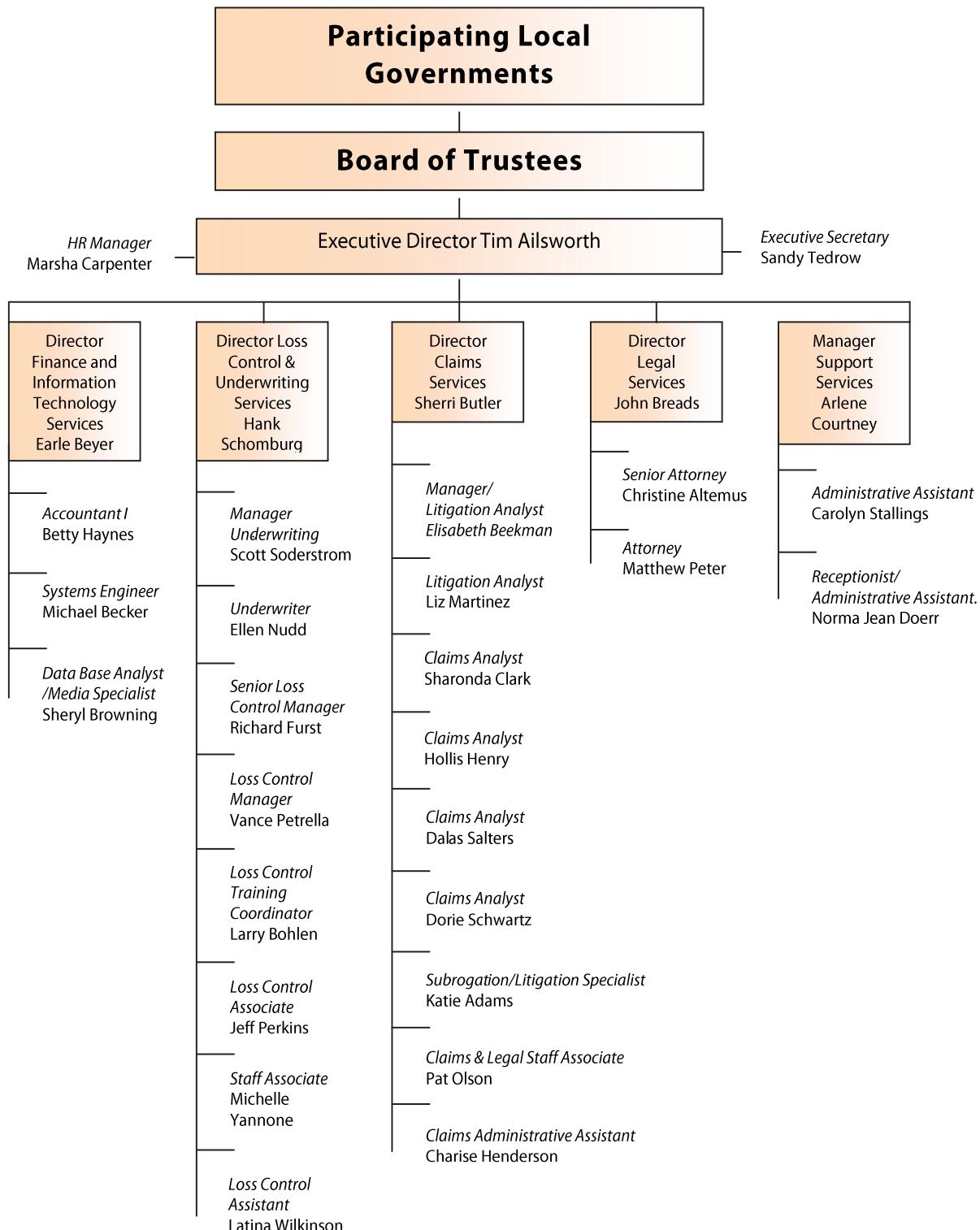
Carolyn Stallings
Administrative Assistant



Norma Jean Doerr
Receptionist/Administrative Assistant

Local Government Insurance Trust

Fiscal Year 2010 Organizational Chart





Financial Section

Independent Auditors' Report

Management's Discussion and Analysis

Statements of Net Assets

Statements of Revenues, Expenses and Changes in Net Assets

Statements of Cash Flows

Notes to Financial Statements
Explanation of Required Supplementary Information

Reconciliation of Claims
Liabilities and Related Expenses by Pool

Claims Development Information

Supplementary Combining Schedules

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Independent Auditor's Report

The Board of Trustees
Local Government Insurance Trust
Hanover, Maryland

We have audited the accompanying statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows of Local Government Insurance Trust (the Trust) as of and for the years ended June 30, 2010 and 2009, which collectively comprise Local Government Insurance Trust's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Local Government Insurance Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplementary information, listed in the table of contents, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information, and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the TrustLocal Government Insurance Trust's basic financial statements. The supplementary combining schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to our auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Continued from page 15

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 express no opinion on them.

Clifton Gunderson LLP

Baltimore, Maryland
October 26, 2010



Local Government Insurance Trust Management's Discussion and Analysis

Years Ended June 30, 2010 and 2009

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, 2010 and 2009. Please read it in conjunction with the financial statements, which follow this section.

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

STATEMENT OF NET ASSETS — this statement presents information reflecting the Trust's assets, liabilities and net assets. The statement of net assets categorizes assets and liabilities as current and non-current. 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. The Trust's investments are considered as current as they could be liquidated upon demand.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS — this statement reflects the operating revenues and expenses, as well as non-operating 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 loss and loss adjustment expenses related to claims. 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, non-capital 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, 2010, 2009 and 2008, respectively.

Summary of Net Assets

	2010	2009	2008
ASSETS			
Current assets	\$ 18,181,849	\$ 19,913,817	\$ 26,048,557
Non-current assets	45,725,972	38,875,918	31,987,766
Total Assets	63,907,821	58,789,735	58,036,323
LIABILITIES			
Current Liabilities	6,289,863	5,796,534	5,259,882
Non-current liabilities	13,895,314	12,369,202	11,374,170
Total Liabilities	20,185,177	18,165,736	16,634,052
NET Assets			
Invested in capital assets, net of related debt	489,107	324,472	160,390
Unrestricted	43,233,537	40,299,527	41,241,881
TOTAL NET ASSETS	\$ 43,722,644	\$ 40,623,999	\$ 41,402,271

Total Assets

Total assets increased by approximately \$5,118,000 between June 30, 2009, and 2010. This increase is generated by approximately \$3,579,000 of investment income and an increase in reinsurance receivables of approximately \$2,600,000 related to ceded reserves.

Total assets remained relatively unchanged between June 30, 2008 and June 30, 2009.

Total Liabilities

The most significant components of the Trust's liabilities are related to unpaid claims and related expenses. Unpaid claims and related expenses is a liability calculated by the Trust's actuary for all pools.

The change in the unpaid claims and related expense liability in 2010 and 2009 amounted to an increase of approximately \$1,938,000 and an increase of \$715,000, respectively. The increase in reserves during 2010 is due to large property losses related to back to back catastrophic snow storms and the loss of a firehouse due to a fire. Most of these losses are in excess of the Trust's reinsurance retention level and therefore are reported as ceded reserves. The increase in reserves during 2009 primarily relates to the larger number of public official and auto liability cases.

Total liabilities also increased by \$1.4 million during 2009 as a result of the creation of a rate stabilization fund for the members of the Primary Liability Pool (PLP). For 2009, the Board of Trustees (Board) approved an initial \$2 million funding from equity into this fund which is reported as a reduction of premiums. Pool members can access one-third of their share of the fund to offset annual insurance premiums. For 2009, approximately \$600 thousand of credits were applied to member invoices, which resulted in the \$1.4 million liability.

The following table summarizes the change in net assets for fiscal years ended June 30, 2010, 2009 and 2008.

Summary of Revenues, Expenses and Changes in Net Assets

	2010	2009	2008
Operating revenues	\$ 10,282,371	\$ 9,259,681	\$ 10,642,157
Operating expenses	10,711,185	10,732,903	10,849,430
Operating loss	(428,814)	(1,473,222)	(207,273)
Non-operating income	3,527,459	694,950	1,693,430
Change in net assets	3,098,645	(778,272)	1,486,157
Net assets, beginning of year	40,623,999	41,402,271	39,916,114
Net assets, end of year	\$ 43,722,644	\$ 40,623,999	\$ 41,402,271

RESULTS OF OPERATIONS

Revenues

Total operating revenues increased by approximately 11% or approximately \$1,023,000 for fiscal year 2010 compared to fiscal year 2009. This was primarily due to the \$1,000,000 reduction of rate stabilization credits granted to members of the PLP during fiscal year 2010 compared to the amount granted in 2009.

Total operating revenues decreased by approximately 13% or approximately \$1,382,000 for fiscal year 2009 compared to fiscal year 2008. This was primarily due to the \$2,000,000 of rate stabilization credits granted to members of the PLP during fiscal year 2009. The effect of the rate stabilization credits was partially offset by premium increases due to higher insured values and the reduction in reinsurance costs.

Expenses

Operating expenses are comprised of incurred loss and loss adjustment expenses and the Trust's general and administrative expenses.

Total incurred loss adjustment and general administrative expense remained relatively unchanged in fiscal year 2010 compared to fiscal year 2009.

The loss and loss adjustment expenses were approximately \$228,000 lower in fiscal year 2009 compared to fiscal year 2008 primarily due to the much lower amount of paid claims. This was offset somewhat by the increase in outstanding claim reserves.

The Trust's general and administrative (G&A) expenses for 2009 were approximately 2.5% or \$112,000 higher than 2008. This was primarily due to the standard increases in personnel expenses due to employee raises and corresponding increase in benefit costs while the relatively minor changes in other expense categories effectively offset each other.

Non-operating revenues

Non-operating revenues consist of investment income and interest expense. Investment income was approximately \$2,800,000 higher in fiscal year 2010 compared to fiscal year 2009. The total return on LGITs investment portfolio increased to approximately 7.6% during fiscal year 2010 compared to the less than 1% return for fiscal year 2009. This improved performance was driven mainly by the Trust's equity portfolio which recaptured some of the losses sustained in fiscal year 2009.

Investment income was approximately \$1,000,000 lower in fiscal year 2009 compared to fiscal year 2008. Most of the decline was due to the stock market crash that occurred early in the fiscal year. The fixed income investments continued to perform strongly which resulted in growth of the portfolio after reporting losses for most of the year.

Both the fixed income and equity portfolios out-performed their respective benchmarks as established by the Board during fiscal year 2010 and 2009.

The annualized investment returns for fiscal years 2010, 2009 and 2008 are summarized by investment type as follows. This does not include any return or loss on the Trust's deposit with the reinsurance pool.

	2010	2009	2008
Fixed income portfolio	8.70%	6.11%	6.83%
Equity portfolio	9.04%	-26.21%	-8.32%
Total LGIT investments	8.77%	.59%	3.87%

The Trust's fixed income investments of its combined short-term and long-term portfolios represent approximately 81% of the Trust's entire investment portfolio as of June 30, 2010 and 86% as of June 30, 2009 and 84% as of June 30, 2008. The Trust's equity target percentage for its long-term portfolio has remained at 24% during the three year period. The Trust does not hold equity securities in its short-term portfolio.

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



LOCAL GOVERNMENT INSURANCE TRUST

Statements of Net Assets

June 30, 2010 and 2009

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,736,295	\$ 5,445,709
Investments (note 3)	10,232,134	10,978,156
Premiums receivable	163,782	6,801
Interest income receivable	354,875	376,497
Deposit with reinsurance pool (note 9)	-	736,179
Reinsurance receivables (note 9)	4,604,767	2,255,201
Other	89,996	115,274
Total current assets	<u>18,181,849</u>	<u>19,913,817</u>
Non-current assets:		
Investments (note 3)	36,268,408	29,733,203
Capital assets (note 4)	4,342,051	4,280,959
Deposit with reinsurance pool (note 9)	4,973,457	4,713,243
Other	142,056	148,513
Total non-current assets	<u>45,725,972</u>	<u>38,875,918</u>
Total assets	<u>63,907,821</u>	<u>58,789,735</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	314,651	154,696
Unpaid claims and related expenses (note 5)	5,274,773	4,957,016
Notes payable (note 6)	115,000	110,000
Interest payable	965	1,207
Rate stabilization fund (note 7)	484,493	474,135
Other	99,981	99,480
Total current liabilities	<u>6,289,863</u>	<u>5,796,534</u>
Non-current liabilities:		
Unpaid claims and related expenses (note 5)	9,044,689	7,424,292
Capitalization contributions (note 8)	1,640	1,640
Rate stabilization fund (note 7)	968,985	948,270
Notes payable (note 6)	3,880,000	3,995,000
Total non-current liabilities	<u>13,895,314</u>	<u>12,369,202</u>
Total liabilities	<u>20,185,177</u>	<u>18,165,736</u>
NET ASSETS		
Invested in capital assets, net of related debt	489,107	324,472
Unrestricted	43,233,537	40,299,527
Total net assets	<u>\$ 43,722,644</u>	<u>\$ 40,623,999</u>

See accompanying notes to the financial statements.



LOCAL GOVERNMENT INSURANCE TRUST

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2010 and 2009

	2010	2009
Operating Revenues		
Gross premiums earned	\$ 15,647,741	\$ 15,675,273
Less: premium credits	(1,000,000)	(2,000,000)
reinsurance premiums	(4,394,806)	(4,446,223)
Net premiums earned	<u>10,252,935</u>	<u>9,229,050</u>
Other revenues	29,436	30,631
Total operating revenues	<u>10,282,371</u>	<u>9,259,681</u>
Operating Expenses		
Incurred loss and loss adjustment expenses (note 5)		
Paid, net of recoveries	6,869,405	5,900,886
Change in liability for unpaid claims and related expenses	(641,155)	419,498
General and administrative expenses	4,274,875	4,263,757
Depreciation expense	208,060	148,762
Total operating expenses	<u>10,711,185</u>	<u>10,732,903</u>
Operating loss	<u>(428,814)</u>	<u>(1,473,222)</u>
Non-Operating Revenues (Expenses)		
Investment income	3,578,757	791,665
Interest expense	(51,298)	(96,715)
Total non-operating revenues	<u>3,527,459</u>	<u>694,950</u>
Change in net assets	3,098,645	(778,272)
Net assets, beginning of year	<u>40,623,999</u>	<u>41,402,271</u>
Net assets, end of year	<u>\$ 43,722,644</u>	<u>\$ 40,623,999</u>

See accompanying notes to the financial statements.



LOCAL GOVERNMENT INSURANCE TRUST

Statements of Cash Flows

Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Premiums collected	\$ 14,521,833	\$ 15,094,551
Other revenue collected	29,436	30,631
Recoveries of claims paid	2,264,558	1,053,295
Reinsurance premiums paid	(3,432,314)	(3,522,993)
Claims paid	(8,902,305)	(6,570,585)
General and administrative expenses paid	(4,317,370)	(4,336,843)
Net cash provided by operating activities	<u>163,838</u>	<u>1,748,056</u>
Cash flows from capital and related financing activities:		
Principal payments on notes	(110,000)	(105,000)
Interest expense paid	(45,083)	(94,493)
Purchase of capital assets	(269,152)	(436,752)
Net cash used in capital and related financing activities	<u>(424,235)</u>	<u>(636,245)</u>
Cash flows from investing activities:		
Purchase of investments	(27,374,355)	(32,949,683)
Proceeds from repurchase agreement	1,475,000	1,375,000
Proceeds from maturities of investments	21,518,513	26,573,955
Investment income received	1,931,825	742,760
Net cash used in investing activities	<u>(2,449,017)</u>	<u>(4,257,968)</u>
Net decrease in cash and cash equivalents	(2,709,414)	(3,146,157)
Cash and cash equivalents, beginning of year	5,445,709	8,591,866
Cash and cash equivalents, end of year	\$ 2,736,295	\$ 5,445,709
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (428,814)	\$ (1,473,222)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	208,060	148,762
Effects of changes in operating assets and liabilities:		
Operating premiums receivable	(156,981)	(3,127)
Reinsurance receivables	(2,349,566)	472,258
Deposit in reinsurance pool	736,179	842,720
Other assets	25,278	119,746
Accounts payable and accrued expenses	159,954	(111,188)
Unpaid claims and related expenses	1,938,154	315,819
Other liabilities	31,574	1,436,288
Total adjustments	<u>592,652</u>	<u>3,221,278</u>
Net cash provided by operating activities	\$ 163,838	\$ 1,748,056
Noncash investing, capital and financing activities:		
Net unrealized gain (loss) in fair value of investments included in investment income	<u>\$ 1,257,584</u>	<u>\$ (228,843)</u>

See accompanying notes to the financial statements.

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Local Government Insurance Trust Notes to Financial Statements

Years Ended June 30, 2010 and 2009

■ **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 seventh amended and restated Trust Agreement effective January 1, 2001.

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, 2010, the currently active pools are the following: the Primary Liability Pool (165 participants), the Property Pool (139 participants), and the Excess Liability Pool (122 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.

In 1992, the Trust issued debt on behalf of a local government to fund its self-insurance liability pool. The Trust has no obligation in connection with this transaction; and therefore, this transaction is not reported in the financial statements of the Trust. At June 30, 2010 and 2009, the outstanding debt related to this transaction was approximately \$4,235,000 and \$5,490,000 respectively.

The income of the Trust is exempt from federal taxation under §115 of the Internal Revenue Code.

■ **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 as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative literature. In preparing its financial statements, the Trust has adopted paragraph 6 of GASB Statement No. 20 titled "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting" under which the Trust has applied only the applicable Financial Accounting Standards Board pronouncements issued on or before November 30, 1989. The Trust distinguishes operating revenues and expenses from non-operating items. The principal operating revenues of the Trust are premiums charged to members for insurance coverage including special assessments, if any, net of premiums paid by the Trust for reinsurance. Operating expenses include incurred loss and loss adjustment expenses and general and administrative expenses. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The Trust is not subject to statutory reporting requirements for insurance companies. Certain accounts have been reclassified in the June 30, 2009 financial statements to be in conformity with the presentation in the June 30, 2010 financial statements.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses. It also requires estimates in the disclosures of contingent assets and liabilities. Actual amounts could differ from these estimates.

Cash, Cash Equivalents and Investments

Cash equivalents represent investments with original maturities of three months or less at date of acquisition. The Trust's investments in money market funds and cash held in depository accounts are considered cash and cash equivalents and are stated at cost. All cash held in depository accounts is insured by the Federal Deposit Insurance Corporation up to specified limits. All other cash is held in short-term governmental bond money market funds. The money market funds all carry AAA ratings with the exception of the fund used by the external investment managers, which is not rated but possesses all the characteristics of an AAA rated fund. The Trust's long-term debt securities (original maturities of over one year at date of acquisition), and equity investments are stated at fair value. All other investments are stated at amortized cost, which approximates fair value.

Liability for Unpaid Claims and Related Expenses

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. The Trust does not discount the liabilities for unpaid claims or loss 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 socioeconomic 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.

Premiums and Dividends

Premiums are earned over the term of the related policies on a monthly pro rata basis. The annual policies are written by the Trust with an effective date of July 1. Special premium assessments and credits, if any, are recorded in the period in which they are approved by the Board.

Reinsurance

The Trust limits the maximum net loss that can arise from large risks by reinsuring (or ceding) certain levels of risk with the reinsurers under various reinsurance treaties. Ceded reinsurance is treated as the risk and liability of the reinsuring companies. Premiums and recoveries related to ceded reinsured 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 loss and loss adjustment expenses.

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 are depreciated over three years. Furniture and equipment is depreciated over five years and the building is depreciated over forty years.

Capitalization Contributions

The Trust classifies capitalization contributions as liabilities if it is probable that the contributions will be returned. Otherwise, the contributions are classified as deferred premium revenue and amortized over a period not to exceed ten years. As discussed in Note 8, effective July 1, 1998, the Trust no longer requires participants to make capital contributions.

■ **NOTE 3 — CASH AND INVESTMENTS**

Cash

The Trust maintains all of its cash and temporary investments in a commercial bank and in money market mutual funds of three investment brokerages located in Baltimore, Maryland. Balances in depository accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. At June 30, 2010 and 2009, there were no deposits in excess of FDIC limits. Total cash and temporary investments held by these entities were \$3,116,688 and \$5,595,631 at June 30, 2010 and 2009, respectively. The Trust has no formal policy relating to custodial risk for deposits.

Investments

There are no legal restrictions on the Trust's investments. The Trust's investments are held in an internally managed short-term portfolio and an externally managed long-term portfolio. Since these two portfolios are managed separately, each will be discussed separately on the following page.

The Trust's Board approved investment policy includes formal guidelines and practices for managing risks for its investments. In accordance with this policy, permitted investments include, but are not limited to, U.S. Government and agency securities, corporate securities, and equities. These investments are insured, registered, or held by the Trust's custodian bank in the name of the Trust. The investments are reported at their fair values with changes in values included in investment income. The net unrealized change in the fair value of the investments included in investment income was a net appreciation (depreciation) of \$1,257,584 and (\$228,843) for fiscal years 2010 and 2009, respectively.

As of June 30, 2010, and 2009, the Trust's investment policy for the long-term portfolio includes asset allocation targets of 76% for fixed income investments and 24% for equity investments. The targets also include a minimum percentage of 75% and a maximum percentage of 95% for fixed income and a 5% minimum and a 25% maximum for equities. The allocation policy for the short-term portfolio stipulates 100% fixed income. The carrying values of all the Trust's investments as of June 30, 2010 and 2009 are summarized in the table below. The securities of the Government National Mortgage Association (GNMA) are backed by the full faith and credit of the U.S. Government. The securities issued by the following Government Sponsored Entities are not backed by the full faith and credit of the U.S. Government so they consequently carry some credit risk, but they do carry an implied government backing: Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and the Federal Farm Credit Bank (FFCB).

	2010	Percentage of	2009	Percentage of
U.S. Treasury Securities	\$ 6,844,766	14.7%	\$ 3,932,186	9.7%
U.S. Governmental Agencies and Instrumentalities:				
FHLB	4,183,224	9.0%	6,929,046	17.0%
GNMA	1,044,850	2.2%	407,207	1.0%
FNMA	5,281,367	11.4%	2,973,292	7.3%
FFCB	1,098,166	2.4%	3,083,699	7.6%
FHLMC	5,600,849	12.0%	3,583,207	8.8%
Corporate Securities	12,667,107	27.2%	11,525,770	28.3%
Municipal Securities	816,576	1.8%	449,989	1.1%
Repurchase Agreement	-	0.0%	1,475,000	3.6%
Equities	8,963,637	19.3%	6,351,963	15.6%
Total Investments	\$ 46,500,542	100%	\$ 40,711,359	100%

The following discussion and tables are provided to disclose the various risks associated with the Trust's investments. They are not intended to sum to the investment balances reported on the statements of net assets.

Interest rate risk - Short-term portfolio:

Generally, Trust management does not invest in securities maturing more than one year from the date of purchase, with the exception of \$3,040,924 and \$2,740,000 of callable U.S Government Agency Securities owned as of June 30, 2010 and 2009, respectively. These securities carry coupon rates that are above market averages and are priced to their respective call dates; therefore the call dates are used for the average maturity value calculation for this portfolio. If the final maturity date is used, the average maturity for the portfolio as of June 30, 2010 and 2009 increases to 2.1 years and 364 days, respectively. The funds invested in the short-term portfolio are intended to fund the operating activities of the Trust for a one-year period and the cash is invested accordingly to meet cash flow requirements. The following table lists the Trust's investments in the short-term portfolio as of June 30, 2010 and 2009 and their weighted average maturities.

	2010	Average Maturity	2009	Average Maturity
U.S. Government Agencies and Instrumentalities	\$ 5,040,924	98 days	\$ 7,784,716	217 days
Maryland Local Government Investment Pool	2,012,994	46 days	3,149,686	50 days
Repurchase Agreement	-	-	1,475,000	32 days
Money Market Funds	460,293	37 days	506,525	33 days
Total	\$ 7,514,211	80 days	\$ 12,915,927	148 days

Credit risk – Short-term portfolio:

The Trust places no limit on the amount invested in any one issuer. All investments in U.S. Government agencies and instrumentalities are issued by U.S Government sponsored entities and are not backed by the full faith and credit of the U.S government but they do carry the implied guarantee by the U.S. Government and are rated AAA by Standard and Poor's. The Maryland Local Government Investment Pool and the money market funds are also rated AAA by Standard and Poor's. The repurchase agreement reported for 2009 matured in August 2009 and was collateralized by U.S. Government Securities held by a trustee in the name of the Trust. The market value of the underlying securities was \$1,643,349 as of June 30, 2009. This was more than 103% of the repurchase agreement balance as required by the agreement.

Interest rate and credit risk – Long-term portfolio:

The Trust's investment policy for the long-term portfolio stipulates that the duration of the fixed income portion of the portfolio should remain in the range of plus or minus one year of the Barclay's Intermediate Government Credit Index. The maximum maturity of any fixed income investment is thirty years. The Trust's investment policy stipulates that the overall average quality of the portfolio should be at least "A" or better, as measured by Standard & Poor's or Moody's Investor Service. The quality of the Trust's fixed income investments along with their respective durations of the long-term portfolio as of June 30, 2010 and 2009 are shown in the following table. The duration information represents the time remaining until maturity for all securities including those securities with call schedules.

Quality

	2010	Duration (Years)	2009	Duration (Years)
U.S. Treasury Securities	\$ 6,844,766	4.0	\$ 3,932,186	4.2
U.S. Government Agencies	12,167,532	3.4	9,191,735	4.0
Corporate\Municipal Securities:				
AAA	2,088,452	2.8	1,654,154	2.1
AA	1,185,586	5.1	954,163	5.3
A	6,406,984	4.4	6,301,228	4.4
BBB	3,802,661	4.9	3,066,214	4.7
Cash & Equivalents	592,926	0	1,842,746	0
Total	\$ 33,088,907	Avg. 3.8	\$ 26,942,426	Avg. 3.7

The Barclay's Intermediate Government Credit Index, the Trust's benchmark, had a duration of 3.9 and 3.8 years for fiscal years 2010 and 2009, respectively.

The Trust invests in asset backed securities which total \$4,413,747 and \$2,760,584 as of June 30, 2010 and 2009, respectively. \$3,025,464 and \$1,922,394 of the asset backed securities are government asset backed securities and are reported in the previous schedule as U.S. Government Agency Securities as of June 30, 2010 and 2009, respectively. \$1,388,283 and \$838,190 of the asset backed securities are corporate asset backed securities and are reported in the previous schedule as part of the AAA rated securities as of June 30, 2010 and 2009, respectively. Asset 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 asset backed securities to no more than 50% of the fixed income portfolio.

Foreign Currency Risk:

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. ADRs 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 for fiscal years 2010 and 2009. The Trust has no formal policy concerning foreign currency risk.

Country	2010	2009
United Kingdom	\$ 216,568	\$ 164,222
Japan	257,064	192,029
Australia	74,226	82,951
Netherlands	83,315	68,630
Spain	96,331	90,897
France	148,737	92,731
Germany	112,631	96,601
Singapore	53,574	42,275
Switzerland	74,827	38,546
Other	98,791	84,877
Total	\$ 1,216,064	\$ 953,759

■ **NOTE 4 — CHANGE IN CAPITAL ASSETS**

	Beginning Balance	Additions and Transfers	Deletions and Transfers	Ending Balance
2010				
Assets depreciated:				
Building	\$ 3,947,564	\$ -	\$ -	\$ 3,947,564
EDP	888,504	404,424	(9,524)	1,283,404
Furniture & Equipment	243,113	32,603	(35,843)	239,873
Total assets - depreciated	<u>5,079,181</u>	<u>437,027</u>	<u>(45,367)</u>	<u>5,470,841</u>
Assets - not depreciated:				
Land	252,408	-	-	252,408
Work in Process	167,875	218,080	(385,955)	-
Total assets not depreciated	<u>420,283</u>	<u>218,080</u>	<u>(385,955)</u>	<u>252,408</u>
Total capital assets	<u>5,499,464</u>	<u>655,107</u>	<u>(431,322)</u>	<u>5,723,249</u>
Accumulated Depreciation:				
Building	(189,154)	(98,689)	-	(287,843)
EDP	(850,827)	(69,098)	9,524	(910,401)
Furniture & Equipment	(178,524)	(40,273)	35,843	(182,954)
Total accumulated depreciation	<u>(1,218,505)</u>	<u>(208,060)</u>	<u>45,367</u>	<u>(1,381,198)</u>
Net Balance - Capital Assets	<u>\$ 4,280,959</u>	<u>\$ 447,047</u>	<u>\$ (385,955)</u>	<u>\$ 4,342,051</u>
2009				
Assets depreciated:				
Building	\$ 3,947,564	\$ -	\$ -	\$ 3,947,564
EDP	872,871	22,811	(7,178)	888,504
Furniture & Equipment	222,904	42,994	(22,785)	243,113
Total assets - depreciated	<u>5,043,339</u>	<u>65,805</u>	<u>(29,963)</u>	<u>5,079,181</u>
Assets - not depreciated:				
Land	-	252,408	-	252,408
Work in Process	49,338	381,741	(263,204)	167,875
Total assets not depreciated	<u>49,338</u>	<u>634,149</u>	<u>(263,204)</u>	<u>420,283</u>
Total capital assets	<u>5,092,677</u>	<u>699,954</u>	<u>(293,167)</u>	<u>5,499,464</u>
Accumulated Depreciation:				
Building	(90,465)	(98,689)	-	(189,154)
EDP	(831,364)	(26,641)	7,178	(850,827)
Furniture & Equipment	(177,877)	(23,432)	22,785	(178,524)
Total accumulated depreciation	<u>(1,099,706)</u>	<u>(148,762)</u>	<u>29,963</u>	<u>(1,218,505)</u>
Net Balance - Capital Assets	<u>\$ 3,992,971</u>	<u>\$ 551,192</u>	<u>\$ (263,204)</u>	<u>\$ 4,280,959</u>

■ NOTE 5—UNPAID CLAIMS LIABILITIES AND RELATED EXPENSES

As described in Note 2, the Trust establishes a liability for both reported and unreported insured events, which includes estimates of future payments for both covered losses and related loss adjustment expenses. The following chart represents changes in those aggregate liabilities for the Trust during the past two fiscal years.

	2010	2009
Unpaid claims liabilities and related expenses at beginning of year	\$ 12,381,308	\$ 12,065,489
Less reinsurance recoverables	296,461	400,141
Net balance at beginning of the year	<u>12,084,847</u>	<u>11,665,348</u>
Incurred loss and loss adjustment expenses:		
Provision for insured events of the current year	7,103,634	7,499,814
Decrease in provision for insured events of prior year	(875,384)	(1,179,429)
Total incurred loss and loss adjustment expenses	<u>6,228,250</u>	<u>6,320,385</u>
Payments (net of recoveries)		
Loss and loss adjustment expenses attributable to:		
Insured events of the current year	2,210,348	2,400,780
Insured events of the prior year	4,659,057	3,500,106
Total payments	<u>6,869,405</u>	<u>5,900,886</u>
Net balance at end of the year	11,443,692	12,084,847
Plus reinsurance recoverables	2,875,770	296,461
Unpaid claims liabilities and related expense at end of the year	<u>\$ 14,319,462</u>	<u>\$ 12,381,308</u>
Reconciliation with statements of net assets		
Unpaid claims and related expenses:		
Current	\$ 5,274,773	\$ 4,957,016
Non-current	9,044,689	7,424,292
Unpaid claims liabilities and related expense at end of the year	<u>\$ 14,319,462</u>	<u>\$ 12,381,308</u>

Incurred losses and loss adjustments related to prior years decreased by approximately \$875,000 and \$1,179,000 in fiscal years 2010 and 2009, respectively, as a result of changes in estimates of losses and related expenses for claims. The 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.

■ NOTE 6—NOTES PAYABLE

On April 5, 2007, \$4,260,000 of revenue bonds entitled “Maryland Economic Development Corporation, Variable Rate Revenue Bonds, Series 2007” (bonds) were issued on behalf of the Trust. The bonds covered the purchase price and estimated renovation costs of an office building to house the Trust’s administrative staff. The bonds were issued through the Maryland Economic Development Corporation and bear interest at a variable rate that is reset weekly. The variable rate was .29% and .39% at June 30, 2010 and 2009, respectively. The Manufacturers and Traders Trust Company (M&T) provided a five year letter of credit to secure the payment of the principal and interest of the bonds. M&T also serves as the remarketing agent.

	Beginning Balance	Additions	Repayments	Ending Balance	Due in One Year
June 30, 2010	4,105,000	-	110,000	3,995,000	115,000
June 30, 2009	4,210,000	-	105,000	4,105,000	110,000

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

The final maturity of the bonds is June 1, 2032. A portion of the bonds is redeemed by the Trust on June 1 of each year. A schedule of the payments to maturity follows as of June 30, 2010. Interest payment amounts are based on .29%, the variable rate on the bonds as of June 30, 2010.

Fiscal Year Ending June 30	Principal	Interest	Total
2011	\$ 115,000	\$ 11,586	\$ 126,586
2012	120,000	11,252	131,252
2013	125,000	10,904	135,904
2014	130,000	10,542	140,542
2015	135,000	10,165	145,165
2016-2020	760,000	44,647	804,647
2021-2025	930,000	32,669	962,669
2026-2030	1,150,000	17,980	1,167,980
2031-2032	530,000	2,320	532,320
Total	\$ 3,995,000	\$ 152,065	\$ 4,147,065

■ **NOTE 7—RATE STABILIZATION FUND**

The Board of Trustees declared a \$1,000,000 and \$2,000,000 return of capital from the PLP for fiscal year 2010 and 2009, respectively. The return of capital is in the form of premium credits paid to pool members of good standing as of June 30, 2009 and 2008. \$968,927 and \$577,595 of rate stabilization credits were applied and shown as an offset to annual premiums on member invoices in fiscal year 2010 and 2009, respectively. The return of capital will be applied in thirds over a rolling three fiscal year period which commenced with fiscal year 2009. The rate stabilization fund has a remaining balance of \$1,453,478 and \$1,422,405 as of June 30, 2010 and 2009, respectively.

Reconciliation with statements of net assets

Rate stabilization fund:	2010	2009
Current	\$ 484,493	\$ 474,135
Non-current	968,985	948,270
Total	\$ 1,453,478	\$ 1,422,405

■ **NOTE 8—CAPITALIZATION CONTRIBUTIONS LIABILITY**

The Trust's requirement for capitalization contributions from its participants was eliminated as of June 30, 1998. As of June 30, 2010 and 2009, respectively, the Trust holds \$1,640 of capital contributions in an interest bearing account on behalf of two participants who elected to leave their refund with the Trust. Interest earned on this account is returned to the two participants as a premium credit.

■ **NOTE 9—REINSURANCE**

The Trust uses reinsurance agreements to reduce its exposure to certain large losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Trust as direct insurer of the risks reinsured. The Trust reduces liabilities related to reinsured risks unless it is probable that those risks will not be covered by reinsurers. No

allowances were considered necessary for fiscal years 2010 or 2009. 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.

Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured policy. Net reinsurance recoveries and prepaid expenses amounted to \$4,604,767 and \$2,255,201 at June 30, 2010 and 2009, respectively. Over the last three years, incurred and paid claims have not exceeded insurance coverage. Ceded reinsurance premiums payable at June 30, 2010 and 2009 were \$238,512 and \$80,510, respectively. Ceded unearned premiums were \$0 at both June 30, 2010 and 2009.

The amount of recoveries related to the reinsurance contracts that were deducted from losses incurred for fiscal years 2010 and 2009 were \$4,612,209 and \$566,019 respectively.

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 of NLC is required to maintain an investment in NLC's capital account at certain prescribed levels. The Trust's capital account is reflected in the statements of net assets as "Deposit with reinsurance pool" as it is probable that the contribution will be returned to the Trust upon withdrawal from the pool. As of June 30 2009, \$736,179 of the deposit was classified as a current asset on the Statement of Net Assets as this amount was available to offset future reinsurance costs as part of NLC rate stabilization program. Due to the fact that NLC ended its rate stabilization program, there is no portion of the deposit that could be withdrawn in a period of one year or less, consequently the entire balance of \$4,973,457 is classified as a non-current asset on the Statement of Net Assets as of June 30, 2010.

The Trust did not purchase reinsurance for the standard coverages offered in the PLP for fiscal years 2010 and 2009 and retains the entire \$1,000,000 per occurrence coverage limit provided by that pool.

For fiscal years 2010 and 2009, NLC reinsured 90% of the exposure of the Trust's ELP, 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 also purchased reinsurance for the Property Pool from a private reinsurance carrier for fiscal years 2010 and 2009. The carrier covered any claim in excess of \$100,000. The Property Pool has no aggregate limitation coverage.

■ 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—OPERATING LEASES

The Trust leased office facilities under a non-cancelable operating lease which expired on November 1, 2009. Total cost for such lease was \$98,643 and \$214,244 for the years ended June 30, 2010 and 2009, respectively.

■ NOTE 12—CONTINGENCIES

The Trust is involved in a dispute with an insurance company that provides excess coverage over its Property Pool. The nature of the dispute relates to coverage amounts of an outstanding claim. The dispute has culminated in a suit by the Trust against the insurance company and others involved in the procurement of the policy. Based on consultation with legal counsel, management believes the Trust has a strong case; therefore a liability has not been recorded. If the Trust is unsuccessful in this matter, the amount of the loss would exceed the Property Pool's \$100 thousand loss retention level.

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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 schedules on pages 36 and 37 present the changes in claims liabilities for the past two years for each of the Trust's pools.

Claims Development Information

The table on page 38 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

Shows the total of each fiscal year's gross earned premiums and investment revenue, amounts of premiums ceded to reinsurers and net premiums and investment revenue earned.

Unallocated expenses

Represents each fiscal year's other operating costs not allocable to individual claims.

Estimated incurred loss and allocated loss expense, end of policy year

Shows the Trust's gross incurred claims and allocated claims adjustment expense, claims assumed by the reinsurers, and net incurred claims and allocated claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (policy year).

Net paid claims (cumulative) as of

Represents the cumulative amounts paid (net of recoveries) as of the end of successive years for each policy year.

Re-estimated ceded losses and expenses

Represents the latest re-estimated amount of losses assumed by reinsurers as of the end of the current year for each policy year.

Re-estimated net incurred loss and allocated loss expense

Shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known.

Increase (decrease) in estimated incurred loss and allocated loss expense from end of policy year

Compares the latest re-estimated net incurred claims amount to the original estimated incurred loss and allocated loss expense. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.



LOCAL GOVERNMENT INSURANCE TRUST

Required Supplementary Information

Reconciliation of Claims Liabilities and Related Expenses by Pool

For the Year Ended June 30, 2010

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	COMBINED TOTAL
Unpaid claim liabilities and related expenses at beginning of year	\$ 11,719,005	\$ 662,303	\$ -	\$ 12,381,308
Less reinsurance recoverables	-	296,461	-	296,461
Net balance at beginning of year	<u>11,719,005</u>	<u>365,842</u>	<u>-</u>	<u>12,084,847</u>
Incurred loss and loss adjustment expenses:				
Provision for insured events of the current year	6,107,092	996,542	-	7,103,634
Increase (decrease) in provision for insured events of prior years	(897,989)	22,605	-	(875,384)
Total incurred loss and loss adjustment expenses	<u>5,209,103</u>	<u>1,019,147</u>	<u>-</u>	<u>6,228,250</u>
Payments (net of recoveries)				
Loss and loss adjustment expenses attributable to:				
Insured events of the current year	1,755,791	454,557	-	2,210,348
Insured events of prior years	4,473,278	185,779	-	4,659,057
Total payments	<u>6,229,069</u>	<u>640,336</u>	<u>-</u>	<u>6,869,405</u>
Net balance at end of year	10,699,039	744,653	-	11,443,692
Plus reinsurance recoverables	-	2,875,770	-	2,875,770
Unpaid claim liabilities and related expenses at end of the year	<u>\$ 10,699,039</u>	<u>\$ 3,620,423</u>	<u>\$ -</u>	<u>\$ 14,319,462</u>

See explanation of required supplementary information on page 35.



LOCAL GOVERNMENT INSURANCE TRUST

Required Supplementary Information

Reconciliation of Claims Liabilities and Related Expenses by Pool

For the Year Ended June 30, 2009

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	COMBINED TOTAL
Unpaid claim liabilities and related expenses at beginning of year	\$ 11,124,233	\$ 941,256	\$ -	\$ 12,065,489
Less reinsurance recoverables	-	400,141	-	400,141
Net balance at beginning of year	<u>11,124,233</u>	<u>541,115</u>	<u>-</u>	<u>11,665,348</u>
Incurred loss and loss adjustment expenses:				
Provision for insured events of the current year	6,696,891	802,923	-	7,499,814
Increase (decrease) in provision for insured events of prior years	(1,589,025)	409,596	-	(1,179,429)
Total incurred loss and loss adjustment expenses	<u>5,107,866</u>	<u>1,212,519</u>	<u>-</u>	<u>6,320,385</u>
Payments (net of recoveries)				
Loss and loss adjustment expenses attributable to:				
Insured events of the current year	1,864,695	536,085	-	2,400,780
Insured events of prior years	2,648,399	851,707	-	3,500,106
Total payments	<u>4,513,094</u>	<u>1,387,792</u>	<u>-</u>	<u>5,900,886</u>
Net balance at end of year	11,719,005	365,842	-	12,084,847
Plus reinsurance recoverables	-	296,461	-	296,461
Unpaid claim liabilities and related expenses at end of the year	<u>\$ 11,719,005</u>	<u>\$ 662,303</u>	<u>\$ -</u>	<u>\$ 12,381,308</u>

See explanation of required supplementary information on page 35.



LOCAL GOVERNMENT INSURANCE TRUST

Required Supplementary Information

Claims Development Information

Ten Years Ended June 30, 2001 through June 30, 2010

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Premiums and investment revenue:										
Earned, net of investment income	18,226,498	14,466,938	17,268,023	19,063,656	15,736,454	16,427,551	18,200,277	30,808,418	22,341,158	19,024,398
Ceded	(4,394,806)	(4,446,223)	(4,819,145)	5,225,249	4,634,559	4,496,753	4,595,293	4,678,077	1,902,873	2,222,454
Net earned	13,831,692	10,020,715	12,448,878	13,838,407	11,101,895	11,930,798	13,604,984	26,130,341	20,438,285	16,801,944
Allocated and unallocated expenses	4,482,935	4,412,519	4,301,347	4,018,944	3,727,726	3,862,037	4,057,678	4,207,488	4,243,746	3,890,807
Estimated incurred loss and allocated loss expense, end of policy year:										
Incurred	11,047,894	7,721,051	7,543,834	7,544,234	6,639,310	5,205,234	13,142,226	24,049,250	17,591,710	12,335,739
Ceded	3,327,594	221,236	178,202	442,947	299,194	22,779	1,513,174	431,174	291,660	191,061
Net incurred	7,103,635	7,499,815	7,365,132	7,101,287	6,340,116	5,182,455	11,629,052	23,618,076	17,300,050	12,144,678
Net paid claims (cumulative) as of:										
End of policy year	2,210,347	2,400,780	2,103,746	2,010,184	2,103,543	1,559,387	5,087,295	16,691,195	11,943,678	7,611,096
One year later		4,494,349	3,649,363	2,988,446	3,018,101	2,319,523	7,126,964	19,613,664	13,751,053	9,626,291
Two years later			5,014,956	3,318,761	3,710,554	2,682,366	7,648,130	19,931,841	14,049,313	10,169,222
Three years later				3,893,577	4,206,352	3,532,969	8,001,345	20,272,760	14,187,242	10,579,632
Four years later					4,486,146	3,995,160	8,379,975	20,838,046	14,979,969	11,217,588
Five years later						4,143,150	8,539,635	21,909,603	15,043,708	11,403,757
Six years later							8,636,773	22,357,870	15,151,571	11,410,993
Seven years later								22,456,594	15,206,379	11,496,835
Eight years later									15,212,326	11,496,843
Nine years later										11,496,843
Re-estimated ceded losses and expenses	3,327,594	221,236	178,702	442,947	411,413	150,583	1,703,126	8,674,566	1,795,396	1,295,011
Re-estimated net incurred loss and allocated loss expense:										
End of policy year	7,103,635	7,499,815	7,365,132	7,101,287	6,340,116	5,182,455	11,629,052	23,618,076	17,300,050	12,144,678
One year later		7,171,802	6,953,322	5,253,496	5,973,424	4,320,134	9,287,706	21,611,259	15,670,526	12,224,528
Two years later			7,140,433	4,771,776	5,445,069	4,489,094	8,838,556	21,267,724	14,758,379	11,685,269
Three years later				4,718,975	5,150,922	4,881,659	9,031,203	21,594,258	14,812,038	12,233,155
Four years later					5,050,256	4,673,400	8,781,572	21,360,855	15,195,590	11,664,643
Five years later						4,298,532	8,734,786	22,454,671	14,819,723	11,643,896
Six years later							8,710,099	22,663,538	15,015,508	11,472,169
Seven years later								22,756,262	15,092,543	11,344,253
Eight years later									14,834,905	11,344,262
Nine years later										11,344,262
Decrease in estimated net incurred loss and allocated loss expense from end of policy year	(328,013)	(224,699)	(2,382,312)	(1,289,860)	(883,923)	(2,918,953)	(861,814)	(2,465,145)	(800,416)	

See explanation of required supplementary information on page 35.

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LOCAL GOVERNMENT INSURANCE TRUST
Combining Schedule of Net Assets

June 30, 2010

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	OPERATING ACCOUNT	ESCROW DEPOSIT ACCOUNT	COMBINED TOTAL
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 36,900,736	\$ 4,161,412	\$ 9,885,110	\$ (48,212,603)	\$ 1,640	\$ 2,736,295
Investments	-	-	-	10,232,134	-	10,232,134
Premiums receivable	17,093	146,508	181	-	-	163,782
Interest income receivable	-	-	-	354,875	-	354,875
Reinsurance receivables	-	4,604,767	-	-	-	4,604,767
Due from (to) other pools/accounts	(804,250)	(382,183)	190,760	995,673	-	-
Other	40,836	-	-	49,160	-	89,996
Total current assets	<u>36,154,415</u>	<u>8,530,504</u>	<u>10,076,051</u>	<u>(36,580,761)</u>	<u>1,640</u>	<u>18,181,849</u>
Non-current assets:						
Investments	-	-	-	36,268,408	-	36,268,408
Capital assets	-	-	-	4,342,051	-	4,342,051
Deposit with reinsurance pool	2,623,652	1,298,345	1,051,460	-	-	4,973,457
Other assets	-	-	-	142,056	-	142,056
Total non-current assets	<u>2,623,652</u>	<u>1,298,345</u>	<u>1,051,460</u>	<u>40,752,515</u>	<u>-</u>	<u>45,725,972</u>
Total assets	<u>38,778,067</u>	<u>9,828,849</u>	<u>11,127,511</u>	<u>4,171,754</u>	<u>1,640</u>	<u>63,907,821</u>
LIABILITIES						
Current Liabilities:						
Accounts payable and accrued expenses	-	227,390	11,122	76,139	-	314,651
Unpaid claims and related expenses	2,930,709	2,344,064	-	-	-	5,274,773
Notes payable	-	-	-	115,000	-	115,000
Interest payable	-	-	-	965	-	965
Rate stabilization fund	484,493	-	-	-	-	484,493
Other liabilities	331	-	-	99,650	-	99,981
Total current liabilities	<u>3,415,533</u>	<u>2,571,454</u>	<u>11,122</u>	<u>291,754</u>	<u>-</u>	<u>6,289,863</u>
Non-current liabilities:						
Unpaid claims and related expenses	7,768,330	1,276,359	-	-	-	9,044,689
Capitalization contributions	-	-	-	-	1,640	1,640
Rate stabilization fund	968,985	-	-	-	-	968,985
Notes Payable	-	-	-	3,880,000	-	3,880,000
Total non-current liabilities	<u>8,737,315</u>	<u>1,276,359</u>	<u>-</u>	<u>3,880,000</u>	<u>1,640</u>	<u>13,895,314</u>
Total liabilities	<u>12,152,848</u>	<u>3,847,813</u>	<u>11,122</u>	<u>4,171,754</u>	<u>1,640</u>	<u>20,185,177</u>
NET ASSETS						
Invested in capital assets, net of related debt	-	-	-	489,107	-	489,107
Unrestricted, net assets	26,625,219	5,981,036	11,116,389	(489,107)	-	43,233,537
Total net assets	<u>\$ 26,625,219</u>	<u>\$ 5,981,036</u>	<u>\$ 11,116,389</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,722,644</u>

See accompanying notes to supplementary combining schedules.



LOCAL GOVERNMENT INSURANCE TRUST
Combining Schedule of Net Assets

June 30, 2009

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	OPERATING ACCOUNT	ESCROW DEPOSIT ACCOUNT	COMBINED TOTAL
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 38,321,620	\$ 2,779,987	\$ 9,396,126	\$ (45,053,664)	\$ 1,640	\$ 5,445,709
Investments	-	-	-	10,978,156	-	10,978,156
Premiums receivable	1,886	3,371	1,544	-	-	6,801
Interest income receivable	-	-	-	376,497	-	376,497
Deposit with reinsurance pool	-	-	736,179	-	-	736,179
Reinsurance receivable	-	2,255,201	-	-	-	2,255,201
Due from (to) other pools/accounts	(2,832,825)	(643,792)	(266,739)	3,743,356	-	-
Other	42,752	-	-	72,522	-	115,274
Total current assets	<u>35,533,433</u>	<u>4,394,767</u>	<u>9,867,110</u>	<u>(29,883,133)</u>	<u>1,640</u>	<u>19,913,817</u>
Non-current assets:						
Investments	-	-	-	29,733,203	-	29,733,203
Capital assets	-	-	-	4,280,959	-	4,280,959
Deposit with reinsurance pool	2,490,688	1,233,291	989,264	-	-	4,713,243
Other assets	-	-	-	148,513	-	148,513
Total non-current assets	<u>2,490,688</u>	<u>1,233,291</u>	<u>989,264</u>	<u>34,162,675</u>	<u>-</u>	<u>38,875,918</u>
Total assets	<u>38,024,121</u>	<u>5,628,058</u>	<u>10,856,374</u>	<u>4,279,542</u>	<u>1,640</u>	<u>58,789,735</u>
LIABILITIES						
Current Liabilities:						
Accounts payable and accrued expenses	-	68,311	12,199	74,186	-	154,696
Unpaid claims and related expenses	4,355,957	601,059	-	-	-	4,957,016
Notes payable	-	-	-	110,000	-	110,000
Interest payable	-	-	-	1,207	-	1,207
Rate stabilization fund	474,135	-	-	-	-	474,135
Other liabilities	331	-	-	99,149	-	99,480
Total current liabilities	<u>4,830,423</u>	<u>669,370</u>	<u>12,199</u>	<u>284,542</u>	<u>-</u>	<u>5,796,534</u>
Non-current liabilities:						
Unpaid claims and related expenses	7,363,048	61,244	-	-	-	7,424,292
Capitalization contributions	-	-	-	-	1,640	1,640
Rate stabilization fund	948,270	-	-	-	-	948,270
Notes Payable	-	-	-	3,995,000	-	3,995,000
Total non-current liabilities	<u>8,311,318</u>	<u>61,244</u>	<u>-</u>	<u>3,995,000</u>	<u>1,640</u>	<u>12,369,202</u>
Total liabilities	<u>13,141,741</u>	<u>730,614</u>	<u>12,199</u>	<u>4,279,542</u>	<u>1,640</u>	<u>18,165,736</u>
NET ASSETS						
Invested in capital assets, net of related debt	-	-	-	324,472	-	324,472
Unrestricted, net assets	24,882,380	4,897,444	10,844,175	(324,472)	-	40,299,527
Total net assets	<u>\$ 24,882,380</u>	<u>\$ 4,897,444</u>	<u>\$ 10,844,175</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,623,999</u>



LOCAL GOVERNMENT INSURANCE TRUST

Combining Schedule of Revenues, Expenses and
Changes in Net Assets

Year Ended June 30, 2010

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	OPERATING ACCOUNT	ESCROW DEPOSIT ACCOUNT	COMBINED TOTAL
OPERATING REVENUES						
Gross premiums earned	\$ 8,732,131	\$ 6,033,782	\$ 881,828	\$ -	\$ -	\$ 15,647,741
Less: premium credits	(1,000,000)	-	-	-	-	(1,000,000)
reinsurance premiums	-	(3,579,696)	(815,110)	-	-	(4,394,806)
Net premiums earned	7,732,131	2,454,086	66,718	-	-	10,252,935
Other Revenues	-	-	-	29,436	-	29,436
Total operating revenues	7,732,131	2,454,086	66,718	29,436	-	10,282,371
OPERATING EXPENSES						
Incurred loss and loss adjustment expenses:						
Paid (net of recoveries)	6,229,069	640,336	-	-	-	6,869,405
Change in liability for unpaid claims and related expenses	(1,019,966)	378,811	-	-	-	(641,155)
General and administrative expenses	108,903	34,217	47,460	4,084,295	-	4,274,875
Depreciation expense	-	-	-	208,060	-	208,060
Total operating expenses	5,318,006	1,053,364	47,460	4,292,355	-	10,711,185
Operating income (loss)	2,414,125	1,400,722	19,258	(4,262,919)	-	(428,814)
NON-OPERATING REVENUES (EXPENSES)						
Investment income	132,964	65,053	62,196	3,318,544	-	3,578,757
Interest expense	-	-	-	(51,298)	-	(51,298)
Allocations of operating account revenues (note 2)	2,502,854	293,573	551,553	(3,347,980)	-	-
Allocations of operating account expenses (note 2)	(3,307,104)	(675,756)	(360,793)	4,343,653	-	-
Total non-operating revenues (expenses)	(671,286)	(317,130)	252,956	4,262,919	-	3,527,459
Change in net assets	1,742,839	1,083,592	272,214	-	-	3,098,645
Net assets, beginning of year	24,882,380	4,897,444	10,844,175	-	-	40,623,999
Net assets, end of year	<u>\$ 26,625,219</u>	<u>\$ 5,981,036</u>	<u>\$ 11,116,389</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,722,644</u>

See accompanying notes to supplementary combining schedules.



LOCAL GOVERNMENT INSURANCE TRUST

Combining Schedule of Revenues, Expenses and
Changes in Net Assets

Year Ended June 30, 2009

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	OPERATING ACCOUNT	ESCROW DEPOSIT ACCOUNT	COMBINED TOTAL
OPERATING REVENUES						
Gross premiums earned	\$ 8,836,851	\$ 5,887,969	\$ 950,453	\$ -	\$ -	\$ 15,675,273
Less: premium credits	(2,000,000)	-	-	-	-	(2,000,000)
reinsurance premiums	-	(3,569,230)	(876,993)	-	-	(4,446,223)
Net premiums earned	6,836,851	2,318,739	73,460	-	-	9,229,050
Other Revenues	-	-	-	30,631	-	30,631
Total operating revenues	6,836,851	2,318,739	73,460	30,631	-	9,259,681
OPERATING EXPENSES						
Incurred loss and loss adjustment expenses:						
Paid (net of recoveries)	4,513,094	1,387,792	-	-	-	5,900,886
Change in liability for unpaid claims and related expenses	594,772	(175,274)	-	-	-	419,498
General and administrative expenses	105,748	17,833	44,441	4,095,735	-	4,263,757
Depreciation expense	-	-	-	148,762	-	148,762
Total operating expenses	5,213,614	1,230,351	44,441	4,244,497	-	10,732,903
Operating income (loss)	1,623,237	1,088,388	29,019	(4,213,866)	-	(1,473,222)
NON-OPERATING REVENUES (EXPENSES)						
Investment income	34,691	58,728	131,021	567,225	-	791,665
Interest expense	-	-	-	(96,715)	-	(96,715)
Allocations of operating account revenues (note 2)	457,585	36,088	104,183	(597,856)	-	-
Allocations of operating account expenses (note 2)	(3,290,410)	(679,880)	(370,922)	4,341,212	-	-
Total non-operating revenues (expenses)	(2,798,134)	(585,064)	(135,718)	4,213,866	-	694,950
Change in net assets	(1,174,897)	503,324	(106,699)	-	-	(778,272)
Net assets, beginning of year	26,057,277	4,394,120	10,950,874	-	-	41,402,271
Net assets, end of year	\$ 24,882,380	\$ 4,897,444	\$ 10,844,175	\$ -	\$ -	\$ 40,623,999

See accompanying notes to supplementary combining schedules.



LOCAL GOVERNMENT INSURANCE TRUST Combining Schedule of Cash Flows

Year Ended June 30, 2010

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	OPERATING ACCOUNT	ESCROW DEPOSIT ACCOUNT	COMBINED TOTAL
Cash flows from operating activities:						
Premiums collected	\$ 7,747,997	\$ 5,890,645	\$ 883,191	\$ -	\$ -	\$ 14,521,833
Other revenue collected	-	-	-	29,436	-	29,436
Recoveries of claims paid	601,844	1,662,714	-	-	-	2,264,558
Reinsurance premiums paid	-	(3,352,306)	(80,008)	-	-	(3,432,314)
Claims paid	(6,828,997)	(2,073,308)	-	-	-	(8,902,305)
General and administrative expenses paid	(108,903)	(102,528)	(47,460)	(4,058,479)	-	(4,317,370)
Net cash provided by (used in) operating activities	<u>1,411,941</u>	<u>2,025,217</u>	<u>755,723</u>	<u>(4,029,043)</u>	<u>-</u>	<u>163,838</u>
Cash flows from non-capital financing activities:						
Transfers from (to) other pools/accounts	(2,832,825)	(643,792)	(266,739)	3,743,356	-	-
Net cash provided by (used in) non-capital financing activities	<u>(2,832,825)</u>	<u>(643,792)</u>	<u>(266,739)</u>	<u>3,743,356</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:						
Principal payments on notes	-	-	-	(110,000)	-	(110,000)
Interest expense paid	-	-	-	(45,083)	-	(45,083)
Purchase of capital assets	-	-	-	(269,152)	-	(269,152)
Net cash flows from capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(424,235)</u>	<u>-</u>	<u>(424,235)</u>
Cash flows from investing activities:						
Purchase of investments	-	-	-	(27,374,355)	-	(27,374,355)
Proceeds from repurchase agreement	-	-	-	1,475,000	-	1,475,000
Proceeds from maturities of investments	-	-	-	21,518,513	-	21,518,513
Investment income received	-	-	-	1,931,825	-	1,931,825
Net cash used in investing activities	-	-	-	(2,449,017)	-	(2,449,017)
Net change in cash and cash equivalents	<u>(1,420,884)</u>	<u>1,381,425</u>	<u>488,984</u>	<u>(3,158,939)</u>	<u>-</u>	<u>(2,709,414)</u>
Cash and cash equivalents, beginning of year	<u>38,321,620</u>	<u>2,779,987</u>	<u>9,396,126</u>	<u>(45,053,664)</u>	<u>1,640</u>	<u>5,445,709</u>
Cash and cash equivalents, end of year	<u><u>\$ 36,900,736</u></u>	<u><u>\$ 4,161,412</u></u>	<u><u>\$ 9,885,110</u></u>	<u><u>\$ (48,212,603)</u></u>	<u><u>\$ 1,640</u></u>	<u><u>\$ 2,736,295</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	\$ 2,414,125	\$ 1,400,722	\$ 19,258	\$ (4,262,919)	\$ -	\$ (428,814)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation expense	-	-	-	208,060	-	208,060
Effects of changes in operating assets and liabilities:						
Operating premiums receivable	(15,207)	(143,137)	1,363	-	-	(156,981)
Reinsurance receivables	-	(2,349,566)	-	-	-	(2,349,566)
Deposit in reinsurance pool	-	-	736,179	-	-	736,179
Other assets	1,916	-	-	23,362	-	25,278
Operating accounts payable and accrued expenses	-	159,078	(1,077)	1,953	-	159,954
Unpaid claims and related expenses	(1,019,966)	2,958,120	-	-	-	1,938,154
Other liabilities	31,073	-	-	501	-	31,574
Total adjustments	<u>(1,002,184)</u>	<u>624,495</u>	<u>736,465</u>	<u>233,876</u>	<u>-</u>	<u>592,652</u>
Net cash provided by (used in) operating activities	<u><u>\$ 1,411,941</u></u>	<u><u>\$ 2,025,217</u></u>	<u><u>\$ 755,723</u></u>	<u><u>\$ (4,029,043)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 163,838</u></u>

See accompanying notes to supplementary combining schedules.



LOCAL GOVERNMENT INSURANCE TRUST Combining Schedule of Cash Flows

Year Ended June 30, 2009

	PRIMARY LIABILITY POOL	PROPERTY POOL	EXCESS LIABILITY POOL	OPERATING ACCOUNT	ESCROW DEPOSIT ACCOUNT	COMBINED TOTAL
Cash flows from operating activities:						
Premiums collected	\$ 8,259,942	\$ 5,885,700	\$ 948,909	\$ -	\$ -	\$ 15,094,551
Other revenue collected	-	-	-	30,631	-	30,631
Recoveries of claims paid	624,279	429,016	-	-	-	1,053,295
Reinsurance premiums paid	-	(3,500,919)	(22,074)	-	-	(3,522,993)
Claims paid	(5,122,355)	(1,448,230)	-	-	-	(6,570,585)
General and administrative expenses paid	(167,498)	(78,266)	(97,924)	(3,993,155)	-	(4,336,843)
Net cash provided by (used in) operating activities	<u>3,594,368</u>	<u>1,287,301</u>	<u>828,911</u>	<u>(3,962,524)</u>	-	<u>1,748,056</u>
Cash flows from non-capital financing activities:						
Transfers from (to) other pools/accounts	(1,678,686)	(655,174)	(54,561)	2,388,421	-	-
Net cash provided by (used in) non-capital financing activities	<u>(1,678,686)</u>	<u>(655,174)</u>	<u>(54,561)</u>	<u>2,388,421</u>	-	-
Cash flows from capital and related financing activities:						
Principal payments on notes	-	-	-	(105,000)	-	(105,000)
Interest expense paid	-	-	-	(94,493)	-	(94,493)
Purchase of capital assets	-	-	-	(436,752)	-	(436,752)
Net cash flows from capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(636,245)</u>	-	<u>(636,245)</u>
Cash flows from investing activities:						
Purchase of investments	-	-	-	(32,949,683)	-	(32,949,683)
Proceeds from repurchase agreement	-	-	-	1,375,000	-	1,375,000
Proceeds from maturities of investments	-	-	-	26,573,955	-	26,573,955
Investment income received	-	-	-	742,760	-	742,760
Net cash used in investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,257,968)</u>	-	<u>(4,257,968)</u>
Net change in cash and cash equivalents	<u>1,915,682</u>	<u>632,127</u>	<u>774,350</u>	<u>(6,468,316)</u>	-	<u>(3,146,157)</u>
Cash and cash equivalents, beginning of year	<u>36,405,938</u>	<u>2,147,860</u>	<u>8,621,776</u>	<u>(38,585,348)</u>	<u>1,640</u>	<u>8,591,866</u>
Cash and cash equivalents, end of year	<u>\$ 38,321,620</u>	<u>\$ 2,779,987</u>	<u>\$ 9,396,126</u>	<u>\$ (45,053,664)</u>	<u>\$ 1,640</u>	<u>\$ 5,445,709</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	\$ 1,623,237	\$ 1,088,388	\$ 29,019	\$ (4,213,866)	\$ -	\$ (1,473,222)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation expense	-	-	-	148,762	-	148,762
Effects of changes in operating assets and liabilities:						
Operating premiums receivable	686	(2,269)	(1,544)	-	-	(3,127)
Reinsurance receivables	-	472,258	-	-	-	472,258
Deposit in reinsurance pool	-	-	842,720	-	-	842,720
Other assets	15,018	1,207	-	103,521	-	119,746
Operating accounts payable and accrued expenses	(61,750)	6,670	(41,284)	(14,824)	-	(111,188)
Unpaid claims and related expenses	594,772	(278,953)	-	-	-	315,819
Other liabilities	1,422,405	-	-	13,883	-	1,436,288
Total adjustments	<u>1,971,131</u>	<u>198,913</u>	<u>799,892</u>	<u>251,342</u>	-	<u>3,221,278</u>
Net cash provided by (used in) operating activities	<u>\$ 3,594,368</u>	<u>\$ 1,287,301</u>	<u>\$ 828,911</u>	<u>\$ (3,962,524)</u>	-	<u>\$ 1,748,056</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, 2010 and 2009

■ 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 2010 and 2009.

	POOL TOTALS		COUNTIES		MUNICPALITIES		OTHER	
	2010	2009	2010	2009	2010	2009	2010	2009
Primary	165	165	13	13	130	130	22	22
Property	139	137	16	17	109	109	11	11
Excess	115	115	14	14	84	84	17	17

State of Maryland Demographic and Economic Statistics:

	2010	2009
Population (1)	5,669,478	5,633,597
Approximate total personal income (thousands of dollars) (2)	275,200,285	272,542,169
Estimated total per-capita personal income (3)	48,285	48,375
Unemployment rate (4)	7.40%	7.30%

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

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

(3) Total personal income divided by population

(4) U.S. Department of Labor, Bureau of Labor Statistics, as of June 30, 2010 and 2009, respectively

NOTE 2—DESCRIPTION OF ACCOUNTS

Operating Account

The pools have been established to account for all premiums, claims and administrative costs attributable to the particular coverages. Administrative costs not specifically identified with a particular pool, investments, investment income and other undesigned 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 2010 and 2009. 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.

Escrow Deposit Account

This account holds capitalization contributions. See Note 8 of the notes to the basic financial statements.

■ **NOTE 3 — RECLASSIFICATIONS**

Certain fiscal year 2009 amounts have been reclassified to conform to fiscal year 2010 presentations.

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Statistical Section

Comparative Schedule of Revenues, Expenses and Changes in Net Assets

Member Growth Analysis

Loss History and Average Claim Costs

Reported Claim Activity

Loss Development

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LOCAL GOVERNMENT INSURANCE TRUST

Comparative Schedule of Revenues, Expenses and Changes in Net Assets

Ten Years Ended June 30, 2001 through June 30, 2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
REVENUES											
Gross premiums earned (1)	\$ 14,858,882	\$ 19,767,355	\$ 28,357,692	\$ 16,819,650	\$ 14,194,556	\$ 14,529,842	\$ 15,633,332	\$ 15,442,512	\$ 15,675,273	\$ 15,647,741	
Less: premium credits									(2,000,000)	(1,000,000)	
reinsurance premiums	(2,222,454)	(1,902,873)	(4,678,077)	(4,595,293)	(4,496,753)	(4,634,559)	(5,225,249)	(4,819,145)	(4,446,223)	(4,394,806)	
Net premiums earned	12,636,428	17,864,482	23,679,615	12,224,357	9,697,803	9,895,283	10,408,083	10,623,367	9,229,050	10,252,935	
Other	122,780	108,837	81,176	29,982	11,155	139,664	28,080	18,790	30,631	29,436	
Total operating revenues	12,759,208	17,973,319	23,760,791	12,254,339	9,708,958	10,034,947	10,436,163	10,642,157	9,259,681	10,282,371	
Operating Expenses											
Incurred loss and											
loss adjustment expenses: (1)											
Paid (net of recoveries)	9,708,540	14,880,567	20,286,604	8,900,422	5,189,496	4,767,401	4,295,809	7,756,321	5,900,886	6,869,405	
Change in liability for unpaid											
claims and related expenses	465,928	2,524,473	(105,304)	148,561	(2,845,277)	664,342	3,117,010	(1,208,238)	419,498	(641,155)	
General and administrative	3,165,918	3,577,015	4,152,180	4,057,678	3,862,037	3,727,726	4,018,944	4,301,347	4,412,519	4,482,935	
Total operating expenses	13,340,386	20,982,055	24,333,480	13,106,661	6,206,256	9,159,469	11,431,763	10,849,430	10,732,903	10,711,185	
Operating income	(581,178)	(3,008,736)	(572,689)	(852,322)	3,502,702	875,478	(995,600)	(207,273)	(1,473,222)	(428,814)	
NON-OPERATING REVENUES (EXPENSES)											
Investment income	4,165,516	2,573,803	2,450,726	1,380,627	2,232,995	1,206,612	3,430,324	1,825,511	791,665	3,578,757	
Less: credits to participants					(3,000,000)						
Net investment income	4,165,516	2,573,803	2,450,726	1,380,627	(767,005)	1,206,612	3,430,324	1,825,511	791,665	3,578,757	
Interest expense	(724,889)	(668,428)	(55,308)						(132,081)	(96,715)	(51,298)
Total non-operating revenues (expenses)	3,440,627	1,905,375	2,395,418	1,380,627	(767,005)	1,206,612	3,430,324	1,693,430	694,950	3,527,459	
Change in net assets	2,859,449	(1,103,361)	1,822,729	528,305	2,735,697	2,082,090	2,434,724	1,486,157	(778,272)	3,098,645	
Total net assets beginning of year	28,556,481	31,415,930	30,312,569	32,135,298	32,663,603	35,399,300	37,481,390	39,916,114	41,402,271	40,623,999	
Total net assets end of year	\$ 31,415,930	\$ 30,312,569	\$ 32,135,298	\$ 32,663,603	\$ 35,399,300	\$ 37,481,390	\$ 39,916,114	\$ 41,402,271	\$ 40,623,999	\$ 43,722,644	

(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, 2001 through June 30, 2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total number of members	180	189	190	178	168	171	175	175	175	174
Total employees	34	36	37	35	34	34	33	33	32	32
Total annual payroll	\$ 1,734,376	\$ 1,843,969	\$ 2,015,206	\$ 2,127,280	\$ 2,011,348	\$ 2,092,382	\$ 2,184,271	\$ 2,299,309	\$ 2,360,333	\$ 2,442,281
Total net premiums earned	\$ 12,636,428	\$ 17,864,482	\$ 23,679,615	\$ 12,224,357	\$ 9,697,803	\$ 9,895,283	\$ 10,408,083	\$ 10,622,867	\$ 9,229,050	\$ 10,252,935
Total number of claims	1,365	1,504	1,723	1,760	1,474	1,538	1,563	1,544	1,517	2,065
Total net reported losses	\$ 11,496,843	\$ 15,215,135	\$ 22,625,581	\$ 8,648,416	\$ 4,197,039	\$ 4,730,955	\$ 4,387,512	\$ 5,974,978	\$ 5,450,628	\$ 5,834,230

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, 2001 through June 30, 2010

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Auto Liability	\$ 1,252,019	\$ 1,038,631	\$ 1,073,987	\$ 1,500,022	\$ 1,089,344	\$ 1,281,577	\$ 1,075,752	\$ 1,825,371	\$ 1,165,442	\$ 783,580
Auto Physical	543,258	674,224	852,518	754,023	745,783	794,513	927,074	1,089,499	1,098,165	1,217,322
General Liability	1,961,238	1,543,250	1,497,115	1,932,181	1,928,013	1,970,832	1,460,016	2,244,416	2,403,698	899,511
Property	517,935	513,204	2,797,462	1,096,037	433,899	684,033	924,670	815,692	783,323	2,933,817
Excess	-	-	-	-	-	-	-	-	-	-
Health	7,222,393	11,445,826	16,404,499	3,366,153	-	-	-	-	-	-
Total	<u>\$ 11,496,843</u>	<u>\$ 15,215,135</u>	<u>\$ 22,625,581</u>	<u>\$ 8,648,416</u>	<u>\$ 4,197,039</u>	<u>\$ 4,730,955</u>	<u>\$ 4,387,512</u>	<u>\$ 5,974,978</u>	<u>\$ 5,450,628</u>	<u>\$ 5,834,230</u>

Average Cost per Claim

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Auto Liability	\$ 3,975	\$ 3,308	\$ 2,397	\$ 3,827	\$ 3,112	\$ 3,164	\$ 2,773	\$ 5,085	\$ 2,950	\$ 1,465
Auto Physical	2,081	1,598	2,147	1,866	1,661	2,022	2,011	2,348	2,219	2,350
General Liability	2,867	2,371	2,056	2,669	3,418	3,169	2,580	3,917	4,614	1,517
Property	5,395	4,888	22,560	4,745	4,520	7,600	6,901	5,826	8,075	13,215
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, 2001 through June 30, 2010

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Auto Liability	315	314	448	392	350	405	388	359	395	535
Auto Physical	261	422	397	404	449	393	461	464	495	518
General Liability	684	651	728	724	564	622	566	573	521	593
Property	96	105	124	231	96	90	134	140	97	222
Excess	9	12	26	9	15	28	14	8	9	10
Total	1,365	1,504	1,723	1,760	1,474	1,538	1,563	1,544	1,517	1,878
 Closed Claims	 1,013	 1,151	 1,316	 1,298	 1,056	 1,080	 852	 1,076	 1,118	 1,362
Open Claims	352	353	407	462	418	458	711	468	399	516
Total	1,365	1,504	1,723	1,760	1,474	1,538	1,563	1,544	1,517	1,878
 Prior year claims closed	 380	 374	 573	 663	 576	 624	 967	 787	 397	 610
Current year claims closed	1,013	1,151	1,316	1,298	1,056	1,080	852	1,076	1,118	1,362
Total claims closed during year	1,393	1,525	1,889	1,961	1,632	1,704	1,819	1,863	1,515	1,972
 Number of Members	 180	 189	 190	 178	 168	 171	 175	 175	 175	 174

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, 2001 through June 30, 2010

Paid Losses as of June 30

CLAIM YEAR	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
2001	\$ 7,611,096	\$ 9,626,291	\$ 10,169,222	\$ 10,579,632	\$ 11,217,588	\$ 11,403,757	\$ 11,410,993	\$ 11,496,834	\$ 11,496,843	\$ 11,496,843
2002	-	11,943,678	13,751,053	14,049,313	14,187,242	14,979,969	15,043,708	15,151,571	15,206,379	15,212,326
2003	-	-	16,691,195	19,613,664	19,931,841	20,273,760	20,838,046	21,909,603	22,357,870	22,456,594
2004	-	-	-	5,087,295	7,126,964	7,648,130	8,001,345	8,379,974	8,539,635	8,636,773
2005	-	-	-	-	1,559,387	2,319,523	2,682,366	3,532,968	3,995,160	4,143,150
2006	-	-	-	-	-	2,103,543	3,018,101	3,710,553	4,206,352	4,486,146
2007	-	-	-	-	-	-	2,010,184	2,988,446	3,318,761	3,893,577
2008	-	-	-	-	-	-	-	2,103,746	3,649,363	5,014,956
2009	-	-	-	-	-	-	-	-	2,400,780	4,494,349
2010										2,210,347
Total	<u>\$ 7,611,096</u>	<u>\$ 21,569,969</u>	<u>\$ 40,611,470</u>	<u>\$ 49,329,904</u>	<u>\$ 54,023,022</u>	<u>\$ 58,727,682</u>	<u>\$ 63,004,743</u>	<u>\$ 69,273,697</u>	<u>\$ 75,171,143</u>	<u>\$ 82,045,061</u>

Loss Payments During the Year Ended

CLAIM YEAR	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
2001	\$ 7,611,096	\$ 2,015,195	\$ 542,931	\$ 410,410	\$ 637,956	\$ 186,169	\$ 7,236	\$ 85,841	\$ 9	-
2002	-	11,943,678	1,807,375	298,260	137,929	792,727	63,739	107,863	54,808	5,947
2003	-	-	16,691,195	2,922,469	318,177	340,919	565,286	1,071,557	448,267	98,724
2004	-	-	-	5,087,295	2,039,669	521,166	353,215	378,629	159,661	97,138
2005	-	-	-	-	1,559,387	760,136	362,843	850,602	462,192	147,990
2006	-	-	-	-	-	2,103,543	914,558	692,452	495,799	279,794
2007	-	-	-	-	-	-	2,010,184	978,262	330,315	574,816
2008	-	-	-	-	-	-	-	2,103,746	1,545,617	1,365,593
2009	-	-	-	-	-	-	-	-	2,400,780	2,093,569
2010										2,210,347
Sub-total	<u>7,611,096</u>	<u>13,958,873</u>	<u>19,041,501</u>	<u>8,718,434</u>	<u>4,693,118</u>	<u>4,704,660</u>	<u>4,277,061</u>	<u>6,268,954</u>	<u>5,897,446</u>	<u>6,873,918</u>

Losses Paid for

Years Prior to 2001	<u>2,097,444</u>	<u>921,694</u>	<u>1,245,103</u>	<u>181,988</u>	<u>496,378</u>	<u>62,741</u>	<u>18,748</u>	<u>1,487,367</u>	<u>3,440</u>	<u>(4,513)</u>
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Total Losses paid per Statements

of Revenues, Expenses and

Changes in Net Assets	<u>\$ 9,708,540</u>	<u>\$ 14,880,567</u>	<u>\$ 20,286,604</u>	<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>
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LOCAL GOVERNMENT INSURANCE TRUST
Loss Development

Ten Years Ended June 30, 2001 through June 30, 2010

Case Reserves as of June 30

CLAIM YEAR	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
2001	\$ 811,197	\$ 1,245,102	\$ 1,039,052	\$ 1,177,893	\$ 308,118	\$ 241,296	\$ 277,876	\$ -	\$ -	\$ -
2002	-	1,367,829	1,504,698	687,335	712,889	321,685	148,478	218,794	226,756	2,809
2003	-	-	2,682,993	758,912	673,012	738,784	531,252	304,504	146,744	168,987
2004	-	-	-	1,946,379	746,234	362,760	780,903	194,471	82,616	11,643
2005	-	-	-	-	910,296	858,528	1,485,298	835,978	333,009	53,889
2006	-	-	-	-	-	1,129,902	1,774,564	948,878	545,541	244,809
2007	-	-	-	-	-	-	1,807,231	979,708	754,577	493,935
2008	-	-	-	-	-	-	-	1,645,625	1,535,212	960,022
2009	-	-	-	-	-	-	-	-	1,874,880	956,279
2010										3,623,883
Total	<u>\$ 811,197</u>	<u>\$ 2,612,931</u>	<u>\$ 5,226,743</u>	<u>\$ 4,570,519</u>	<u>\$ 3,350,549</u>	<u>\$ 3,652,955</u>	<u>\$ 6,805,602</u>	<u>\$ 5,127,958</u>	<u>\$ 5,499,334</u>	<u>\$ 6,516,256</u>

Change in Case Reserves During the Year Ended

CLAIM YEAR	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
2001	\$ 811,197	\$ 433,905	\$ (206,050)	\$ 138,841	\$ (869,775)	\$ (66,822)	\$ 36,580	\$ (277,876)	\$ -	\$ -
2002	-	1,367,829	136,869	(817,363)	25,554	(391,204)	(173,207)	70,316	7,962	(223,947)
2003	-	-	2,682,993	(1,924,081)	(85,900)	65,772	(207,532)	(226,748)	(157,760)	22,243
2004	-	-	-	1,946,379	(1,200,145)	(383,474)	418,143	(586,432)	(111,855)	(70,973)
2005	-	-	-	-	910,296	(51,768)	626,770	(649,320)	(502,969)	(279,120)
2006	-	-	-	-	-	1,129,902	644,662	(825,686)	(403,337)	(300,732)
2007	-	-	-	-	-	-	1,807,231	(827,523)	(225,131)	(260,642)
2008	-	-	-	-	-	-	-	1,645,625	(110,413)	(575,190)
2009	-	-	-	-	-	-	-	-	1,874,880	(918,601)
2010										3,623,883
Total	<u>\$ 811,197</u>	<u>\$ 1,801,734</u>	<u>\$ 2,613,812</u>	<u>\$ (656,224)</u>	<u>\$ (1,219,970)</u>	<u>\$ 302,406</u>	<u>\$ 3,152,647</u>	<u>\$ (1,677,644)</u>	<u>\$ 371,376</u>	<u>\$ 1,016,922</u>



LOCAL GOVERNMENT INSURANCE TRUST Loss Development

Ten Years Ended June 30, 2001 through June 30, 2010

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

CLAIM YEAR	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
2001	\$ 8,422,293	\$ 10,871,393	\$ 11,208,274	\$ 11,757,525	\$ 11,525,706	\$ 11,645,053	\$ 11,688,869	\$ 11,496,834	\$ 11,496,843	\$ 11,496,843
2002	-	13,311,507	15,255,751	14,736,648	14,900,131	15,301,654	15,192,186	15,370,365	15,433,135	15,215,135
2003	-	-	19,374,188	20,372,576	20,604,853	21,011,544	21,369,298	22,214,107	22,504,614	22,625,581
2004	-	-	-	7,033,674	7,873,198	8,010,890	8,782,248	8,574,445	8,622,251	8,648,416
2005	-	-	-	-	2,469,683	3,178,051	4,167,664	4,368,946	4,328,169	4,197,039
2006	-	-	-	-	-	3,233,445	4,792,665	4,659,431	4,751,893	4,730,955
2007	-	-	-	-	-	-	3,817,415	3,968,154	4,073,338	4,387,512
2008	-	-	-	-	-	-	-	3,749,371	5,184,575	5,974,978
2009	-	-	-	-	-	-	-	-	4,275,660	5,450,628
2010	-	-	-	-	-	-	-	-	-	5,834,230
Total	<u>\$ 8,422,293</u>	<u>\$ 24,182,900</u>	<u>\$ 45,838,213</u>	<u>\$ 53,900,423</u>	<u>\$ 57,373,571</u>	<u>\$ 62,380,637</u>	<u>\$ 69,810,345</u>	<u>\$ 74,401,655</u>	<u>\$ 80,670,477</u>	<u>\$ 88,561,317</u>

Incremental Losses Reported During the Year Ended

CLAIM YEAR	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
2001	\$ 8,422,293	\$ 2,449,100	\$ 336,881	\$ 549,251	\$ (231,819)	\$ 119,347	\$ 43,816	\$ (192,035)	\$ 9	\$ -
2002	-	13,311,507	1,944,244	(519,103)	163,483	401,523	(109,468)	178,179	62,770	(218,000)
2003	-	-	19,374,188	998,388	232,277	406,691	357,754	844,809	290,506	120,967
2004	-	-	-	7,033,674	839,524	137,692	771,358	(207,803)	47,805	26,165
2005	-	-	-	-	2,469,683	708,368	989,613	201,282	(40,778)	(131,130)
2006	-	-	-	-	-	3,233,445	1,559,220	(133,234)	92,462	(20,938)
2007	-	-	-	-	-	-	3,817,415	150,738	105,184	314,174
2008	-	-	-	-	-	-	-	3,749,371	1,435,204	790,403
2009	-	-	-	-	-	-	-	-	4,275,660	1,174,968
2010	-	-	-	-	-	-	-	-	-	5,834,230
Total	<u>\$ 8,422,293</u>	<u>\$ 15,760,607</u>	<u>\$ 21,655,313</u>	<u>\$ 8,062,210</u>	<u>\$ 3,473,148</u>	<u>\$ 5,007,066</u>	<u>\$ 7,429,708</u>	<u>\$ 4,591,309</u>	<u>\$ 6,268,823</u>	<u>\$ 7,890,840</u>

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Mission Statement

*The Local Government Insurance Trust
will provide insurance coverage
and risk management services
at stable and competitive rates
through an organization that is owned and managed
by its Maryland local government members.*



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2009 - 2010

Founding Organizations

